

# OFFICE OF STATE FINANCE

## DCAR NEWSLETTER

Brenda Bolander, State Comptroller  
Steve Funck, Deputy State Comptroller

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[http://www.ok.gov/OSF/Comptroller/DCAR\\_Newsletters.html](http://www.ok.gov/OSF/Comptroller/DCAR_Newsletters.html).

Accounting: Jennie Pratt	(405) 521-6160	<a href="mailto:jennie.pratt@osf.ok.gov">jennie.pratt@osf.ok.gov</a>
General Ledger: Dan Thomason	(405) 522-4992	<a href="mailto:dan.thomason@osf.ok.gov">dan.thomason@osf.ok.gov</a>
Payroll: Lisa Raihl	(405) 521-3258	<a href="mailto:lisa.raihl@osf.ok.gov">lisa.raihl@osf.ok.gov</a>
Transaction Processing: Steve Wilson	(405) 521-4679	<a href="mailto:steve.wilson@osf.ok.gov">steve.wilson@osf.ok.gov</a>
Payroll Processing: Elsa Kunnel	(405) 521-6178	<a href="mailto:elsa.kunnel@osf.ok.gov">elsa.kunnel@osf.ok.gov</a>
AP Manager: Patricia Garcia	(405) 522-6855	<a href="mailto:patricia.garcia@osf.ok.gov">patricia.garcia@osf.ok.gov</a>
Vendor Maintenance: Julie Dvorak	(405) 522-1749	<a href="mailto:julie.dvorak@osf.ok.gov">julie.dvorak@osf.ok.gov</a>
OSF HelpDesk (PeopleSoft questions)	(405) 521-2444	<a href="mailto:helpdesk@osf.ok.gov">helpdesk@osf.ok.gov</a>
Financial Reporting Unit: Deric Berousek	(405) 521-3298	<a href="mailto:deric.berousek@osf.ok.gov">deric.berousek@osf.ok.gov</a>
ARRA: Steve Funck	(405) 521-3231	<a href="mailto:steve.funck@osf.ok.gov">steve.funck@osf.ok.gov</a>
ABS: Riley Shaull	(405) 521-4775	<a href="mailto:riley.shaull@osf.ok.gov">riley.shaull@osf.ok.gov</a>

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# PAYROLL

## **CORRECTION - IBM Payroll Accounting System Health Care Act W-2 Reporting Requirements**

**NOTE: This article appeared in the November 10th DCAR Newsletter and contained an error. The corrected information is highlighted below:**

Beginning with 2012, the IRS has mandated Box 12 reporting for the cost of employer-provided health coverage. The W-2 must show the amount in Box 12 with Code DD.

Higher Education institutions will continue to submit cafeteria amounts using the current trailer code 0325 Other Café. A new method for tracking only the W-2 Box 12 DD reportable amounts has been developed.

A new trailer code (0601) has been assigned to report the cost of employer provided-health insurance amounts in the payroll claim S record. Within the S record, the amount will ~~be included as part of the Miscellaneous Withholding field (285—290) and~~ only be reported in the Deductions array field (330 – 579). The deduction array field will contain the trailer code (0601) and applicable dollar amount (xxxxxx). This will allow the amounts to post to a specific field within the payroll system for W-2 reporting. The amount to be reported in this field is the total cost of the health insurance, both the employee and the employer shares.

Institutions will be notified once the new trailer code is placed into production; please do not submit payrolls for calendar 2012 before receiving this notification.

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## **Tax Reporting Information for 2011**

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 Jan. 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 2011, 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 addressed in the specialized packet of information remain applicable although not repeated below.

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## **W-2 and 1099 Pick-up Instructions**

OSF will have W-2s and 1099s ready for release on Jan. 17, 2012. Agencies may pick up the forms from OSF, Room 122, at the State Capitol Building beginning at 10 a.m. 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 by 3 p.m., Jan. 19, 2012, OSF will ship them at the agency's expense.

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## **Envelopes**

The format for the W-2 forms will be the same as that used last year. Envelopes that fit the 2010 W-2 forms should fit the 2011 W-2 forms.

