

STATE OF CALIFORNIA

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Date: February 3, 2000

PAYROLL LETTER # 00-001
CSU ONLY

To: All Campuses in the Uniform State Payroll System

From: Ralph Zentner, Chief
Personnel/Payroll Operations Bureau

Re: FRINGE BENEFIT/EMPLOYEE BUSINESS EXPENSE REPORTING COMPLIANCE
PROJECT

This Payroll Letter highlights key results of the 1999 California State University (CSU) Fringe Benefit/Employee Business Expense (FB/EBE) Compliance Project. It also provides an update to the Internal Revenue Service's (IRS) Public Employer Compliance Project (PETC) and Bureau of State Audits'(BSA) FB/EBE audit activity.

FB/EBE COMPLIANCE PROJECT OBJECTIVES

CSU entities (campuses and the Chancellor's Office) must satisfy the following objectives:

Report all taxable FB/EBEs as identified in the Payroll Procedures Manual Section I 120 - 163.

Report all FB/EBEs based on constructive receipt. Taxable/reportable FB/EBEs must be reported by the 10th of the month following the month an employee receives the FB/EBE. For example, if a taxable benefit is received in June, it must be reported to the State Controller's Office by July 10th.

Report all FB/EBEs accurately.

1999 IMPROVEMENTS

CSU improved compliance with Federal and State tax requirements as illustrated by the following:

Taxable FB/EBE wage reporting increased 18% from \$1,843,212 (1998) to \$2,180,705 (1999). NOTE: Since 1996, CSU's taxable wage reporting increased 54%.

The number of benefits reported in 1999 versus 1998 increased; 16 entities (70%) reported more FB/EBE types in 1999.

CSU entities reported new benefits faster in 1999 than 1998. For example, initial reporting of taxable Meals for less than 24 hour travel without lodging occurred

within 30 days of receiving reporting criteria.

Document completion accuracy exceeded the State Controller's Office standards and remains a non-issue.

Four (4) campuses requested and received on-site consultations. FB/EBE reporting at all 4 campuses increased over 1998 levels.

The Payroll Input Process (PIP) was expanded to accommodate eleven new FB/EBEs provided to CSU employees: Aircraft Reimbursement, Bicycle Mileage, Call Back Mileage, Remote Headquarters Mileage, Educational Assistance, Entertainment Expenses, Electronic Devices, Miscellaneous Incentive Program, Long Term Travel, Tips and Gratuities.

PROBLEM AREAS

Based on actual reporting demographics maintained for each entity, two major compliance problems persist:

CSU entities are not reporting all taxable FB/EBEs provided their employees.

CSU entities are not routinely reporting taxable FB/EBEs timely; approximately 30% of all entities "surge" report during the year. Surge reporting is lumping multiple months' benefits into a single reporting period and/or failing to report benefits received during the year until calendar year end. Surge reported FB/EBEs include: Forgivable Loan, Personal Use of State Vehicles, Executive Housing, Vehicles Provided by Third Parties and Educational Assistance.

PETC PROJECT

As announced via Payroll Letter #97-025, the IRS is conducting the PETC Project. This project was extended through at least the year 2002. Nationally, employer assessments (compliance reviews) are underway and tax audits have commenced across the country including California. Per the IRS, over \$1 billion in new employment taxes has been collected. The absence of comprehensive, timely and accurate FB/EBE reporting remains a primary PETC issue and revenue source.

Bureau of State Audits

The State has initiated FB/EBE audits via the Bureau of State Audits (BSA). BSA is currently conducting a limited number of campus audits. Additional FB/EBE campus audits and/or annual FB/EBE financial reviews are under consideration for this year and thereafter.

ANNUAL COMPLIANCE ACTIVITIES

Plans for the State Controller's Office 2000 CSU FB/EBE Compliance Project are underway. A Payroll Letter outlining the start of the annual compliance project will be released this Spring. Meanwhile, campuses should review FB/EBE business practices and ensure that all FB/EBE compliance objectives are satisfied.

CONTACTS

If you require additional information, use the following contact for assistance:

FB/EBE Reporting Requirements
OR
FB/EBE Consultation

Tax Support Section
(916) 322-8105
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RZ:TSS/CS:lof