

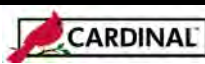
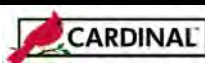
Volume No. 1 - Policies & Procedures	TOPIC NO. 50435 – Cardinal
Section No. 50400—Deductions	TOPIC FLEXIBLE SPENDING ACCOUNTS
	DATE June 2023

Table of Contents

Overview	2
Introduction	2
Use or Lose	2
Who is Eligible	2
Annual Enrollment and Update	3
Administrative Fees	4
Central Benefits Administration	4
Agency Benefits Administration	5
Central Payroll Administration	5
Agency Payroll and Fiscal Administration	5
Adjudication of Flexible Spending Account Card Transactions	6
Deductions	6
Mid Plan-Year FSA Deduction Changes	6
Transfer Employees	7
Deductions Due for Prior Plan Year	7
Deduction Refund Policy	7
Administrative Errors and Deduction Refund Guidelines	7
Tax Impact	8
Special Considerations	8
Leave Without Pay (LWOP)	9
Employee Payment	9
Accounts Receivable Funds Receipt Method	9
Inter-agency Transfer (ATA Method)	10
Internal Control	10
Internal Control	10
Records Retention	10
Time Period	10
Contacts	10
DOA Contacts	10
Subject Cross References	11
References	11
Suggested Additional Resources	11

Volume No. 1 - Policies & Procedures	TOPIC NO. 50435 – Cardinal
Section No. 50400—Deductions	TOPIC FLEXIBLE SPENDING ACCOUNTS
	DATE June 2023

Overview

Introduction The Office of Health Benefits (OHB) in the Department of Human Resource Management (DHRM) administers the Commonwealth of Virginia Flexible Spending Account program. The program allows employees to elect to contribute to a Health Care Flexible Spending Account (HCFSA) and/or a Dependent Care Flexible Spending Account (DCFSA) through a salary reduction agreement. Payroll deductions for contributions to the Flexible Spending Accounts are made on a pre-tax basis. The employee can elect to participate at the time of employment, during a life change and, annually, during the open enrollment period. Employees enroll in Flexible Spending Accounts through Employee Self Service (ESS).


Complete Flexible Benefits Program details can be found at:

<http://www.dhrm.virginia.gov/employeebenefits/flexiblespendingaccounts>

The Flexible Spending Account program qualifies as a cafeteria plan authorized by Section 125 of the Internal Revenue Code. The Internal Revenue Service (IRS) establishes the calendar year limits and maximum contribution amounts.

Use or Lose As with all cafeteria plan contributions and benefits, participation in the Flexible Benefits Program constitutes a salary reduction agreement. Thus, the employee agrees to receive a reduced salary in exchange for payment of eligible dependent care and medical expenses by the Commonwealth. Participants estimate their health care and/or dependent care assistance expenses before they are incurred. If participants overestimate their expenses, contributions remaining in the spending account(s) at the end of the year are forfeited to the Plan.

Who is Eligible All employees who are eligible to participate in the State Health Benefits Program are eligible to participate in the Flexible Benefits Program. Enrollment in the State Health Benefits Program is not required to enroll in the Flexible Benefits Program.

Volume No. 1 - Policies & Procedures	TOPIC NO. 50435 – Cardinal
Section No. 50400—Deductions	TOPIC FLEXIBLE SPENDING ACCOUNTS
	DATE June 2023

Overview, Continued

Annual Enrollment and Update

The plan year for Flexible Spending Accounts is July 1 through June 30 of each year. In accordance with guidelines established by DHRM, employees who wish to participate must enroll annually in the Flexible Benefits Program, even if the total contribution for the new plan year remains the same.

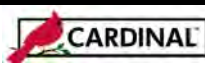
During Open Enrollment processing, a new “waived” row will be inserted in the flexible spending account and fee plans for all employees currently enrolled who do not enroll for the new plan year.

The V_FSA_Benefits data query provides a list of employees enrolled in the program:

Navigator > Reporting Tools > Query > Query Viewer > V_FSA_BENEFITS.

