

Employee Incentive Awards

Resources:

- State Finance Accounting Policies and Procedures 5-03.06
- See [State Finance Forms](#): (1) Incentive Award Cash example (FI48) and (2) Incentive Award Cash Equivalent example (FI48)
- Courts Human Resources Policy – [HR06-7 Incentive Awards and Bonuses](#)
- See [Section 01-01.00 Records Retention](#)
- See Section 19.04 Forms and Instructions for:: (1) [Non-cash Equivalent Log](#) and (2) [Cash Equivalent Log \(Cards\)](#); as well as instructions for [SAP Reconciliation](#).
- See [Section 07-03.03 Retirement](#)

Purpose:

This policy explains the annual budgeting and allocation of incentive award funds including the purchase of employee non-cash incentive awards. **Incentive Awards** originate from one-time carry forward funds the Judicial Council authorizes each year. Incentive funds are distributed to the TCEs and the AOC designee for gift cards and cash awards. These are "incentive awards." Criteria for individual or group awards includes (1) an innovative idea or suggestion, implemented by the courts, which improves operations or results in cost savings, (2) the exercise of leadership beyond that normally expected in the employee's assignment, (3) an action which brings favorable public or professional attention to the courts, and (4) successful completion of an approved special assignment including performance on a special individual or team project. Documentation for the award is encouraged.

There is no approval required above for the TCE/AOC Designee level in administering incentive awards. Individual or group cash awards from this pool should not exceed \$800 per person.

Policy:

1. Incentive award funding is determined by the Judicial Council as a portion of each fiscal year's beginning carry-forward balance. Incentive awards may be monetary or non-monetary. Monetary awards may be given to employees based upon the annual availability of funds and expire at the end of the fiscal year. Refer to [Human Resources Policy HR06-7 Incentive Awards and Bonuses](#).
2. Each court district and the AOC as a whole receives an allocation based on the number of FTEs. AOC Finance provides a spreadsheet with the

allocation amount that sets forth the award amount without the tax gross up early each fiscal year.

3. When either (1) an incentive cash award or (2) an incentive cash equivalent award (e.g. a gift card) is given to an employee, because IRS rules require it to be treated as taxable income to the employee, management must ensure an FI48 Employee Reimbursement/Earnings Request form is completed and submitted to the payroll clerk for immediate entry into the payroll system. To offset the out-of-pocket impact on an employee's personal taxes from an incentive cash equivalent award, AOC Finance increases the District/AOC budget by an amount equal to 30% of the value of the award which is to be added to the employee's paycheck to cover the estimated additional taxes that arise from the non-cash award. This practice means that an employee receiving a gift card is never cash out-of-pocket even if they end up not using the gift card.

Procedure:

Incentive Cash Awards

1. Recipients of cash awards should be notified prior to the date the funds are added to their payroll.
2. Payroll data entry for cash awards must be completed by the pay period entry cutoff date (typically the Friday before a payday).
3. Enter the recipient's name and employee identification number on Finance form FI48 and give the form to the payroll clerk along with the amount of the cash award.

Payroll entry

4. The amount of the cash award is to be increased by 30% to cover estimated taxes the recipient will pay on the award.
5. Enter the value of the cash award including estimated taxes using wage type 1139. Refer to Form [FI48: Incentive Award-Cash example](#)

Incentive Cash Equivalent Awards

Purchasing Requirements for cash equivalent awards (e.g., gift cards):

1. Cash equivalent awards (typically gift cards or other non-monetary items¹) are to be purchased using a state warrant (FINET check) and never with a purchasing card. A memo stating the reason for purchase of gifts or gift cards shall be retained in the FINET document header.
2. Use FINET object code 5150 for all purchases of cash equivalent incentive awards.

¹ The AOC Designee (currently Chris Palmer) has contacts with several retailers who provide gift cards, some with volume discounts. He will provide the names/emails/phone numbers of his contacts upon request.

3. Courts are strongly discouraged from purchasing gift certificates or gift cards that require an activation fee (cards that reflect a credit card logo).
4. When purchasing gift cards from stores or restaurants, it is advised that you contact them for their bulk gift card purchasing procedures. Stores, such as Kroger, will not accept our checks at the local store for large numbers of gift cards and the order must be placed with the corporate office. See Section 08-00.00 Payment Processing.

