

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50525</b>
Function No. 50000 — Payroll	<b>TOPIC</b>	<b>VIRGINIA SICKNESS AND DISABILITY PROGRAM</b>
Section No. 50500—Paying the Employee	<b>DATE</b>	January 2014

## Table of Contents

Overview .....	2
Introduction .....	2
Eligibility .....	2
Short-Term Benefits.....	3
Long-Term Benefits .....	3
Leave.....	3
Waiting Period .....	3
Income Replacement.....	4
Synopsis - Non-Work Related VSDP Process .....	4
Synopsis - Work Related VSDP Process .....	5
Working While Receiving VSDP Benefits.....	6
Payroll Summary.....	7
Coordination with Payroll, Benefits, and Leave .....	8
Importance of Timely Processing and Communication.....	8
Employee Benefits .....	8
Virginia Retirement System Detail Action Report .....	8
Introduction.....	8
Detail Action Report .....	9
CIPPS Processing.....	10
Long Term Disability Deduction .....	10
Special Payments .....	10
Deduction Overrides .....	11
Employee Job Description Screen (H0BUO) .....	11
Non-Work Related Procedures .....	12
Work Related Procedures .....	13
Garnishment Withholdings .....	13
Leave Usage for Waiting Period for Work Related VSDP.....	14
Manual Adjustment Procedures .....	14
Internal Control .....	14
Internal Control.....	14
Records Retention.....	15
Time Period.....	15
Contacts.....	15
DOA Contact .....	15
Subject Cross References.....	15
References.....	15

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50525</b>
Function No. 50000 — Payroll	<b>TOPIC</b>	<b>VIRGINIA SICKNESS AND DISABILITY PROGRAM</b>
Section No. 50500—Paying the Employee	<b>DATE</b>	January 2014

## Overview

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**Introduction** The Virginia Sickness and Disability Program (VSDP) is administered by VRS in partnership with a VSDP third party administrator (VSDP TPA). VSDP provides state employees with supplemental income while out of work due to a short-term or long-term disability.

This topic covers CIPPS processing requirements for participants in the program. Minimal information is provided in this topic concerning eligibility, leave allotments, benefits, and exceptions. Agencies should refer to VRS (VSDP Handbook, 2004) and DHRM (4.57 DHRM Policies and Procedures Manual) publications for detailed program rules.

Agencies must develop internal policies and procedures encompassing all program rules promulgated by VRS and DHRM. Agencies must ensure the accuracy of :

- VSDP Benefits.
  - Pay Classification.
  - Employer and Employee Paid Deductions.
  - Leave allocation and usage.
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**Eligibility** Eligible employees include state employees and faculty who are regularly employed on a full-time salaried basis and who are members of VRS, SPORS, and VaLORS. Part-time classified state employees who earn sick leave and work in salaried position at least 20 hours a week are also eligible.

Ineligible employees include:

- Members of the Judicial Retirement System.
- Employees of political subdivisions.
- Wage Employees and part-time adjunct faculty.
- Employees participating in ORPs or alternative retirement plans.

All full and part-time classified employees hired after January 1, 1999, who are active members of VRS must participate.

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*Continued on next page*

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50525</b>
Function No. 50000 — Payroll	<b>TOPIC</b>	<b>VIRGINIA SICKNESS AND DISABILITY PROGRAM</b>
Section No. 50500—Paying the Employee	<b>DATE</b>	January 2014

## Overview, Continued

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**Short-Term Benefits** VSDP provides income replacement to disabled employees at three levels, 100%, 80%, and 60% of pre-disability income, for varying periods determined by the employee's length of state service. Short-term benefits are paid by agencies through payroll.

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**Long-Term Benefits** VSDP emphasizes the goal of returning employees to work when medically able. However, if the employee is not able to return to work, VSDP provides income equal to 60% of the employee's pre-disability income compensation through long-term benefits. The VSDP TPA pays long-term benefits and the employee is removed from the agency's payroll.

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**Leave** Each year employees are given Sick leave and Family and Personal leave balances for absences of seven or fewer days. The Family and Personal leave (in addition to Annual, Compensatory, Overtime leave, and accumulated Disability Credits) can be used to supplement the 60% and 80% income replacement levels up to 100% of the employee's semi-monthly salary. When this is elected, balances are charged as follows:

<b>Income Replacement</b>	<b>Personal Leave Charged</b>	<b>Disability Credit Charged</b>
80 percent	1.6 per day	8 per day
60 percent	3.2 per day	

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**Waiting Period** Employees cannot receive short-term benefits until they have been absent from work for a period of seven calendar days (40 work hours). Generally employees:

- Can work up to 20 hours during the waiting period.
- Must use 40 hours personal leave, or work up to 20 hours and use 20 or more hours of personal leave (40 hours total), to receive regular pay during the waiting period, or be docked for time on Leave Without Pay.

