CHAPTER 5

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0501 OVERVIEW

This chapter establishes the Department of Veterans Affairs (VA) financial policies and procedures regarding payroll accounting. Payroll operations cover the entire process necessary to issue a paycheck for each employee, on a biweekly basis, for his or her services rendered during the pay period. This includes entering employee data, charging leave, establishing pay entitlement and making appropriate deductions, disbursing payments through VA’s payroll provider, charging the appropriation, making necessary adjustments and reporting expenses. Appendix A depicts VA’s payroll operations, which include the role played by VA’s payroll provider. VA’s payroll accounting is an integral part of the entire payroll operations process. Volume XV, Payroll, will cover in detail the policies and procedures regarding allowances, awards, deductions, leave, payments, retirement and Thrift Savings Plans.

Under the E-Government Act of 2002, e-Payroll Initiative, Federal agencies’ payroll operations were consolidated to four providers. The Office of Management and Budget (OMB) selected the Defense Finance and Accounting Service (DFAS), one of the four payroll service providers, to process VA’s payroll transactions. VA’s responsibilities related to payroll operations include entering employee information and maintaining and updating the systems needed to transmit information to DFAS. VA will work with DFAS to ensure that system interfaces relay information efficiently and accurately. DFAS processes and disburses payments, and reports amounts to Treasury and taxing authorities, using the Defense Civilian Pay System (DCPS). VA’s payroll accounting responsibilities include reconciling any errors in charges to VA’s appropriations and reporting payroll expenses in the financial statements.

050101 AUTHORITY FOR PAYROLL OPERATIONS AND ACCOUNTING. VA will establish payroll policies in accordance with Title 5 U.S.C. Part III, Employees, Subparts A through H and Title 38 U.S.C Part V, Boards, Administrations and Services. VA will provide basic pay, premium pay, incentives, and pay allowances and make mandatory deductions for all payments to employees for their services rendered. VA will pay applicable costs related to retirement benefits, health benefits, life insurance and other non-wage benefits. Refer to Volume VI, Chapter 7, Federal Employees’ and Veterans’ Benefits Liabilities, for more details on these related payroll costs.

050102 ACTIONS FOR PAYROLL OPERATIONS AND ACCOUNTING.

A. VA SYSTEM PROCESSING. VA’s Human Resources (HR) has the authority to employ individuals in accordance with Title 5 U.S.C. and Title 38 U.S.C. VA will establish a master record for each employee and maintain data within the file regarding appropriation and cost center codes so that DFAS payments charge the correct accounts. VA will maintain and update the system for transmitting data to DFAS.

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1 VA’s Office of Inspector General (OIG) commenced using the National Finance Center (NFC) as its payroll service provider in 2008. This chapter does not cover this special payroll provider agreement.
B. DFAS PAYROLL ACCOUNTING. DFAS will process payroll transactions on behalf of VA as the payroll service provider by calculating payment, disbursing payment, reporting to Treasury and issuing earnings reports.

C. VA PAYROLL ACCOUNTING. VA’s Financial Services Center (FSC) in Austin, TX, will perform a Fund Balance with Treasury (FBWT) reconciliation to verify the amounts reported to Treasury. VA will report costs related to payroll on the Statement of Net Cost (SNC) and will accrue salaries and benefits for services rendered in the current period, as presented in Volume VI, Chapter 11, *Employees’ Accrued Salaries and Benefits*.

0502 POLICIES

050201 AUTHORITY FOR PAYROLL OPERATIONS AND ACCOUNTING.

A. In accordance with Title 5 U.S.C. Subpart D and Title 38 U.S.C. Part V, VA will establish basic pay for all employees and ensure that all mandatory deductions are made prior to disbursement of pay.

B. VA will pay its share of costs related to retirement benefits, health benefits, life insurance and other non-wage benefits, as presented in Volume VI, Chapter 7, *Federal Employees’ and Veterans’ Benefits Liabilities*.

050202 ACTIONS FOR PAYROLL OPERATIONS AND ACCOUNTING.

A. VA SYSTEM PROCESSING.

1. VA’s Office of Human Resources Management (HRM) will authorize the hiring of an employee allowing for local HR offices to enter personnel information into the On-Line Data Entry (OLDE) system to establish master records in the Personnel and Accounting Integrated Data (PAID) application.