Distribution of cash equivalent awards

5. The supervisor or designee should enter the recipient's name and employee identification number on Finance form FI48 or equivalent form/spreadsheet and give the form to the payroll clerk along with the amount of the cash equivalent award.
6. Present the award to the employee

Payroll entry

7. The amount of the cash equivalent award is to be increased by 30% to cover estimated taxes the recipient will pay on the award. [Use this spreadsheet to calculate the estimated tax amount.](#)
8. Enter the value of the cash equivalent award using wage type 1128 and the 30% estimated tax amount using wage type 1139. Refer to Form FI48: [Incentive Award-Cash equivalent example](#)

Record keeping:

9. AOC management and court executives will designate an employee ("Employee #1) to maintain a log of incentive cash equivalent awards. The log must include:
 - a. all purchases of incentive cash equivalent cards
 - b. name and employee # of each recipient of an incentive cash equivalent award issued
 - c. the dollar value of each incentive cash equivalent award issued (before the 30% increase)
 - d. name of the employee issuing the incentive cash equivalent
 - e. date that the incentive award was issued to the recipient
 - f. signature (or email acknowledgement) of employee taking custody of the gift card issued,.
 - g. date FI48 is entered into payroll
 - h. columns including beginning balance of gift cards in custody, additions, subtractions, and an ending balance amount of cash equivalent awards
10. A second employee (inventory custodian or Employee #2) will be provided a copy of the log and is responsible to secure the inventory of incentive cash equivalent awards in a locked device.
11. The custodian will keep the key to the locked device in his/her possession at all times. A duplicate key to the locked device will be secured in a dual control key box to provide access in the custodian's absence.

Incentive Non-cash Equivalent Awards (De Minimis Fringe Benefits)

1. Incentive non-cash equivalent awards (termed “De Minimis Fringe Benefits”) are governed by IRS rules. As such, these rules may change over time. The IRS rules for de minimis fringe benefits are found [here](#). Court rules further limit the use of de minimis fringe benefits to the “Holiday Gifts” section. These are incentive non-cash equivalent awards that are not re-saleable and thus are nontaxable (e.g., candy, ham, turkey, turducken, etc.) and each item **may not exceed \$50** in value.
2. As a general rule, we discourage de minimis fringe benefits in favor of Incentive Cash and Incentive Cash Equivalent Awards which have much greater flexibility for tailored use by the employee.
3. Use FINET object code 6270 for purchases of de minimis fringe benefits.
4. AOC management and court executives will designate an employee to maintain a log of de minimis fringe benefits (Employee #1). The log must include:
 - a. all purchases of de minimis fringe benefits including date purchased, vendor, dollar value, description, and expiration date, if any,
 - b. name and employee number of each recipient of a de minimis fringe benefit
 - c. a description of the de minimis fringe benefit distributed
 - d. the name of the employee requesting the de minimis fringe benefit award be made
 - e. signature of the employee receiving the de minimis fringe benefit
 - f. columns including beginning balance of de minimis fringe benefits in inventory, additions, subtractions, and an ending balance of de minimis fringe awards
5. A second employee (inventory custodian or Employee #2) will be provided a copy of the log and is responsible to secure the inventory of de minimis fringe benefit items.
6. There is no payroll entry required for de minimis fringe benefits awarded.
7. Retain records according to the current record retention schedule.

Quarterly Reconciliation of Incentive Cash Equivalent and De Minimis Fringe Benefit Awards

1. The employee designated to maintain the logs referenced in this section is Employee #3 and should not be Employee #1 or #2 in the above paragraphs. Employee #3 is responsible to reconcile the incentive cash equivalent and de minimis fringe benefits quarterly. The reconciler must:
 - a. compare the items purchased to the custodian’s log in possession of

- Employee #1,
 - b. verify the items in inventory (usually gift cards) in possession of Employee #2
 - c. verify the items distributed for the past quarter by confirming directly with recipients (use a sample if the number of recipients is > 15) the distributions on the log of Employee #1.
 - d. for incentive cash equivalent awards, reconcile the log to the payroll [SAP Report](#) to ensure an FI 48 form was processed taxing each award.
2. Supporting accounting documentation for the purchase, inventory, and distribution of incentive cash equivalent and incentive non-cash equivalent awards must be retained in addition to logs used to complete the quarterly reconciliation based on the Court's retention schedule. Any discrepancies must be reported to management for resolution.

	Employee				
	Incentive Awards	Bonuses		Raises	
		Hotspot	Performance	Hotspot	Performance
Funded by	Carryforward requests to JC	1x Turnover savings ¹	1x Turnover savings ¹ requests to JC	Ongoing TOS ²	Ongoing TOS ² requests to JC
Allocated by	FTE	No allocation - Request to Administrators ³	TCEs – Administrators' decision	No allocation – Request to Administrators ³	TCEs - Administrators' decision
Approval	TCE/AOC Designee	Administrators, HR/Finance	Subject to management review	Administrators, HR/Finance	Subject to management review
Documentation	Recipient log ⁴	HR file	HR file	HR file	HR file
Payment Time	Anytime	Anytime	Anytime	Anytime	FY-Q4

1. \$250,000 max per year

2. \$200,000 max per year

3. Administrators (i.e., State Court Administrator & Deputy State Court Administrator)

4. See 19-01.00 (Employee Incentives)