VSDP provides for a waiver of the waiting period in certain circumstances. Such waivers are specified in Action Reports provided by the VSDP TPA.

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*Continued on next page*

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50525</b>
Function No. 50000 — Payroll	<b>TOPIC</b>	<b>VIRGINIA SICKNESS AND DISABILITY PROGRAM</b>
Section No. 50500—Paying the Employee	<b>DATE</b>	January 2014

## Overview, Continued

### Income Replacement

The number of workdays at each income replacement level is determined by the length of state service and whether the absence is non-work related or work related as follows:

<b>Non-Work Related</b>			
<b>Months of Service</b>	<b>Income Replacement Level</b>		
	<b>100%</b>	<b>80%</b>	<b>60%</b>
Less than 60	5	20	100
60 to 119	25	25	75
120-179	25	50	50
180 or more	25	75	25

<b>Work Related</b>			
<b>Months of Service</b>	<b>Income Replacement Level</b>		
	<b>100%</b>	<b>80%</b>	<b>60%</b>
Less than 60	65	25	35
60 to 119	85	25	15
120-179	85	40	0
180 or more	85	40	0

### Synopsis - Non-Work Related VSDP Process

Employees who are disabled through personal illness, injury, or pregnancy contact the VSDP TPA and provide information related to their disability. The VSDP TPA contacts the employee's licensed treating professional (LTP) and issues an Initiation Action Report alerting the agency that a VSDP claim may be forthcoming. The VSDP TPA determines the validity of the employee's claim following a complete review of the information provided by the employee and LTP. If the claim is:

- Not Approved - the VSDP TPA issues a Closure Action Report and no further action is required.
- Approved - the VSDP TPA issues a Determination Action Report outlining the income replacement levels and timeframes and the period of authorization (Authorized End Date). Payroll processes taxable payments according to the information provided on this report. Payments may be complicated by personal leave or disability credit usage, and/or part-time work in an approved VSDP return-to-work program.

*Continued on next page*

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50525</b>
Function No. 50000 — Payroll	<b>TOPIC</b>	<b>VIRGINIA SICKNESS AND DISABILITY PROGRAM</b>
Section No. 50500—Paying the Employee	<b>DATE</b>	January 2014

## Overview, Continued

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VSDP payments are authorized through the Authorized End Date on the most recent Action Report. Subsequent Determination Action Reports may be issued extending the Authorized End date based on medical information provided by the LTP. If the Authorized End Date is not extended, and the employee has not returned to work, VSDP payments must stop. In the absence of appropriate authorizations, employees must use personal leave or go into a LWOP status for the time missed from work. If the Authorized End Date is extended retroactively, agencies may be required to process adjustments to pay, benefits, and leave including:

- Payroll adjustments to reclassify regular payments into the appropriate VSDP Special Payment.
- One-time payments to employees where the employee went on LWOP.

VSDP claims continue until the employee returns to work full-time or the employee goes into a Long-term Disability status. If the employee is classified as Long-term Disabled, the employee is removed from the payroll and paid any accumulated personal leave balances. If the employee returns to work full-time, VSDP benefits stop and the employee is paid regular pay.

### Synopsis - Work Related VSDP Process

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The Work Related VSDP process requires careful coordination between the agency, DHRM, and the VSDP TPA. Work Related VSDP benefits require an approved Workers' Compensation Claim relating to an on-the-job injury or illness. Under Work Related VSDP processing:

- Workers' Compensation becomes the primary benefit, and VSDP becomes secondary.
- Both the Workers' Compensation Benefit and the VSDP Benefit are tax-exempt.
- The number of the Days of Income Replacement is different for than non-work-related claims.

As described in CAPP Topic No. 50520, *Workers' Compensation*, DHRM investigates and determines the eligibility of Workers' Compensation claims, which may take up to 60-90 days. All reporting requirements and functions concerning the Workers' Compensation process must be adhered to by the agency.

