

# SECTION 13: SPECIAL PAY PROCESSES

## Year End Processing

### INTRODUCTION

To ensure proper reporting to the Internal Revenue Service (IRS) and Social Security Administration (SSA), transactions affecting gross-to-net pay must be completed per IRS constructive receipt rules. All pay processed, expenses incurred, and accumulator adjustments must be entered by calendar year end. The last opportunity to update pay records through production is the last regular payroll of the year. Online warrants and AKPAY AJ's can also be processed between the last pay period and fourth quarter 12/31/xx processing.

A limited number of accumulator adjustments can be made by the Division of Finance (DOF) with AKPAY AJ's prior to the pay period 99 year-end payroll processing in January. Any corrections to taxable pay after the 99 run may require a corrected W-2. All pay processed after 12/31/xx is pay received and recorded in the new payroll year.

To ensure proper recording in AKPAY, other items to consider at year end and the beginning of a new payroll year include: Moving, mileage and per diem, and Personal Vehicle Use and other Electronic Listed Property reporting, prior year leave transactions, prior year pay transactions, mandatory leave, LWOP adjustments, salary overpayments, and warrant reversals.

### PROCEDURES

#### Moving, Mileage & Per Diem Entries

Per IRS Constructive Receipt rules, all entries must be processed through AKPAY by the last payroll of the year the expenses were incurred.

- **Active Employees:** Enter all taxable/non-taxable transactions **paid** to employees in the current year, no later than pay periods ending SEMI PP24 and BIWK PP26(27),
- **Non-active Employees.** Process online warrant requests prior to 12/31/xx as follows:
  1. **Reimbursement is due and has not been paid in AKSAS.** Process an online warrant earnings batch only, to pay the employee. Taxes and SBS will reduce the gross amount.
  - OR**
  2. **Reimbursement has been made through AKSAS.** To record the taxable earnings in AKPAY, process an online earnings batch and a deduction batch for the agency Business Expense Recovery code. A NET overpayment will occur because of the reduction in the gross amount by Medicare, Federal taxes and SBS contributions.
- **Active And Non-Active Employees – The last pay production pay period for the year has processed, but fourth quarter end has not processed.** Process all taxable/non-taxable entries for current year transactions by online warrant batches prior to 12/31/xx. All transactions must be completed before 4<sup>th</sup> quarter end to ensure correct tax reporting.

The online warrant processing will reduce the earnings by the applicable Medicare, Federal taxes and SBS. AKPAY will automatically place the amount of NET Business Expense Recovery not collected through the online into arrears on the B6 Accumulator screen. The arrears will take as soon as the employee becomes active again. Follow net overpayment procedures to notify and collect this amount from terminated or inactive employees.

### Personal Use of State Vehicle Entries and Electronic Listed Property

Per IRS Constructive Receipt rules, all entries must be processed through AKPAY by the last payroll of the year the expenses were incurred. Those expenses incurred after the last payroll of the year may be reported in the first pay period of the next year.

If the employee is not active, notify DOF immediately as special processing is required to ensure correct reporting for the individual. The reduction of SBS and Medicare will result in an overpayment to the employee. Follow net overpayment procedures to notify and collect this amount from terminated or inactive employees.

### Prior Year Leave Transactions

Prior Year refers to any transactions that occurred in the pay periods prior to the last day of pay period 24 of the previous year for SEMI employees, and prior to the last day of pay period 26 (27) for BIWK employees. Beginning with PP01, leave adjustments and corrections to prior year can *only* be made using 900 level codes with the following exceptions.

- **No E900-level Adjustment Code:** Some leave types do not have E900 level codes for making adjustments.
- **Annual Limits:** Some codes should not be adjusted as it will adversely affect current year accumulators.

Once the **prior** year has passed, there is no physical way to adjust the prior year accumulators with the original code entry. Leave adjusted from a previous year using E100 level codes **only affects current year accumulators** and may not process correctly or not process at all. After year end, the main focus is to ensure the employee's leave balances and pay are correct.

All **prior year leave transactions must be completed using E900 codes (950, 960, 965, 958 etc)**. Codes E150, 160, 165, 158, etc must NOT be used to correct leave usage in a prior payroll year. *See exceptions below.* When correcting leave entries for PP24 (BIWK PP26/27) and prior – use the 900 level codes (965, 952). When correcting leave entries for leave taken in PP01, use E100 level leave codes (165, 152, 158 etc.). **Note:** Normal cash value of leave procedures still apply when making prior year adjustments for employees in the cash value of leave program.

Using E900 codes will not affect the mandatory leave reports, however, it will appear on the B2 screen as leave activity - used or accrued.

**Example:** An employee was paid 15.0 hours of personal leave in PPE 12/15/xx, but amended the timesheet to show no leave used. The employee has not used any leave in the current year. At this point in time, you **cannot** change the prior year accumulators on the B2 or the B4 screen.