2. Local HR stations will create and update master records, as necessary.

3. Local payroll offices will submit time and attendance data to the Austin Information Technology Center (AITC), using the time and attendance system. The PAID system performs the initial edits and also creates the Systems Data Automation (SDA) files. Payroll offices must review the DCPS reports to ensure correctness of leave and pay entitlements. Any leave and pay discrepancies identified by the DCPS reports can be corrected by entering the correct data in DCPS.

B. DFAS RESPONSIBILITIES.

1. DFAS will process payments as VA’s payroll service provider.
2. DFAS will charge VA’s appropriations based on information in the master record.

3. DFAS will issue reports to Treasury, VA, other appropriate entities and employees, as necessary.

C. VA RESPONSIBILITIES.

1. VA will accrue salaries and benefits for services rendered in the period but not yet paid.

2. VA will perform an FBWT reconciliation to verify that VA’s financial accounting system and the amounts reported to Treasury agree. Adjustments will be made as necessary.

3. VA will report payroll expenses on the SNC by line of business in accordance with the Office of Management and Budget (OMB) Circular A-136. VA will ensure that charges are to the appropriate general ledger accounts throughout the year and will make any necessary adjustments. VA will accrue salaries and benefits at the end of the fiscal year for employee services rendered but not yet paid in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 1.

0503 AUTHORITY AND REFERENCES

050301 5 U.S.C. Part III, Employees, Subparts A - H

050302 38 U.S.C. Part V, Boards, Administrations and Services

050303 E-Government Act of 2002

050304 Statement of Federal Financial Accounting Standards No. 1, Accounting for Selected Assets and Liabilities

050305 OMB Circular A-136, Financial Reporting Requirements

0504 ROLES AND RESPONSIBILITIES

050401 The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department’s programs and operations, as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309. Responsibilities include the direction, management and provision of policy guidance and oversight of VA’s financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.
050402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chiefs of finance activities, Chief Accountants and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

050403 The FSC is responsible for implementing a full range of accounting products and services to VA. The FSC has direct involvement in many of the key business processes for payroll and benefits administration (e.g., performing payroll processing functions and recording personal services accruals). The FSC operates its payroll system through a Government-operated application service provider (ASP), the AITC. VA customers have used data housed at the Corporate Franchise Data Center to serve the nation's Veterans in information processing. As co-located organizations, the FSC and CFD represent a successful model of a Federalized Payroll System and ASP capable of supporting the e-Gov Payroll vision.

050404 VA’s Office of Financial Business Operations is responsible for maintaining the systems needed for payroll operations, while the payroll service provider is responsible for maintaining its systems for payroll processing.

050405 HRM oversees all HR stations and issues policies related to human resource actions. HRM has the authority related to hiring and separating individuals from VA employment.

050406 The VA facility official responsible for the fiscal function, through the chief of the finance activity, is responsible for the maintenance and reporting of the prescribed general ledger accounts and the preparation and verification of inputs.

050407 Local HR offices are responsible for entering and updating data submitted on the Standard Form 52 (SF 52), Request for Personnel Action, into the system to be transmitted to PAID and ultimately DFAS for payroll disbursements.

050408 Local payroll offices are responsible for transmitting time and attendance data to the AITC and correcting leave and pay entitlements in DCPS. In addition, local payroll offices coordinate with local HR offices and supervisors to make adjustments, as necessary, to time and attendance, leave and pay entitlement information.

050409 DFAS is one of four e-Payroll service providers and is VA’s designated payroll service provider. DFAS processes payroll and makes all employee deductions and disbursements; generates leave and earnings statement files and W-2s (Wage and Tax Statement); charges VA appropriations and cost centers; and reports all payroll-related financial information to the Treasury on behalf of VA.
0505 PROCEDURES

050501 AUTHORITY FOR PAYROLL OPERATIONS AND ACCOUNTING.

A. In accordance with 5 U.S.C. Subpart D and Title 38 U.S.C. Part V, VA’s HR office will establish basic pay for all employees, and VA payroll will ensure that all mandatory deductions are made prior to disbursement of pay. Detailed information regarding payroll policies related to deductions will be covered in Volume XV, Chapter 4, Deductions (the expected completion date for this chapter is January 2011).

B. VA will pay its share of costs related to retirement benefits, health benefits, life insurance and other non-wage benefits. Detailed information regarding the calculation of imputed expenses is covered in Volume VI, Chapter 7, Federal Employees’ and Veterans’ Benefits Liabilities.

