

STATE CONTROLLER'S OFFICE
PERSONNEL AND PAYROLL SERVICES DIVISION
P.O. BOX 942850
SACRAMENTO, CA 94250-5878

DATE: March 8, 2012

PAYROLL LETTER #12-005
(CIVIL SERVICE ONLY)

TO: All Agencies in the Uniform State Payroll System

FROM: Lisa Crowe, Chief
Personnel and Payroll Services Division (PPSD)

RE: ACCOUNTS RECEIVABLE (AR) OFFSET - LEAVE CREDIT USE PROCESS

This letter replaces Payroll Letter 04-012 dated September 3, 2004. Also, per Department of Personnel Administration (DPA) memorandum dated May 6, 2011 to all Personnel Officers, this information supersedes instructions contained in Personnel Management Liaison Memo (PML) 2004-038 dated August 13, 2004.

PROCESS DESCRIPTION

The Accounts Receivable (AR) Offset – Leave Credit Use process allows employees to use existing leave credits to satisfy an outstanding AR via a payroll deduction method.

ELIGIBLE EMPLOYEES

Per Government Code (GC) 19838 all civil service employees are eligible to participate in this program. DPA has delegated authority to all Departments to enter into a mutual agreement with their employees to use leave credits to satisfy specific overpayment conditions.

THE LEAVE CREDIT USE PAYMENT AND THE CHANGE METHOD OF COLLECTION REQUESTS

Before the AR Offset – Leave Credit Use Process can be requested to satisfy the AR, the AR must already be established in the State Controller's Office (SCO) Payroll System as an agency collection AR, and must have a balance remaining to be collected. Or the AR must be established as a payroll deduction AR, and again, must have a balance remaining to be collected. Previously withheld payroll deductions will not be reversed; only the balance remaining may be satisfied through the use of the Leave Credit Offset process.

With the exception of payment types 6 and N (Industrial Disability Leave (IDL) pay), all other ARs may be satisfied by mutual agreement with the employee via the Leave Credit Offset Process.

Once the AR is established in the payroll system, a STD. 674AR form must be submitted to SCO. The form must state in remarks the authority or mutual agreement to use leave credits to satisfy the overpayment/accounts receivable.

A separate STD. 674AR form is required for each pay period, multiple ARs for a single pay period may be documented on one STD. 674AR. For multiple ARs, the remarks section must indicate the balance to collect for each individual AR.

1. Request the AR method of collection be changed from agency collection to payroll deduction.
2. Request the leave credit payment for the most current/active pay period.

Payroll Operations staff will manually process the two transactions concurrently to ensure the collection of the AR („035“ deduction code) applies against the leave credit payment. This will ensure that the proper reduction in the taxable gross of the leave payment occurs. To prevent any overpayments from issuing, the payment type G, payment type suffix S (Earnings ID GS) used to issue the leave credit payment, has been modified so that it will not work without the deduction code „035“. Once the deduction code „035“ is withheld from the leave credit payment, any balance remaining is issued to the employee.

LEAVE BALANCES & TYPES AVAILABLE FOR USE WITH THIS PROCESS

The employee’s current leave balance that exists at the time the leave credit payment request is submitted to SCO is available to be cashed out*. The following is a list of leave types eligible for cash out for this process:

Annual Leave	Personal Day*
CTO	Personal Leave Program*
Educational Leave	Personal Leave Program 2003*
Excess Hours	Personal Leave Time*
Holiday Credit	Professional Leave
Holiday Comp Time Off	Vacation
Medical Officer of the Day	Vacation Bank
On Call Assignment	Voluntary Personal Leave*
Personal Holiday	Voluntary Time (V-Time)

**Per DPA, this information supersedes instructions contained in PML 2004-038, dated August 13, 2004*

Per DPA memorandum dated May 6, 2011; the following leave types may not be used for this process:

Furlough Hours	Personal Development Day
Personal Leave Program 2010-2011	Holiday Informal Time

Sick Leave may only be used to satisfy ARs caused by errors in sick leave balances.

TAXES, RETIREMENT AND GARNISHMENTS

The leave credit payments are subject to Social Security, Medicare and State Disability Insurance (SDI) withholding, when applicable. ARs that do not have a taxable gross for the „035“ deduction code to reduce, and payments with any remaining balance issued to the employee are taxable at the flat tax rate for federal and state taxes. These payments are not subject to retirement contributions. The AR collection deduction code „035“ has a higher priority than all garnishment deduction codes. Therefore, garnishments do not need to be considered when calculating the number of leave credits to cash out for an employee to satisfy their AR.