The format for the 1099 MISC forms is the same as last year. The forms will have three sections with the top 1/3 and the middle 1/3 of the page containing the 2 copies of the form. The bottom 1/3 of the page will include instructions and a mailing address. To view the 1099 forms and envelope information, go to: [http://www.1099express.com/laser\\_forms.asp](http://www.1099express.com/laser_forms.asp). Click on View for 1099 Misc on blank letter size paper. This is an example of the 1099 form and can be printed directly from there for measuring your envelopes. The vendor also specifies that either the standard no. 9 or 10 envelopes will work.

Sample printed forms of the PeopleSoft W-2, Legacy W-2 and 1099 MISC can be provided if requested.

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## **1099 Information**

### **2011 – 1099 Report**

A 1099 Report is available for agencies to run in the PeopleSoft system any time. This report will reflect the 1099 data from PeopleSoft vouchers. Be advised that any vendor with a 1099 Flag of "N" on the report will not receive a 1099 unless they are paid using a medical or legal account code. This report should be reviewed and corrections submitted to OSF as soon as possible. A final report should be processed by agencies by Jan. 3, 2012. The report can be run prior to Dec. 31 if the agency will not be making any more 1099 reportable payments. All corrections to the listing must be returned to Beth Brox at OSF by Jan. 6, 2012.

The 1099-MISC forms require an agency phone number to be printed on the form. The program will search our agency database and insert the phone number for the finance officer of the agency. If any phone number changes need to be made, please notify Beth Brox by phone at (405) 522-1099 or by e-mail at [beth.brox@osf.ok.gov](mailto:beth.brox@osf.ok.gov).

### **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). Any purchase card (p-card) transactions not processed through Bank of America, should be included in the submitted file.

### **1099 File Format – Outside Agencies**

Any agency needing to submit an additional file for 1099M reporting should use the format listed in the link below. Instructions are provided in a separate link as well as 1099M reportable object codes. Due to the sensitive nature of the data, please hand-deliver a CD in the file format to OSF, 2300 N. Lincoln Blvd., Room 122. Agencies can submit a test file at anytime. Final information is due Jan. 6, 2012.

The file instructions and format can be found on the OSF website:

[http://www.ok.gov/OSF/OSF\\_Forms/Division\\_of\\_Central\\_Accounting\\_and\\_Reporting\\_Forms/index.html](http://www.ok.gov/OSF/OSF_Forms/Division_of_Central_Accounting_and_Reporting_Forms/index.html)

### **1099 Detail File Format – Outside Agencies**

### **1099 Outside Agency Cross-Reference**

### **1099 Instructions – Detail File Format**

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### **OSF Contact Information**

Listed below is contact information for OSF personnel working on the IRS reporting project for tax year 2011. The fax number is (405) 521-3902.

- Lisa Raihl, Accounting and Reporting Analyst – (405) 521-3258; [lisa.raihl@osf.ok.gov](mailto:lisa.raihl@osf.ok.gov)
- Jean Hayes, Payroll Compliance Officer – (405) 522-6300; [jean.hayes@osf.ok.gov](mailto:jean.hayes@osf.ok.gov)
- Beth Brox, Accounting Technician – (405) 522-1099; [beth.brox@osf.ok.gov](mailto:beth.brox@osf.ok.gov)
- Jennie Pratt, Accounting and Reporting Supervisor – (405) 521-6160; [jennie.pratt@osf.ok.gov](mailto:jennie.pratt@osf.ok.gov)

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### **PeopleSoft MailDrop for Year End W-2 Processing**

PeopleSoft employee W-2s are processed and printed in MailDrop order. Please ensure this field is properly used for employees.

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### **IBM Payroll Accounting System (Legacy) Year End Payrolls**

Special pay dates have been established for yearend payrolls for higher education institutions; please refer to the Higher Ed package distributed in November. When submitting the claim documents to OSF Transaction Processing, please write on the paperwork the pay date of the payroll being submitted. This will help ensure the file we have received has been submitted with the correct pay period code to pay employees on the date intended.

