

TO: Fiscal Officers of All State Agencies

FROM: Steven L. Valasek, Director of State Accounting

DATE: June 24, 1998

SUBJECT: Payments to Employees under Contract by the State

NUMBER: 78

The current procedures for paying employees under contract by the State have been substantially impacted by the passage of the new Illinois Procurement Code, hereafter the "Code" (PA 90-572). The Code establishes a new definition of these individuals and exempts them from several of its provisions.

The Comptroller's Office, hereafter the "IOC" has identified the following procedural changes for paying employees under contract by the State that will be effective for FY 99 transactions.

I. A new detail object code (DOC) (1145) has been developed for making payments for personal services to employees under contract by the State. This DOC will be used on all personal service payments effective with FY 99 transactions, regardless if they are paid through the CO-2 system or through payroll.

1145 Contractual Payroll Employees

*Compensation paid to individuals who perform personal services for the State pursuant to a contract with the individual (either oral or written) and deemed "employees" under IRS regulations. Object does not include payments for personal services to individuals hired pursuant to an employment code, where payments are made on a regular payroll voucher.*

II. A new DOC (1264) has been developed for making payments for travel and other related contractual service reimbursements to employees under contract by the State. This DOC will be used on all travel and other related contractual service reimbursements effective with FY 99 transactions. All travel reimbursements must be processed on a standard C-10 form and all other reimbursements will be processed on a standard C-13 voucher. These payments are not allowed on a CO-2 or payroll voucher.



1264 Travel and Expense Reimbursement, Reimbursements  
to Contractual Payroll Employees

*Payments to reimburse a contractual payroll employee (as defined by detail object code 1145) for any expenditures directly incident to travel or other related contractual service expenses in connection with official State business. Other expenses, not chargeable to a contractual service line (i.e. commodities, equipment, ...) should be charged directly to the detail object code covering the goods or service performed. All travel reimbursements must be processed on a standard C-10 form and all other reimbursements will be processed on a standard C-13 voucher.*

III. Other expenses, not chargeable to DOC 1264, must be charged directly to the DOC covering the goods or service performed. These payments will be processed on a standard C-13 voucher. These payments are not allowed on a CO-2 or payroll voucher.

IV. The payments for these contractual employees are now chargeable to a personal service DOC, therefore, they are exempt from the filing requirement for contracts and obligations. Effective with FY 99, payments will not cite an obligation/contract reference. Any payment received citing an obligation/contract will be modified to eliminate the reference. Agencies will be notified of any modification to their original submission.

V. The last change is the migration of all payments to employees under contract to the payroll processing environment. Due to current limitations on agencies' processing systems, the IOC has decided to phase in this change. The IOC will work with four agencies, on a pilot basis, to test the migration capabilities of the various payroll processing systems. The pilot will be effective for FY 99 transactions. The anticipated implementation date for the remainder of the agencies is 10/1/98.

In summary, agencies (except pilot agencies) will continue to use the CO-2 system to make personal service payments to their contractual employees citing the new DOC on all payments. Agencies will process travel expenses related to the employee under contract through a standard C-10 process. Agencies will process other expenses related to the employees under contract through a standard C-13 process. Depending on the nature of the related expense, either DOC 1264 or another DOC will be used. Finally, effective with FY 99, agencies will no longer file, obligate, or cite these contracts for employees charged against DOC 1145.

Prior to 10/1/98, the IOC will follow up with another bulletin to document the changes associated with the migration of these payments to the payroll environment. If you have any questions, please contact Nancy Smith at 782-4758.