To determine the number of leave credits an employee must cash out in order to generate monies equal to/greater than the net of the AR, specific calculation routines must be performed. To assist you with these calculations, we have developed an [on line calculator](#). Prior to using the calculator, you must have the following information available:

- Current Salary Full (monthly or hourly)
- Calculate Hourly Salary Rate
 - Is the employee’s hourly rate calculated based on an average of 173.33 hours per month or is the employee working a 7K work schedule or is another calculation used?
- Net of AR
- Does the AR have a taxable gross?
 - Yes (regular pay, overtime pay, supplemental pay, etc.)
 - If Yes is the AR subject to retirement?
 - No (pre-taxed Health, Dental, FlexElect Reimbursement Accounts or Retirement adjustments)
 - If No, is the employee claiming tax exempt?
- Withholding Factor, is the employee subject to any or all of the following?
 - Social Security, Medicare, and/or State Disability Insurance (SDI)

The calculator will perform those functions necessary to arrive at the correct number of leave credits for the purpose of the cash out to satisfy the AR.

IMPORTANT NOTE: If the AR was established prior to the current plus 4 prior calendar years, please attach a copy of either the AR half slip or warrant register to the Std. 674 AR.

STD. 674AR FORM COMPLETION

Box 1 Check the PPSD/PAYROLL OPERATIONS box

 Check the UNIT DESTINATION box depending on the type of AR that is being satisfied

Box 2 Complete using current employee information

Box 3 Complete using current employee information

Box 4 Complete using current employee information

Box 5 Check the ACCOUNTS RECEIVABLE box

Check the FROM AGENCY COLLECTION TO PAYROLL DEDUCTION box and list the BALANCE TO BE COLLECTED NET.

The REMARKS section should read:

“Change AR method of collection. Leave credits cashed out to satisfy AR”. State authority or by mutual agreement. (For multiple ARs, the remarks section must indicate the balance to collect for each individual AR.)

Box 6 - A Complete the following information, if applicable, for the AR only:

Position	Adj. Code
Pmt. Type	Salary Type
Issue Date	Gross
Pay Suffix	Salary Full
Pay Period	Net Pay
Gross Type	Acct. Rec. No.

Box 6 - B Complete the following information for the requested payment:

(If the current position is different from the position of the original AR(s), the current (new employer) must complete and submit the document.)

Position (Current)	Pay Suffix
Gross Type	Salary Full (current hourly rate)
Pay Period (Current)	Adj. Code
Pmt. Type	Time Worked (hours cashed out)
Salary Type	Gross (time x hourly rate)

Box 6 - C Check the (NO.) DEDUCTIONS BEGINNING WITH PAY PERIOD box; indicate the number „1“ on the (NO.) line and state “Per Remarks” on the PAY PERIOD LINE.

Box 7 Complete the following information for the requesting department:

Completed By
Telephone Number and extension
From (Agency Name)
Authorized Signature
Date Signed

STD 674 SUBMISSION

The STD 674AR forms are to be submitted to:

State Controller’s Office
Personnel/Payroll Services Division
P.O. Box 942850
Sacramento, CA 94250-5878
Attn: _____

The Unit Destination selected in Box 1 of your STD 674AR is the same Unit Destination that should be listed on the Attention line in the address above.

AR REVERSALS

When an employee uses leave credits to satisfy an AR that is subsequently reversed, the employee will be given the option by their department as to whether they will:

1. Keep the original leave credit payment and the subsequent payment generated by the deduction code „035“ reversal. Department must release both to the employee.
2. Return the original leave credit payment for redeposit and have the cashed out leave credits restored to their leave balances.

CALIFORNIA LEAVE ACCOUNTING SYSTEM (CLAS)

For CLAS procedures please refer to CLAS Letter 011-010 dated September 2, 2011.

The Payroll Procedure Manual (PPM) is being revised with current information. For policy interpretation questions related to this program, please have your designated personnel office staff contact the Department of Personnel Administration’s Personnel Services Branch at (916) 323-3343 or via email at PSB@dpa.ca.gov.

Questions regarding form submission and completion should be directed to the ACD (Automatic Call Distributor) at (916) 372-7200 for the following liaisons:

Payroll Liaison
Disability Liaison
Benefits Liaison

W-2 Liaison
Deductions Liaison

The Retirement/Social Security Liaison may still be contacted at (916) 324-1471.

LC:PPOB