*Continued on next page*

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50525</b>
Function No. 50000 — Payroll	<b>TOPIC</b>	<b>VIRGINIA SICKNESS AND DISABILITY PROGRAM</b>
Section No. 50500—Paying the Employee	<b>DATE</b>	January 2014

## Overview, Continued

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DHRM and the VSDP TPA contact each other and the employee's LTP during the eligibility determination period. During this period, the VSDP TPA may authorize the employee for Non-Work Related VSDP Benefits. If so, a Determination Action Report is issued describing the employee's income replacement levels and the agency will pay (taxable) Non-Work Related VSDP income replacement until the Workers' Compensation claim is approved. Once the Workers' Compensation Award is approved, the agency may be required to process adjustments to pay, benefits, and leave including:

- Payroll adjustments to reclassify regular payments or taxable VSDP payments made during the workers' compensation eligibility determination period into the appropriate non-taxable workers' compensation and VSDP special pay classification.
- One-time payments to employees where the employee went on LWOP.

When the Workers' Compensation claim is approved, payroll issues Workers' Compensation payments to the employee in anticipation of reimbursement from DHRM. Once the employee returns to work full-time or the employee goes into a long-term disability status, agencies must ensure the employee was paid correctly by performing a complete audit of the claim, ensuring all Workers' Compensation reimbursements due the agency have been received.

Calculation of the employee's payment is more complex due to the Workers' Compensation element. The employee has the same options to use personal leave balances or Disability Credits to bring their income replacement income up to their pre-disability semi-monthly salary. Since the Workers' Compensation award is the primary benefit, care must be taken to ensure that the employee does not receive a combined payment (Workers' Compensation, hours worked, personal leave usage, and VSDP benefits) of more than the employee's semi-monthly salary or approved income replacement level.

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### **Working While Receiving VSDP Benefits**

Whenever possible, VSDP seeks to return employees to work, either full-time or part-time, with job modifications, or in another position. Employees in an approved VSDP return-to-work program while on disability may still receive VSDP benefits at the appropriate reimbursement level, as well as receive payment for all hours worked.

*Continued on next page*

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50525</b>
Function No. 50000 — Payroll	<b>TOPIC</b>	<b>VIRGINIA SICKNESS AND DISABILITY PROGRAM</b>
Section No. 50500—Paying the Employee	<b>DATE</b>	January 2014

## Overview, Continued

### Working While Receiving VSDP Benefits, continued

**Note:** See the VRS and DHRM publications for information concerning benefit processing requirements under the LTD-Working status.

Proper and timely notification of hours worked (whether in-agency or not) and absences must be a priority to ensure accurate pay. Any combinations of regular pay, personal leave usage (including Disability Credits) and VSDP benefits should never exceed the employee's normal semi-monthly salary.

### Payroll Summary

A summary of payroll, benefits and leave processing required in conjunction with VSDP claims follows:

<b>Period</b>	<b>Pay, Benefits, Leave Processing</b>	<b>Non-Work Related</b>	<b>Work Related</b>
Day 1-7, Waiting Period	Employee uses personal leave (regular pay) or LWOP, unless waiting period is waived.	X	X
Day 8 to Authorized End Date (May be extended)	Pay short-term disability benefits at the appropriate income replacement level.	X	X
	Pay workers' compensation benefits.		X
	Process VRS, health insurance, and group life fringe benefits normally.	X	X
	Employee continues to accrue Annual leave up to 60 calendar workdays. Extend indefinitely if working.	X	X
	Agencies are reimbursed by DHRM if claim extends 21 days. Adjustments to leave usage for the waiting period may be required.		X
	Employee may use personal leave balances and disability credits to supplement short-term benefits up to 100% of pre-disability salary.	X	X
Workday 125	Agency terminates employee.	X	X
	Employee receives payment for unused leave balances.	X	X
	Benefit processing stops.	X	X
	Employee begins receiving long-term disability payments.	X	X
	Workers' Compensation payments are mailed directly to employee's home		X

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50525</b>
Function No. 50000 — Payroll	<b>TOPIC</b>	<b>VIRGINIA SICKNESS AND DISABILITY PROGRAM</b>
Section No. 50500—Paying the Employee	<b>DATE</b>	January 2014

## Coordination with Payroll, Benefits, and Leave

### Importance of Timely Processing and Communication

Processing payroll, benefits, and leave for employees affected by either work-related or non-work related VSDP absences can be among the most complex areas of payroll administration. Due to the complexity of VSDP program, agencies must establish policies and procedures outlining individual responsibilities under the program thus eliminating processing delays and/or poor communication, such as:

- Payroll, VSDP TPA, and DHRM are not notified timely of absences due to work-related injury.
- Workers' compensation eligibility determination is delayed either by the agency or by DHRM.
- Workers' compensation award payments to agencies are delayed.
- Payroll is not notified of awards timely.
- Leave usage information is not submitted timely.
- Payroll is not notified of the employee's status timely.