050502 ACTIONS FOR PAYROLL OPERATIONS AND ACCOUNTING.

A. VA SYSTEM PROCESSING.

1. Accession into VA. VA’s HRM has the authority to employ or separate employees in accordance with statutory laws and regulations.


a. Maintenance. VA local HR offices will create, update and maintain a master record in OLDE/PAID for all employees. Master records will contain all the relevant information needed to charge the correct appropriation and cost center codes. VA offices will notify their HR station when they need to establish a new master record or when they need to update an existing master record. VA will use the SF 52 to make changes, such as changes in benefit deductions and/or salary. The Standard Form 50 (SF 50), Notification for Personnel Action, will be generated after changes are entered and the changes have successfully passed PAID edits. The SF 50 serves as the permanent record for the employee.

b. Adjustments. VA local offices will make the proper adjustments to any rejections of payment by DFAS due to any incorrect information that may have been included in the master record.
3. Time and Attendance.

a. Recording and Certifying Time. VA local payroll offices will establish time and attendance records in the system.

(1) VA timekeepers will enter an employee's hours into the system based on the hours they are scheduled to work, tour exceptions (e.g., overtime, compensatory time, holiday hours worked) and forward to the supervisor for approval.

(2) For part-time physicians, VA will utilize VA Form 4-5631a, Subsidiary Time and Attendance Report-Part-Time Physicians, to record their own time on a daily basis. Entry using VA Form 4-5631a automatically posts the time to the employee's timecard. VA timekeepers will only post time in the Time and Attendance system when the physician is absent or prevented from entering their own time.

(3) VA supervisors will certify the information in the Time and Attendance system and will forward timecards to local payroll. The PAID system performs the initial edits and also creates the SDA files. Payroll offices must review the DCPS reports to ensure correctness of leave and pay entitlements. Any leave and pay discrepancies identified by the DCPS reports can be corrected by entering the correct data in DCPS.

b. Timecard Processing. VA local payroll offices will transmit their timecards to the AITC. The AITC will then flow the timecard data through the SDA program and transmit the SDA files to DFAS.

c. Internal Controls. VA will maintain controls to ensure that each transaction is in compliance with laws and regulations by utilizing laws that govern pay, other applicable legislation and general information (Social Security number, grade, salary, Title 38 status and benefits) that is entered into the system.

B. DFAS RESPONSIBILITIES.

1. Payroll Calculation and Payment. DFAS processes payroll and makes all employee deductions, disburses payroll to employees and disburses payments to other Federal agencies for wage-related expenses. DFAS is also tasked with processing all adjustment transactions for pay periods post-dating the conversion. Detailed information regarding VA's policies on allowances, awards, deductions, leave, payments, retirement and the Thrift Savings Plan will be covered in Volume XV, Chapter 8 Thrift Savings Plan (the expected completion date for this chapter is February 2011).

2. Appropriation Charges. DFAS will charge the appropriation and cost centers based on the information maintained in each employee's master record. VA will ensure that information contained in each master record is up to date and accurate for payment processing, as discussed in section 050502A2.
3. Reporting. The DCPS generates the following reports:

a. The P6310D02 is a Pay Detail File. It has employee pay and deduction information to include adjustments processed for the employee. This file does not contain accounting information.

b. The DD-592, Payroll Certification and Summary Report, provides the gross earnings and payroll-related disbursements for VA.

c. The P3306D04, DCPS gross pay reconciliation file, is a payroll summary report detailing appropriation totals by station. The P3306D04 has the organization and appropriation information used with the Pay Detail file above to create the PAID to FMS interface.

d. The MDF2, Labor Distribution Report, is used to reconcile employee appropriation or dollar amount differences. The MDF2 is created to compare the P3306D04 to how the employee is set up in PAID. This is not a DFAS report.

e. Payroll withholding reports are submitted to the appropriate taxing authorities, as required.

f. Reports issued to employees. At the time of each biweekly payment, earnings and statements are issued that detail the accumulated leave and earnings to date. At the end of the calendar year, W-2s are issued to all employees to report total wages and taxes withheld during the calendar year.

C. VA RESPONSIBILITIES.

1. Accruals. VA will accrue salaries at the end of each month and reverse the accrual at the beginning of the next month when amounts are paid. See Volume VI, Chapter 11, Accrued Salaries and Benefits, for more detailed information.

2. Reconciliations. VA will perform reconciliation with the FBWT each month for Agency Locator Codes 3600-0200 (VA) and 9738-1600 (VA payroll processed by DFAS).