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## **Payroll – End of Calendar Year 2011**

**Dec. 16, 2011** – Last day refund of taxes due to overpayments can be returned to agencies. (See article below)

**Dec. 28, 2011** – Last day OSF will process payrolls for calendar year 2011. The Legacy payroll system will close at 12 p.m. for the transfer of payroll. PeopleSoft payrolls must be delivered to OSF by 3 p.m. on this date. Any delays must be communicated immediately to OSF. (Please note that OSF will be closed on December 26 and 27 for state holidays.)

Any Legacy system payrolls received but not processed will be voided out of the system and must be resubmitted on or after Jan. 3, 2012 with the new claim numbers and new rates.

**Dec. 29, 2011** – Backup withholding payments from agencies must be received by OSF. (See article below)

**Jan. 3, 2012** – At 8:00 a.m. on Jan. 3, 2012, OSF will begin processing Legacy payroll.

**Jan. 6, 2012** – Payroll warrant cancellations, OSF Form 94s, and earning adjustments for calendar year 2011 must be received at OSF by 5 p.m. on Jan. 6, 2011 for both PeopleSoft and Legacy. Any 2011 payroll information received after Jan. 6, 2012, will require a corrected W-2.

**Jan. 31, 2012** – Deadline for delivering W-2 forms to employees.

**Feb. 24, 2012** – Last date to submit corrected W-2 forms. (See article below)

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## **Payroll – Calendar Year 2012**

Listed below is information necessary for payroll processing in calendar year 2012.

**NOTE: The PeopleSoft HCM system will require tax updates to be installed prior to state agencies processing 2012 payrolls.**

**Jan. 3, 2012** – OSF will begin processing Legacy payroll at noon for 2012 warrant pay dates. State agencies on the PeopleSoft HCM system can begin processing 2012 payrolls. Please contact the CORE payroll team for assistance.

**Jan. 10, 2012** – Payroll cancellations with 2012 pay dates can be processed (See article below)

**Withholding Fund** – Payrolls processed will continue to post withholdings to the 994 class (fund number), which is the same as in 2011. This fund must be reconciled monthly. If you need assistance please contact Lisa Raihl at (405) 521-3258.

**Feb. 16, 2012** – Form W-4 with exemptions expires. (See article below)

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### **Agency Address Verification**

Please verify the correct agency address is being used on the payroll system. The agency address can be found on the Employee's Earnings Statement. If the address is not correct for the agency, this will need corrected before year end processing of tax forms. For PeopleSoft agencies, please contact the OSF Help Desk at (405) 521-2444 to have the agency's address updated in the payroll system. For those agencies not on PeopleSoft (Higher Education), please contact Lisa Raihl at (405) 521-3258.

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### **Refunds of Taxes for Overpayments to Employees (Form 94(P))**

Agencies need to review all outstanding employee overpayments and collect required amounts from employees. After collection, please submit OSF Form 94 or Form 94P (as applicable). Agencies will be entitled to receive refunds for all forms submitted by Friday, Dec. 16, 2011. After this date, refunds cannot be returned to the agencies; however, agencies are still required to submit the form after this date for employee wage corrections. Corrections due to overpayments will still be posted to the employee's W-2 information for requests submitted through Friday, Jan. 6, 2012.

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### **Signature Required on All Forms Submitted**

Agencies are reminded to have all forms submitted to OSF signed by the appropriate individual. This requirement also includes any OSF forms completed for employee refunds and overpays.

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### **Backup Withholding**

Agencies that have collected backup withholding on miscellaneous claims need to submit payment to be received by OSF prior to Dec. 29, 2011. Make checks payable to the State Contribution Fund (Vendor 0000000467, ADDR # 002, LOC # 0002)

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### **Correcting W-2s**

Corrected W-2 forms must be delivered to OSF by Feb. 24, 2012. Please send the original W-2, a copy of the corrected form, and a letter explaining why the correction is needed. If the correction is due to a statutory canceled warrant which is not to be replaced, please 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.

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### **2012 Payroll Warrant Cancellations**

Even though OSF will not be able to process 2012 payroll cancellations in the Legacy system before Jan. 10, 2012, 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.