Delays and poor communication nearly always affect employee take-home pay, resulting in incorrect classification of pay (i.e., taxable vs. nontaxable, regular pay vs. special pays), under or overpayments, and incorrect benefit deduction processing. Clear and effective communication between Payroll Officers, Fiscal Officers, Benefit Administrators, and Human Resource Officers is necessary in order to prevent incorrect payments to employees.

### Employee Benefits

Employee benefit entitlements vary depending on the status of their disability. Basic benefit levels are described in the table on page 6. For more detailed information see DHRM's Policies and Procedures Manual Policy No. 4.57, *Sickness and Disability Leave Program*, and the *VRS VSDP Handbook, 2004*.

## Virginia Retirement System Detail Action Report

### Introduction

Receipt of a Virginia Retirement Detail Action Report initiates and tracks any VSDP claim. The action Report tells what type of VSDP claim is to be processed, how much to pay and for how long. Special attention is needed when reviewing this document to ensure proper processing and payment.

*Continued on next page*



Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50525</b>
Function No. 50000 — Payroll	<b>TOPIC</b>	<b>VIRGINIA SICKNESS AND DISABILITY PROGRAM</b>
Section No. 50500—Paying the Employee	<b>DATE</b>	January 2014

## Virginia Retirement System Detail Action Report, Continued

### Detail Action Report

The VRS Detail Action Report contains the following:

Description	
The first report received informs HR/Payroll/BA that the VSDP TPA has been notified that an employee may process a claim. No Start Date will be indicated. No other action is required other than to file this information.	
The second report generated informs HR/Payroll/BA that the claim has been approved and payment of VSDP benefits is authorized. This Detail Action Report gives the following information:	
<b>Absence Type</b>	Informs processor of the disability classification.
<b>Workers' Comp Status</b>	Gives the status of the Workers' Compensation claim.
<b>Start Date</b>	Actual day the claim begins. ( <i>Day 8</i> )
<b>Authorized End Date</b>	Date through which the VSDP TPA has authorized benefits. Reflects the date through which benefits should be paid. If employee is not working as of this date, the employee must use personal leave or go on LWOP until a new determination report extending the Authorized End Date is generated by the VSDP TPA.
<b>STD End Date</b>	125 workdays after the start date. Also the day LTD is effective.
<b>Waiting Period Waived information</b>	Tells processor if the 7-calendar day waiting period was waived or not.
	<b>If... Then...</b>
	YES VSDP benefits begin immediately.
	NO Employee must use personal leave/hours worked to cover absence or go on LWOP.
<b>Rate of Pay</b>	Level of benefit due during a particular period.
<b>Effective Date of Pay</b>	Breaks out the periods and percentages of pay for the employee. The date shown is the beginning date of the payment.

*Continued on next page*

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50525</b>
Function No. 50000 — Payroll	<b>TOPIC</b>	<b>VIRGINIA SICKNESS AND DISABILITY PROGRAM</b>
Section No. 50500—Paying the Employee	<b>DATE</b>	January 2014

## Virginia Retirement System Detail Action Report, Continued

### Three Types of Action Reports, continued

<b>Closure Date</b>	Date that the VSDP benefits end
<b>Closure Reason</b>	Reason that the VSDP benefits ended.
<b>Comments/ Note Section</b>	Important case information may be transmitted in these areas.
<b>Authorization</b>	May or may not have to be authorized depending on agency procedures.

## CIPPS Processing

### Long Term Disability Deduction

A long-term disability deduction (Deduction 036, LT DISAB) is automatically established when an employee's retirement deductions are established on HMCU1. All full-time and part-time classified employees who are eligible to participate in VSDP should have an active Deduction 036. See CAPP Topic No. 50425, *Group and Optional Life Insurance*, for more information.