The FSA Contribution Election Audit Report (RBN238) lists employees who make a midyear enrollment or midyear change to their Flexible Spending Account annual election that could result in a suspension of their deduction, due to an Internal Revenue Service (IRS) calendar year limit:

Navigator > Benefits > Reports > Audits > FSA Contrib Election Audit

Volume No. 1 - Policies & Procedures	TOPIC NO. 50435 – Cardinal
Section No. 50400—Deductions	TOPIC FLEXIBLE SPENDING ACCOUNTS
	DATE June 2023

Overview, Continued

Administrative Fees

Employees are charged an administrative fee to participate in the Flexible Spending Accounts program. This is an employee-paid, pre-tax fee that is withheld the first pay period of each month. Only one fee is assessed per participant, regardless of whether the employee is participating in one or both accounts. The administrative fee plan election is based upon the employee's number of pays.

The Flexible Spending Account Admin Fee Errors Report (RHR139) is generated by agency users and should be reviewed each pay day. The report lists employees for whom an error exists between Flexible Spending Account (FSA) plan enrollment and the FSA Admin Fee benefit deduction. DHRM will generate the report periodically to monitor discrepancies and contact agencies regarding recurring discrepancies.

There are two data queries used to identify the employees that may have an error with their Flexible Spending Account (FSA) plan enrollment and/or their FSA Admin Fee.

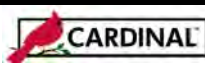
Navigator > Reporting Tools > Query > Query Viewer >
V_BN_FSA_ADMINFEE_BAL_AUDIT

Navigator > Reporting Tools > Query > Query Viewer >
V_BN_FSA_ADMINFEE_ENROLL_AUDIT

Central Benefits Administration

The Office of Health Benefits in DHRM:

- Administers statewide Flexible Spending Account programs
- Performs certain Third-Party Administrator (TPA) disbursement reconciliation activities.

Volume No. 1 - Policies & Procedures	TOPIC NO. 50435 – Cardinal
Section No. 50400—Deductions	TOPIC FLEXIBLE SPENDING ACCOUNTS
	DATE June 2023

Overview, Continued

Agency Benefits Administration Agency Benefits Administrators are responsible for processing new enrollments and enrollment changes when not entered through Employee Self Service (ESS).

In coordination with Agency Payroll and Fiscal Administration, Benefit Administrators are responsible for reviewing and reconciling enrollments and administrative fees as required.

Detailed administrative guidelines governing flexible spending accounts are available from DHRM.

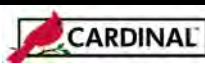
Central Payroll Administration State Payroll Operations (SPO) in the Department of Accounts:

- Runs payroll in Cardinal HCM, during which payroll deductions for flexible spending accounts are processed
 - Performs certain accounting and reconciliation activities supporting the Flexible Spending Account program
 - Provides payroll deduction information to the third-party administrator (TPA)
 - Processes payments to TPA for claims/administrative expenses.
-

Agency Payroll and Fiscal Administration When Flexible Spending Account deductions are not collected, Cardinal will automatically distribute the remaining uncollected Flexible Spending Account contribution over the remaining pay periods of the plan year.

Agency payroll officers should collect missed amounts through the Single-Use Payroll Online Tool (SPOT) to ensure that the payroll deduction remains constant. Refer to job aid, PY381_Using the Single-Use Payroll Online Tool (SPOT) for detailed instructions. If the employee is in a leave without pay status, the contribution and fee must be collected outside of the payroll system and a balance adjustment must be processed as explained later in this topic.

In coordination with Agency Benefit Administrators, Agency Payroll and Fiscal Administration is responsible for reviewing and reconciling enrollments and administrative fees as required.

Volume No. 1 - Policies & Procedures	TOPIC NO. 50435 – Cardinal
Section No. 50400—Deductions	TOPIC FLEXIBLE SPENDING ACCOUNTS
	DATE June 2023

Overview, Continued

Adjudication of Flexible Spending Account Card Transactions

According to IRS guidelines (Revenue Ruling 2003-43, 2006-69), all debit card transactions for medical reimbursement claims must be validated. The TPA is permitted, under the IRS guidelines, to automatically validate (auto-adjudicate) certain transactions. If the TPA cannot auto-adjudicate card transactions, the TPA requests supporting documentation from the employee. If documentation is not received, then the outstanding transaction amounts must be reported to the Internal Revenue Service (IRS) as income on the employee's W-2 form and are subject to all applicable employment taxes (including federal and state income tax withholding and FICA).