   (1) VA’s FSC will use the Standard Form 224 (SF 224), Statement of Transactions, reconciliation process to verify that VA’s financial accounting system agrees with the amounts reported on the DD-592. VA will reconcile the amount reported by DFAS on D3306D04 and the accounting information in PAID by employee and produce the Labor Distribution Report.

   (2) VA will make any journal entries, as needed, to adjust for errors made in charging the appropriation. Local payroll offices will make adjustments for errors below
appropriation level (e.g., cost centers). VA will update the financial accounting system once all of these adjustments are made.

3. VA’s Payroll and HR Systems Service prepares the following reports to assist the FSC in reconciling the SF 224:
   
a. MDF2 – Labor (Cost Center/Appropriation) differences between what is reported by DFAS on the P3306D04 and how the employee is set up in PAID.

b. MEPH – Repaid FEHB Report (Cumulative) - generated from a DFAS file.

c. MEQG – Repaid FEHB Report (Current Pay Period Only) - generated from the P3305D04.


a. VA will report payroll expenses on the SNC by line of business. VA will maintain the general ledger accounts throughout the year and input any necessary adjustments, when necessary. VA will charge payroll expenses to account 6122, Operation Expense - Personal Service.

b. VA will report accrued salaries and benefits at the end of the fiscal year for employee services rendered but not yet paid in accordance with SFFAS No. 1 and OMB Circular A-136.

0506 DEFINITIONS

050601 Accrual Accounting. An accounting method that measures the performance and position of an entity by recognizing events regardless of when cash transactions occur. The general idea is that, for example, economic events are recognized by matching revenues to expenses at the time in which the transaction occurs rather than when payment is made or received. This method allows the current cash inflows/outflows to be combined with future expected cash inflows/outflows to give a more accurate picture of an entity’s current financial condition.

050602 Agency Locator Code (ALC). A unique symbol assigned by the Treasury for reporting purposes. It can be in the form of 3 digits for regional financial centers, 4 digits for non-Treasury disbursing offices and 8 digits for reporting entities. In most cases, the first two digits of an 8-digit ALC identify the department or agency, the next two digits identify the bureau and the last 4 digits identify the particular agency account section within the bureau.

050603 Defense Civilian Pay System (DCPS). System owned and operated by DFAS that is used to process payroll.
050604 Defense Finance and Accounting Service (DFAS). Entity within the Department of Defense (DoD) that provides finance and accounting services for both DoD and other Federal agencies. DFAS is the payroll service provider for VA.

050605 On-Line Data Entry (OLDE). VA system for entering data into the PAID application.

050606 Payroll Accounting. A portion of payroll operations that includes disbursing payments, charging the appropriation, making necessary adjustments and reporting expenses at the close of the fiscal year. For the purposes of VA action, payroll accounting includes the monthly accruals of salaries and benefits, the reconciliation of the FBWT and end of year financial statement reporting.

050607 Payroll Operations. The entire process necessary to issue an employee’s paycheck, including: entering employee data, charging time, establishing basic pay and making appropriate deductions, disbursing payments, charging the appropriation, making necessary adjustments and reporting expenses at the close of the fiscal year.

050608 Personnel and Accounting Integrated Data (PAID). Mainframe application that supports and integrates personnel actions and reports and a centralized general ledger and cost accounting system for personal services.

050609 Standard Form 50 (SF 50), Notification of Personnel Action. Form generated that outlines all personnel related changes and serves as a permanent record of the actions taken.

050610 Standard Form 52 (SF 52), Request for Personnel Action. Form used to set up a new employee or authorize changes in employment status (e.g., promotion, retirement, benefit changes).

050611 Standard Form 224 (SF 224), Statement of Transactions. Form used to report deposit and disbursement transactions to Treasury every month.

050612 Statement of Net Cost (SNC). The SNC shows the net cost of operations for the reporting entity, as a whole, by major program, which should relate to the major goal(s) and output(s) described in the entity’s strategic and performance plans, required by the Government Performance and Results Act.

0507 RESCISSIONS

050701 OF Bulletin 08E2.07D, Payment Run Processing Schedule for Defense Finance and Accounting Service (DFAS)

0508 QUESTIONS
Questions concerning these policies and procedures should be directed as follows:

VHA VHA Accounting Policy (Outlook)
VBA VAVBAWAS/CO/FINREP (Outlook)
All Others OFP Accounting Policy (Outlook)
APPENDIX A: VA PAYROLL OPERATIONS

A. VA Payroll Systems Processing

B. DFAS RESPONSIBILITIES

C. VA RESPONSIBILITIES