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### **ARRA COBRA Subsidy Processing for Institutions of Higher Education**

COBRA administrators have received correspondence asking for a review of COBRA individuals to see if they still have any subsidy individuals or if the institution is finished with the subsidy program. We expect most have finished by now but asked for feedback to confirm the institution's status. Please submit any outstanding subsidy reimbursement requests before December 16, 2011 to allow for processing before the end of the calendar year. For additional information regarding the COBRA subsidy, please contact Lisa Raihl at (405) 521-3258, [lisa.raihl@osf.ok.gov](mailto:lisa.raihl@osf.ok.gov) or Jean Hayes at (405) 522-6300 or [jean.hayes@osf.ok.gov](mailto:jean.hayes@osf.ok.gov).

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### **2012 Rates & Maximums**

(Year 2011 rates are provided for comparison purposes.)

	<b>2012</b>	<b>2011</b>
FICA (Social Security) Gross Maximum	\$110,100.00	\$106,800.00
** ER FICA(Social Security) Withholding Rate	6.20%	6.20%
** ER FICA Annual Maximum Withholding	\$6,826.20	\$6,621.60
** EE FICA (Social Security) Withholding Rate	6.20%	4.20%
** EE FICA Annual Maximum Withholding	\$6,826.20	\$4,485.60
MQFE (Medicare) Gross Maximum	No \$ Max	No \$ Max
** MQFE (Medicare) Withholding Rate	1.45%	1.45%
MQFE Annual Maximum Withholding	No \$ Max	No \$ Max
Oklahoma Unemployment Gross Maximum	\$19,100.00	\$18,600.00
Oklahoma Unemployment Rate	1.00%	1.00%
Oklahoma Unemployment Annual Maximum	\$191.00	\$186.00

\*\* Pending Late Year Legislative Changes

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### **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 2010 and anticipated no income tax liability for 2011 was entitled to an exemption from withholding for 2011. This exemption expires on Feb. 16, 2012, and must be renewed if conditions remain the same. If you receive an exempt W-4 after Feb. 16, 2012, do not process a tax refund to the employee or submit one to the OSF: it will not be processed. If you receive an exempt W-4 after Feb. 16, 2012, the W-4 will take effect on the next pay cycle; per IRS regulations it is not retroactive to the beginning of the year. The IRS has posted the 2012 form W-4 on its website: <http://www.irs.gov/pub/irs-pdf/fw4.pdf?portlet=103>

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 fewer allowance 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.

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### **Federal Income Tax Withholding**

IRS Publication 15 Circular E, Employer's Tax Guide, states that any federal income tax withholding must be based on marital status and withholding allowances. Withholding cannot be based solely on a fixed dollar amount or percentage. In addition to the amount calculated on marital status and withholding allowances, an employee may specify a dollar amount to be withheld. The employee submits a valid Form W-4 stating his or her marital status, number of allowances, and any additional withholding requested.

Exemption from federal income tax withholding is generally claimed when an employee had no income tax liability in the prior year and expects none for the current year. Exempt W-4s are valid for one calendar year and a new W-4 must be submitted by February 16 to continue exempt status. IF a new W-4 is not received, withholding is based on single status with zero allowances or the last valid W-4 the agency has for the employee. To claim exempt, the employee completes only boxes 1, 2, 3, 4, and 7 and signs the form. If an exempt W-4 has a number on line 5 (allowances) or an amount on line 6 (additional amount), you may treat the form as invalid and ask for another one. If a new W-4 is not received, withholding is based on single with zero allowances or the last valid W-4 the agency has for the employee.

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### **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, please be certain to let the employee know if the amount is not paid in full by Dec. 31, 2011, the amount they owe will increase to the gross amount.

Once the overpayment is identified, the agency must send a notice to the employee within 10 days of the finding. The employee then has 30 days to respond to this notification.

In accordance with O. S. Title 74 Section 840-2.19, the agency must send a notice to the employee within 10 days of identifying an overpayment. The employee then has 30 days to respond to this notification. Employees have several options for repaying overpaid payroll amounts:

- reduction of annual leave (for the gross overpaid),
- reduction of current gross salary (for the gross overpaid) in a lump sum or installments over a term not to exceed the term in which the overpayment(s) occurred,
- lump-sum cash repayment,
- miscellaneous payroll deduction (for the net overpaid) in a lump sum or installments over a term not to exceed the term in which the overpayment(s) occurred,
- any combination of the above options.