**Correct Solution:** Enter a line of: 12/15/xx E965 +15.0 hours  
This adds hours back to the B2 balance, pay and mandatory leave usage are not affected.

**Incorrect Solution:** Entering an E100 for +15.00 hrs and an E165 for -15.00 hrs to run with the PP01 payroll, the system would process the E100 hours and add pay, but drop the E165 because there is no current year leave usage on the B2 screen for the hours to subtract from. AKPAY will not allow a negative usage. The employee would be over paid.

If the employee did have hours used in the current year accumulator, the system would process the transaction and the employee would be paid correctly, but this would incorrectly reduce the current year leave usage. Mandatory leave reports would not report the correct amount of leave used in the current year. Also the number of E100 hours on the B4 screen would not accurately reflect the current year hours worked.

### Exceptions For Processing Prior Year Leave Transactions

Leave types that do not have a corresponding 900 adjustment code should be adjusted using E100 level earnings codes.

- **Business Leave** – no adjustment code is available. If a prior year late leave slip is received for Business leave, it would require an E18x leave transaction. To properly charge the hours or dollars bank for business leave accounts, it is necessary to use a 100 level earnings code.

Assuming personal leave was originally charged, the adjustment would be:

12/15/xxE18x	+7.5 hrs	+flat amount at the PP hrly rate
12/15/xxE100	no hrs	- flat amount at the PP hrly rate
12/15/xxE965	+7.5 hrs	

The effect is a zero net transaction for dollars, the business bank would be charged for 7.5 hrs and the employee would receive the 7.5 hrs back in Personal Leave.

Assuming LWOP was originally charged, the adjustment would be:

12/15/xxE18x	+7.5 hrs	+flat amount at the PP hrly rate
12/15/xxE965	+partial accrual due	

**NOTE:** Send copy of E953 LWOP adjustment documentation to DOF.

On paper only, document the reduction to LWOP hours for the employee file in DOF and the employee's payroll file. Review year-to-date LWOP to determine if the reduction of LWOP would have prevented an LWOP bump to MAD's, LBD and eval dates. Manually adjust dates if necessary. The effect of this transaction is to pay the employee for the business leave and restore the partial accrual reduced by the LWOP hours.

- **Catastrophic Leave** – no adjustment code is available. If a late leave slip is approved for Catastrophic leave, it would require an E156 leave transaction, positive or negative with an E100 offset similar to the above business leave examples.
- **GGU Emergency and Injury** – use E147 & E148 leave transaction, positive or negative with an E100 offset similar to the above business leave examples.
- **Court Leave** – no system adjustment to prior year is necessary. Any adjustments should be documented on paper only.
- **Military Leave** is an annual allotment no system adjustment to prior year is necessary as it would affect current year limitations. Any adjustments should be documented on paper only.

### Prior Year Pay Adjustments

The adjustments for an hourly employee differ from a salaried employee.

Example: An employee was charged and paid 22.5 hrs personal leave in PP24 during an incomplete workweek. An amended timesheet is submitted for PP24 to reduce the leave to 7.5 hours in PP01 due to additional hours worked at the end of the workweek.

#### Hourly – Prior Year Adjustments

The additional hours worked will be paid as regular pay in PP01, but the leave hours paid in PP24 must be collected back as a NET overpayment and the leave returned to the leave account with a 900-level code. Notify DOF of the net overpayment per overpayment procedures.

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Adjustment transactions:

Earnings Batch: PP24 line date code E965 +15.0 hours  
A7 record or ded batch: code V061 **Net** dollar amount of salary overpayment

**Salaried – Prior Year Adjustments**

Using the above example, no overpayment exists. The salaried employee received and is due their full salary in both pay periods. Process an adjustment to refund the leave. Note: When making adjustments for employees in cash value of leave, normal cash value of leave procedures still apply.

Adjustment Transaction:

PP24 line date E965 +15.0 hrs

**E103/E104 Pay Adjustments**

E103 and E104 codes are used primarily for properly reporting *retirement* earnings. The retirement year is for wages *earned* in a calendar year 01/01/xx – 12/31/xx. This is different from the IRS tax reporting year for wages *paid* in a calendar year, which is normally through PP 24 for SEMI and PP 26 (27) for BIWK, including any online warrants processed between the last regular pay period and 12/31/xx.

**E103 - current year pay adjustments.** Use E103 for either positive or negative current *calendar* year pay adjustments. The original incorrect pay and the adjustment both take place in the same calendar year. Note: E119 – Salary Overpay Gross Recovery, should normally be used for collection of gross salary overpayments. *Refer to PPM Section 13.7 Overpayments.*

**E104 - prior year positive pay adjustments.** Only use E104 for positive prior payroll and calendar year pay adjustments beginning with PP02. The only pay period where it would be appropriate to use an E104 with a negative amount is for overpayments which occur only in PP01 and are adjusted in a subsequent pay period. Never use a negative E104 for any prior payroll year adjustment. Per IRS regulations, negative earnings adjustments for prior calendar years must be calculated from gross to net and taken as a net adjustment (V061).