### Special Payments

The following three special payment codes are available to record VSDP and related payments in CIPPS. These special payments default to the proper expenditure object code, while using the employee's established OR1 funding information. For more information on special payments and programmatic data, see CAPP Topic Nos. 50515, *Special Payments* and 50125, *Programmatic Data*.

<b>Special Pay #</b>	<b>Purpose</b>	<b>Taxability</b>	<b>Object Code</b>
061	VSDP payments for non-work related disabilities	Taxable	1153
062	VSDP payments for work related disabilities	Non-Taxable	1154
002	Workers' Compensation payments for work-related claims	Non-Taxable	1151

*Continued on next page*

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50525</b>
Function No. 50000 — Payroll	<b>TOPIC</b>	<b>VIRGINIA SICKNESS AND DISABILITY PROGRAM</b>
Section No. 50500—Paying the Employee	<b>DATE</b>	January 2014

## CIPPS Processing, Continued

### Deduction Overrides

Deduction overrides must be performed during periods that the employee is receiving less than 100% of regular pay. Overrides ensure that all employer paid deductions for eligible benefits are recorded as if the employee is receiving 100% regular pay during the pay period. Deductions are calculated in CIPPS as follows:

- *Retirement (016), retiree credit (015) and buyback (017)* are calculated by applying the applicable rate against the accumulated total of regular pay plus *special pays 001, 002, 015, 061, 062 and 063*. Thus a deduction override(s) may or may not be necessary for payments to an employee.
- Group Insurance (020) and Long Term Disability (036) are calculated by applying the applicable rate against the accumulated total of the SALARY/RATE amount on H0BID plus any *current special pays 001, 002, 015, 061, 062 and 063*. These deductions will always require a deduction override to be processed.

Each payment must be reviewed individually to determine whether an override is necessary. If deduction overrides are not processed through CIPPS, adjustments to these deductions must be processed manually through a VRS-1501 and IAT. See CAPP Topic No. 50605, *Tax and Deduction Overrides*.

**Reminder:** All deduction overrides must have a regular pay transaction (700) in order to process.

### Employee Job Description Screen (H0BUO)

The SDP Participant field is located on H0BUO. This is an informational field used to indicate whether an employee is participating in VSDP. Following overnight processing during the new employee add process, CIPPS automatically updates this field to a value of "Y," indicating the employee participates in VSDP. If participation is optional and the employee has opted out of VSDP, maintenance to this field will have to be performed to set the value to an "N."

*Continued on next page*

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50525</b>
Function No. 50000 — Payroll	<b>TOPIC</b>	<b>VIRGINIA SICKNESS AND DISABILITY PROGRAM</b>
Section No. 50500—Paying the Employee	<b>DATE</b>	January 2014

## CIPPS Processing, Continued

### Non-Work Related Procedures

The following chart illustrates the processing requirements of non-work related VSDP benefits and the applicable CIPPS data entry screens:

<b>If the employee...</b>	<b>Then...</b>	<b>Screen</b>
Does not work any hours during the pay period,	Pay the short-term disability at the applicable income replacement percentage.	Special Pays - HUE01 or HUC01
Works during the pay period or uses leave during the waiting period,	Pay the number of hours worked (or for which leave is used during the waiting period) at the appropriate hourly rate. Subtract this pay for hours worked from the full semi-monthly salary, and pay short-term disability at the applicable income replacement percentage on the remainder.	Regular Pay - HUA03,  Special Pays - HUE01 or HUC01
Is at the 60% or 80% income replacement level and wants to exchange available disability credits or personal leave for supplemental pay,	Pay short-term disability at the applicable income replacement percentage. Also, pay the difference between the short-term disability pay and full semi-monthly salary as regular pay.  For disability credits, at either 80% or 60% level – reduce disability credit balance by <b>8</b> times the number of work days in the pay period.  For personal leave, at 80% level – reduce personal leave balance by <b>1.6</b> hours times the number of workdays in the pay period.  For personal leave, at 60% level – reduce personal leave balance by <b>3.2</b> hours times the number of workdays in the pay period.	Regular Pay - HUA03,  Special Pays - HUE01 or HUC01
<b>Note:</b> Pay processing described in the middle column are subject to sufficient disability credit and/or leave balances to obtain full semi-monthly pay. If insufficient balances are available or the employee chooses not to exercise full exchange eligibility, regular pay must be reduced proportionately.		
Does not work, or works,	Ensure the full contribution is made for VRS, retiree health credit, group insurance, and LTD.	Deduction Overrides – HUD01