With the calendar year end approaching, the collection of any outstanding overpayments is especially important and must be conveyed to employees who owe any monies back to the agency. When an overpayment is paid back in a subsequent year, IRS rules state that the employee must pay back at the gross amount because they had use of the funds in the prior year and as such, they are taxable to that year. Additionally, federal and state wages and taxes cannot be reduced for prior years when repayments are done after the end of that calendar year.

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 Dec. 31, 2011, 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 correct Federal or State taxable wages or income taxes. The employee may be entitled to either a deduction or credit on their current year Form 1040, please advise the employee to speak to their tax accountant.

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### **Taxable Fringe Benefits**

As we approach the end of the calendar year, be reminded that the payroll systems have been structured to accommodate the reporting of non-cash, taxable fringe benefits. Of specific concern to state employees, the following benefits should be reviewed to determine if W-2 wage adjustments are necessary:

- Group Term Life Insurance
- Employee Use of State Vehicles
- Maintenance, Car and Housing Allowances
- Additional non-cash benefits

Reporting of these benefits is required by state and federal law, and it is the responsibility of the individual agency to ensure compliance. If the item is not run through the payroll system, the employer can deduct the taxes associated with the wage item on a following paycheck, as a miscellaneous deduction. The State is responsible for timely depositing the taxes. Any taxes associated with items not run through the payroll system will need to be sent to OSF in a timely manner so the tax deposits can be made and the items posted to the employee's earnings record.

Under IRS rules, an employer can choose to pay the employee's share of taxes on group term life, auto fringe, and other non-cash benefits. If the employer pays these taxes without deducting them from the individual, those taxes must be included as wages for federal, state, social security and Medicare wages (boxes 1, 3, 5, and 16). This increase in the employee's wages is also subject to employee social security and Medicare taxes. This again increases the amount of additional taxes the employer must pay.

Example: Tom received a non-cash benefit valued at \$100.00. The agency decides to pay the employee's taxes on all non-cash benefits. The employee's taxes would be \$5.65  $[(100 * 4.2\%) + (100 * 1.45\%)]$ . This amount that the employer is paying for the employee is another benefit to the employee

and must be taxed  $[(5.65 * 4.2\%) + (5.65 * 1.45\%)] = \$0.32$ . This additional \$0.33 is again taxable to the employee  $[(0.33 * 4.2\%) + (0.33 * 1.45\%)] = \$0.02$ . Total taxes to the employee are \$5.99, for total wages of \$105.99. An easier way to calculate, is to “gross up” the benefit. The benefit amount is divided by 94.35% (100 - 4.2 - 1.45) and the outcome is the gross wages to report. From this amount, the social security and Medicare taxes are calculated.  $100.00/94.35\% = 105.99$  (the taxable wage amount).  $[(105.99 * 4.2) + (105.99 * 1.45\%)] = \$5.99$  (taxes). The employer share of taxes is calculated using 6.2% for social security which is different than the 4.2% employee share.

Under IRS rules, an employer can also choose to pay the retiree’s share of taxes on group term life insurance or collect them from the retiree. If the agency pays these taxes without deducting them from the individual, those taxes must be included as wages for federal, state, social security, and Medicare wages (boxes 1, 3, 5, and 16). The calculation is the same as the above example. If federal and state withholdings are required, this must also be taken into consideration for the calculations. Please refer to the W-2 instructions and Publication 15A, Employer’s Supplemental Tax Guide for additional information if needed. Also, please refer to OPM rules to determine whether these payments are a valid pay plan for a particular agency.

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## ACCOUNTING

### **Internal Control Self-Assessment Questionnaire Reminder**

The Internal Control Self-Assessment Questionnaire is past due for Agency Numbers 285 through 630. If your agency falls in this category and has not submitted a completed survey, please make it a priority to do so. If you have any questions regarding the questionnaire, please contact Nykkia Harris at [nykkia.harris@osf.ok.gov](mailto:nykkia.harris@osf.ok.gov) or (405) 521-4952.