Example: The employee is overpaid in the 12/16-31/xx pay period (PP01), it can be collected back as a negative gross amount in PP 02.

- For tax purposes, PP01 is a current year gross recovery.
- For the retirement year - PP01 is prior year and a negative E104 would be appropriate.

If the overpayment was for any other prior pay period besides PP01 – it would be a net recovery, it cannot be processed in this manner.

Pay due *non-retirement* eligible employees such as on-call, marine cadets, emergency guards etc can be paid using normal pay codes.

**Pay Processing and R&B Reporting for PP52 Online Warrants – Code Use**

When replacing a PP 01 (12/16-31/xx) warrant with a PP52 online, use the normal pay codes (E100, E105, E165 etc.) with dates between 12/16/xx and 12/31/xx. Specific pay types do need to be accurately recorded in the current payroll year accumulators.

When paying an adjustment to PP 01 and prior (no hours, only pay), use E104 and date it the appropriate prior year date.

NOTE: All pay processed after PP01 will be recorded in Retirement & Benefits as current wages, including PP52 onlines updating in PP02 and beyond. Prior year pay, not coded to E104 and received in current year for retirement eligible employees, must be manually reported to Retirement & Benefits.

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All online warrants for prior year pay periods processed after 4<sup>th</sup> quarter should be made with a PP52 batch. The header should have the year as the current year and PP52. Line dates within the batch should be the actual dates for the adjustment regardless of the actual month of the adjustment.

### LWOP Adjustments

Accumulation of LWOP hours is for moving merit anniversary (MAD), evaluation and leave base dates (LBD). It is also used in determining retirement service time for employees. All E953/E954/E962/E963 hours in a calendar year 10 days or more reduce service time and must be accurately documented in AKPAY or in the employee's permanent file. E961 and E990 do not reduce service time.

E900-level code LWOP adjustments can not be made in AKPAY for a prior year. Adding prior year LWOP to current year would incorrectly accumulate toward current year forwarding of dates.

Determine the affect of the adjustment on previously posted LWOP accumulators (B4 screen).

- Additional LWOP may cause an LWOP bump (accumulation of hours to 172.5) which will need to be manually entered in AKPAY.
- Reduction of LWOP may cause a reversal of an LWOP bump, which will need to be manually entered.
- **NOTE:** Document changes to LWOP hours not posted to AKPAY by sending DOF a copy for the employee's permanent file. Mark the documentation as "**Employee File Copy**".

Between the last regular payroll of the year and the (99) year end run in January, notify DOF of additional prior year LWOP hour adjustments. AKPAY AJ's can be processed to correct accumulators in this time period. AJ's will not trigger a system LWOP bump. If required, forwarding of MAD, Evaluations and LBD's must be done manually.

### Mandatory Leave

If an employee does not meet the minimum leave usage requirements by December 15<sup>th</sup>, a transaction must be processed to reduce the employee's leave account. Review collective bargaining agreements and personal leave rules to determine specific requirements.

To reduce an employee's leave balance without payment, process an E960/965 leave adjustment. To pay-out prior year Personal Leave, use E407 without an override cash in CC. **Note:** Normal cash value of leave procedures still apply when making adjustments for employees in the cash value of leave program. For those in the Annual Leave program, with mandatory leave payouts for denied leave use, use E406 in PP24 and use E413 after PP24, both without an override cash in CC.

### Salary Overpayments

Overpayments can only be collected from gross pay in the same year the overpayment occurred. Gross collections after the last production pay period of the year and before quarter end can only be collected through an online warrant that also has positive pay.

All **GROSS** overpayments (E119 or other earnings codes) with A5 screen set-ups, must be end dated effective the final pay period date of the year and converted to **NET** collections on the A7 screen. A positive net deduction (V061) can be set up on the A7 screen beginning with PP01. You *must* coordinate all net overpayment recoveries (V061) with the DOF, prior to entering into AKPAY.

DOF will generate a report and identify any E119 A5 screen set-ups needing an end date. There should be *NO* E119 collections through batch or by A5 screen set-up in PP01. *Refer to PPM Section 13.7 Overpayments.*

### **Warrant Reversals**

All warrants needing to be reversed must be reversed in the year created and should be forwarded to DOF with a Payroll Warrant Status Change form prior to fourth quarter end processing. This will ensure AKPAY accumulators are corrected for W-2 processing. Warrants to be reversed discovered AFTER the end of the year should be sent to DOF as soon as possible, as clean-up may be achieved in the 99 year-end run. Reversing warrants after the 99 year-end payroll may result in issuing a corrected W-2 to the employee.