In the past W-2Cs were necessary for employees with cafeteria plan adjustments and no other pay in the current calendar year. However, IRS guidance in the General Instructions for Forms W-2 and W3 now allows employers to report "as wages for income tax withholding and employment tax purposes on the employee's Form W-2 (or W-2C) for the employee's taxable year in which, or with which, ends the cafeteria plan year in which the correction is made."

Agencies should use earnings code, UNA – Un-Adjudicated Flex, to update the taxable wages for the amount reported by the Flex Program TPA as un-adjudicated. Specific processing guidance is provided annually in a Payroll Bulletin distributed by DOA State Payroll Operations when the list is made available by the TPA.

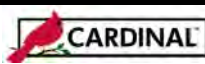
Deductions

Mid Plan-Year FSA Deduction Changes

The Flexible Benefits Program must follow all rules and regulations associated with IRS Code Section 125. According to IRS Code, once an election becomes effective, the amount or the benefits cannot be changed during the course of the plan year unless a life event, as defined by the IRS, has occurred.

Changes to payroll deduction of Flexible Spending Account amounts **are not discretionary**. Plan deductions, as indicated on pre-tax enrollment forms, must be taken unless other deductions take priority (e.g. healthcare, garnishment, and child support) or there are insufficient funds from which to take a deduction.

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Volume No. 1 - Policies & Procedures	TOPIC NO. 50435 – Cardinal
Section No. 50400—Deductions	TOPIC FLEXIBLE SPENDING ACCOUNTS
	DATE June 2023

Deductions, continued

Transfer Employees

Employees that transfer to other state agencies are expected to continue the original enrollment unless conditions previously described apply.

Information regarding employee enrollment in the Flexible Spending Account program should be passed from the old agency to the new agency as soon as possible.

Deductions Due for Prior Plan Year

The plan year for Flexible Spending Accounts is July 1 through June 30. Because the benefits program adjusts the deduction per pay period based on the annual election and the remaining plan year YTD balance, it is imperative that the correct general deduction codes are used when processing transactions to collect amounts due for the prior plan year.


- FLXDPY – Dependent Care FSA – Prior Year
- FLSMPY – Medical FSA – Prior Year
- FLXFPY – Flex Admin Fee – Prior Year

Refer to Cardinal job aid, PY381, “Using the Single-Use Payroll Online Tool (SPOT)” for detailed instructions.

Deduction Refund Policy

Administrative Errors and Deduction Refund Guidelines


Generally, refunds of deductions for Flexible Spending Accounts to employees are not allowed unless the deduction was withheld due to administrative error. **The Office of Health Benefits in DHRM must approve all refunds before they are processed through payroll.** Once approved, the agency will process a deduction refund in Cardinal HCM for the amount deducted during the current calendar year only using the Single-Use Payroll Online Tool (SPOT). Refer to the “Using the Single-Use Payroll Online Tool (SPOT)” Job Aid for detailed instructions. See CAPP Topic 50605, *Tax and Deduction Overrides*. Amounts refunded for prior calendar years must be processed outside of the payroll system and a W2C must be requested.

Volume No. 1 - Policies & Procedures	TOPIC NO. 50435 – Cardinal
Section No. 50400—Deductions	TOPIC FLEXIBLE SPENDING ACCOUNTS
	DATE June 2023

Deduction Refund Policy, continued

Tax Impact State employees enjoy the tax savings of the pre-tax deduction option authorized by section 125 of the Internal Revenue Code. As mentioned in the introduction, under IRS rules the deduction actually constitutes a salary reduction. Consequently, when an employee participating in a flexible spending account receives a refund in a calendar year after the year the deduction was made, a corrected W-2 (Form W-2C) and a 941-X may be required.