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### **New Law Repeals 3% Contractor Withholding**

On November 21, 2011 the President signed Public Law 112-56, 3% Withholding Repeal and Job Creation Act, into law. This Act repeals the requirement for governments to withhold 3% of certain payments to contractors and vendors originally created under the Tax Increase Prevention and Reconciliation Act of 2005 (Public Law No. 109-222).

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### **Agency Approving Officer Signature Cards - REMINDER**

Per Oklahoma Statutes, Title 62, Section 34.68, agencies are limited to a maximum of 5 “agency approving officers” for approving expenditures. An OSF Form 13, Signature Card, must be submitted to establish a new agency approving officer. To remove a person as an approving officer, submit a notice to OSF-Transaction Processing, attention Jeannette Pascher. To confirm the cards we show as active for your agency, please contact Jeannette Pascher at (405) 521-6187 or [jeannette.pascher@osf.ok.gov](mailto:jeannette.pascher@osf.ok.gov).

**NOTE:** We still have “active” cards on approving officers that we know are no longer with an agency. Please be sure to submit new cards or deletion requests when changes are made.

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### **EDT Claims Submissions for Electronic Payments to Vendors**

Agencies that upload claim data via EDT wanting vendor payments to pay electronically must first ensure the vendor location selected is set up with banking information. Higher Ed agencies transmit the banking information directly to the HECLM vendor file through the vendor interface and should be knowledgeable about which locations have banking information. State agencies using the 00000 vendor file can run the OSF\_EFT\_VENDOR\_LOCATIONS query to determine which vendor locations have banking information.

EDT agencies can include in column 208 of the payee record layout the Warrant Type of “E” (EFT) if the vendor is set up with banking information. If the vendor does not have banking information set up, no payment will be processed. If column 208 has a Warrant Type of P (Print Warrant), then any electronic payment option will be overridden and a paper warrant will be produced. For additional information, please contact Patricia Garcia at patricia.garcia@osf.ok.gov.

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### **Mileage Reimbursement Rate Stays the Same for 2012**

The Internal Revenue Service has announced that the mileage reimbursement rate will continue at \$0.555 per mile for 2012. (See IR-2011-116, Dec. 9, 2011, Internal Revenue Procedure 2010-51).

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### **EDT Claims Submissions for Interagency Payments to Higher Ed and State Agencies**

Agencies that upload claim data via EDT should begin paying Higher Ed and State agencies via the “WIR” (interagency) method. EDT agencies should populate column 208 of the payee record layout with the Warrant Type of “I” for agencies with vendor IDs 0000000010 through 0000000880 except for the following agencies that do not have clearing accounts, and thus, cannot receive interagency payments at this time.

- 055 – Arts Council
- 219 – District Courts
- 290 – Employment Security Commission (Unemployment reimbursement payments should be paid with an EFT payment)
- 305 – Governor
- 307 – Interstate Oil Compact
- 315 – Firefighters Pension
- 390 – CompSource
- 410 – Commission of the Land Office
- 421 – Senate
- 422 – House of Representative
- 440 – Lieutenant Governor
- 530 – Panhandle State
- 557 – Police Pension
- 582 – Bond Advisory Board
- 610 – Regional University
- 645 – Conservation Commission
- 678 – Council on Judicial Complaints
- 761 – OU Law Center
- 771 – OUHSC Prof Prac Plan

Clearing accounts set up for these agencies between now and July 1, 2012 will be noted in future DCAR newsletters. For additional information, please contact Patricia Garcia at patricia.garcia@osf.ok.gov.

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### **Change to the Misc Inter/Intra Agency Payments by Receiving Agency Report**

The Misc Inter/Intra Agency Payments by Receiving Agency report (Accounts Payable > Reports > Vouchers > Misc Inter/Intra Agency) has been modified to include the paying agency's name and the remit to address number and address for each voucher. The change was made to help agencies apply the "WIR" interagency payments more quickly.

The report can be run to Excel but it requires the OCP072AP PSJob, the same job that runs the PDF report, to be run first for the specified date range. After the job has run to success, access the Query Viewer (Reporting Tools > Query > Query Viewer), search for the OCP\_AP0072\_AGENCY\_TRANSFERS query, and select the Excel link. Enter your user ID and the run control ID you used to run the OCP072AP job to obtain the data in Excel.

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