*Continued on next page*

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50525</b>
Function No. 50000 — Payroll	<b>TOPIC</b>	<b>VIRGINIA SICKNESS AND DISABILITY PROGRAM</b>
Section No. 50500—Paying the Employee	<b>DATE</b>	January 2014

## CIPPS Processing, Continued

### Work Related Procedures

Work related VSDP processing is identical except as follows:

- Pay workers' compensation benefit as specified in CAPP Topic 50520, *Workers' Compensation Non-VSDP*. Remember, the daily Workers' Compensation Indemnity Rate is derived from taking the Weekly Indemnity Rate and dividing it by the 7 days in a week.
- If the workers' compensation benefit is more than the short-term disability benefit at the applicable income replacement percentage, pay no short-term disability pay.
- If the workers' compensation benefit is less than the short-term disability benefit at the applicable income replacement percentage, pay any short-term disability pay due to ensure the employee receives the appropriate income replacement level.
- When DHRM approves a Workers' Compensation claim and the VSDP TPA issues a Determination Action Report stating that the VSDP claim is a work related, the workers' compensation benefit must be paid on an anticipatory basis. Do not wait for reimbursement from DHRM.
- Once the claim is complete or the employee goes into long-term disability, a reconciliation of Workers' Compensation payments to Workers' Compensation reimbursements must be completed. Any differences must be identified and corrected prior to terminating the employee.

### Garnishment Withholdings

Benefits payable under VSDP program are exempt from levy, garnishment, attachment and other legal process. However, it is up to the employee to obtain a wavier from the courts stating it is exempt. If no wavier is presented, the Attorney General's office deems these withholdings collectable.

*Continued on next page*

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50525</b>
Function No. 50000 — Payroll	<b>TOPIC</b>	<b>VIRGINIA SICKNESS AND DISABILITY PROGRAM</b>
Section No. 50500—Paying the Employee	<b>DATE</b>	January 2014

## CIPPS Processing, Continued

### Leave Usage for Waiting Period for Work Related VSDP

Agencies are reimbursed the Workers' Compensation portion of the first 7 days of the claim for Workers' Compensation claims that exceed 21 days. In this case, the employee does not have to use personal leave balances to cover the entire 40 hours (or less in some instances) incurred during the waiting period. Personal leave must be re-instated to the employee at the pro-rated amount in accordance with the Workers' Compensation Rate as follows:

Step	Action
1	Calculate employee's annual salary
2	Calculate employee's weekly salary (annual salary divided by 52)
3	WC weekly indemnity benefit
4	WC weekly indemnity benefit divided by weekly salary
5	Daily WC hours (Result of step 4 times 8 hours)
6	Daily leave usage (8 hours minus step 5)
7	Leave usage (5 days multiplied by result of step 6)

## Manual Adjustment Procedures

From time to time, it may be necessary to reclassify employee payments from regular to a particular special payment or from a special payment to another one, due to a delay in the receipt of information, waiting for complete information, or pending outcome of an investigation. If necessary, follow the procedures in CAPP Topic No. 50705, *Employee Tax Masterfile Updates*.

## Internal Control

### Internal Control

Agencies must have policies and procedures in place governing VSDP claim payment processing. These procedures must minimally incorporate employee notification, receipt of VSDP TPA action reports, compliance with the VSDP program guidelines, and employee leave usage. Agency payroll personnel, fiscal officers and human resource personnel must coordinate effectively to ensure proper payment employees.

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50525</b>
Function No. 50000 — Payroll	<b>TOPIC</b>	<b>VIRGINIA SICKNESS AND DISABILITY PROGRAM</b>
Section No. 50500—Paying the Employee	<b>DATE</b>	January 2014

## Records Retention

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**Time Period** The Input Transaction Listing, Report 1001, and the Transaction Batch Balance Summary, Report 1005, must be retained for 60 days. All other reports should be retained for five (5) years or until audited, whichever is later. Agency policy and procedures determine the retention of the related agency source documents/records.

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## Contacts

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## Subject Cross References

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**References** CAPP Topic No. 50125, *Programmatic Data*  
CAPP Topic No. 50425, *Group and Optional Life Ins*  
CAPP Topic No. 50515, *Special Payments*  
CAPP Topic No. 50520, *Workers Compensation*  
CAPP Topic No. 50605, *Tax and Deduction Adjustments*  
CAPP Topic No. 50705, *Employee Tax Masterfile Updates*

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