Special Considerations Special care should be taken when processing pre-tax deduction refunds. The agency may need to collect any appropriate taxes due directly from the employee when Flexible spending Account deduction refunds are processed for employees who are no longer receiving regular pay. Upon receipt of the delinquent taxes, the agency will need to update the employee's record and deposit the taxes. See CAPP Topic Nos. 50605, *Tax and Deduction Overrides*, and 20319, *Electronic Federal Tax Payments System (EFTPS)*, for procedures.

Volume No. 1 - Policies & Procedures	TOPIC NO. 50435 – Cardinal
Section No. 50400—Deductions	TOPIC FLEXIBLE SPENDING ACCOUNTS
	DATE June 2023

Leave Without Pay (LWOP)

Employee Payment

Employees on leave of absence without pay during any plan year must continue contributing to their flexible spending account(s) by paying the contributions and administrative fees on an **after-tax basis unless they opt to cancel due to leave**. Agencies must deposit the funds to the flexible spending accounts. This can be done in one of two ways:

- Depositing the funds directly to the flexible spending accounts using an Accounts Receivable Funds Receipt in Cardinal FIN - or -
- When the employee's check has been deposited to an agency's cash account, the funds can be transferred by processing a payment in the Accounts Payable Module (AP) by the paying agency and receipt is recorded in the Accounts Receivable Module (AR) by the recipient agency.

In both cases a balance adjustment to increase the deduction amount in HCM must be submitted; otherwise, the system will try to collect the amounts paid outside of the system when the employee returns to a paid status. The balance adjustment must be submitted to adjust both the Calendar Year and Plan Year deduction balances.

Notify DOA of the deposit or Agency to Agency transaction (ATA) by either:

FAX # (804) 225-3499

-or-

Mail a copy to:

Department of Accounts
SPO Benefits - Flex
P. O. Box 1971
Richmond VA 23218-1971

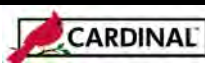
Accounts Receivable Funds Receipt Method

Process a deposit in Cardinal FIN to reflect the payment for admin fees, dependent care, and medical reimbursement funds into the Flexible Spending Account, using the following coding:

Acct Name	Business Unit	Fund	Acct	Dept	PC BU	Project	Activity
Dep Care	16200	07210	4009010	97200	16200	*	State
Med Reim	16200	07220	4009017	97200	16200	*	State
Adm Fee	16200	07231	4002700	97200	16200	*	State

***NOTES:** Project number used relates to Plan Year - see FYE bulletin for current project numbers.

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Volume No. 1 - Policies & Procedures	TOPIC NO. 50435 – Cardinal
Section No. 50400—Deductions	TOPIC FLEXIBLE SPENDING ACCOUNTS
	DATE June 2023

Leave Without Pay (LWOP), Continued

Inter-agency Transfer (ATA Method)

If the employee's check has been deposited to the agency's cash account, the funds can be transferred by the paying agency processing a payment in the Cardinal FIN Accounts Payable Module (AP) and the recipient agency recording the receipt in the Accounts Receivable Module (AR). When these types of transactions occur, processing steps are similar to standard AP vouchers or AR deposits. Refer to CAPP Topic No 20405 *Inter-Agency Transactions*.

Internal Control

Internal Control

Agencies are responsible for adhering to DHRM policy and collecting deduction amounts according to benefit enrollment. Agencies are also responsible for ensuring the proper tax treatment of deductions.

Records Retention

Time Period

Retain all source documents three years or until audited, whichever is later.

Contacts

DOA Contacts

Assistant Director, State Payroll Operations

☎ (804) 371-7800

FAX (804) 225-3499


✉ Payroll@virginia.gov

Benefits Accounting Supervisor

☎ (804) 225-2246

FAX (804) 225-3499

✉ Payroll@virginia.gov

Volume No. 1 - Policies & Procedures	TOPIC NO. 50435 – Cardinal
Section No. 50400—Deductions	TOPIC FLEXIBLE SPENDING ACCOUNTS
	DATE June 2023

Subject Cross References

References

CAPP – Topic No. 20405, *Inter-Agency Transactions*

Refer to suggested job aids and training information for data entry and processing on the Cardinal website: <http://www.cardinalproject.virginia.gov/>.

Suggested Additional Resources

The following can be found on the Cardinal Website, under Learning – Job Aids:

PY 381, Using the Single-Use Payroll Online Tool (SPOT)