INTRODUCTION

Under A.R.S. § 41-709 agencies may accept gifts and donations for employee recognition programs. This section of SAAM contains the following parts:

- General considerations relating to employee recognition program activities.
- How money for employee recognition activities may be raised.
- How money from employee recognition activities may be spent.
- Accounting for donations received.
- Reporting, taxing and accounting for awards distributed.
- Tips and guidelines relating to employee recognition programs

The purpose of employee recognition award programs is to say “thank you,” “well done,” “we value you as an employee.” This purpose differs from the goals and objectives of other aspects of total compensation. Salary is payment for doing the job; benefits are designed to protect the employee’s well-being; short and long-term incentives direct and reward the achievement of specific performance goals.

The goal of employee recognition is to incent enhanced performance. Recognizing an employee is not an end in and of itself; it is a means to an end – demonstrating appreciation for the recipient and illustrating the desirable behavior expected from all employees.

Awards given in connection with employee recognition activities may be subject to Federal and State income and employment taxes. Those involved in establishing or conducting employee recognition activities should be familiar with not only the contents of this section of SAAM but also the provisions of SAAM 5555 and SAAM 5556 as well.

This section of SAAM, particularly when dealing with awards, is limited to employee recognition funds received and distributed in connection with A.R.S. § 41-709; it specifically does not apply to incentives, stipends, leave, other awards for meritorious service granted in connection with other compensation strategies.

Expenditures related to employee recognition, like all disbursements of public monies, must always be in the best interest of the State.
POLICIES

1. General considerations relating to employee recognition program activities.

1.1. Absent other specific statutory authority, all employee recognition activities must be in compliance with the provisions of A.R.S. §§ 41-709 (“Gifts and donations for employee recognition”) and 35-149 (“Disposition of private funds; contributions and suspense funds; exception”).

1.2. No employee recognition activity shall be in contravention of any Federal or State law, rule, regulation, policy or the terms of any relevant contract or grant.

1.2.1. In those situations where multiple, different provisions or limitations may appertain, the most restrictive shall apply.

1.3. No solicitation of funds or related activity shall violate the Standard of Conduct imposed by A.A.C. R2-5A-501(B)(4).

1.4. The donor shall agree that funds donated for employee recognition activities will be used exclusively for such activities.

1.5. The receiving agency shall ensure that funds donated for employee recognition activities are used exclusively for such activities.

1.6. Taking into account all administrative and collateral costs, the value received from an employee recognition activity shall be demonstrably greater than its costs to the public.

1.7. No activity authorized by an agency or policy published by an agency shall be inconsistent with the policies and/or procedures prescribed by this section of SAAM.

1.8. The Legislature has granted all agencies specific authority to raise funds and collect donations to finance employee recognition programs. This authority does not extend to other fundraising activities unless otherwise provided by statute or executive order.

1.9. An agency should produce its own written, comprehensive, agency-specific employee recognition policy.

1.10. While the source of employee recognition donations is private, these donations become public assets once accepted. As such, the same, rigorous internal controls that apply to the safeguarding all public resources apply to employee recognition donations.

1.11. Nothing prohibits the establishment of employees’ or managers’ funds, using personal resources, for other purposes.
1.11.1. Contributions to such funds must be voluntary.

1.11.2. Contributions to such funds are not to be solicited from those who are not officers or employees of the State.

1.11.3. Such monies may not be deposited with the OST.

1.11.4. The proceeds from employees’ or managers’ funds may be used for life events, parties, and other activities that, while not prohibited by law, are not appropriate uses for employee recognition funds.

1.11.5. As is the case with employee recognition funds, the benefit to the public from the use of public resources (e.g., employee time or State facilities) in connection with activities relating to employees’ or managers’ funds, when requiring the use of public resources (i.e., employee time or State facilities), must outweigh their cost to the public.

2. **How money for employee recognition activities may be raised**.

2.1. In accepting donations from any source, particular care must be taken to avoid conflicts of interest or the appearance of conflicts of interest. It would be unwise, for example, to accept a contribution from any individual or entity that has business pending with the State.

2.2. When accepting donations, the costs of any special restrictions must be considered. For example, were someone to offer a gift of $1,000 under the condition that the principal be held in trust and only the interest be available for distribution under an agency’s employee recognition plan, it would be prudent to refuse the gift. The $10 or $20 interest that the gift might earn each year would be considerably less than the costs to establish and administer the trust.

2.3. **Agencies may not**:

2.3.1. Engage in gambling type endeavors, such as raffles, to raise employee recognition funds.

2.3.2. Injudiciously use State resources—i.e., supplies, services, equipment, the compensated time of State employees, etc.—to solicit employee recognition donations or to stage employee recognition events. The benefit to the State derived from such use must outweigh its cost.

2.4. **Agencies may**:

2.4.1. Sponsor auctions or silent auctions, where the outcome is determined by a participant’s public bid, rather than by chance.

2.4.2. Hold contests or competitions, where the outcome is determined by a participant’s skill, rather than by chance.
2.4.3. Solicit items for resale and sell them at a profit, the proceeds going to the employee recognition fund.

2.4.4. Purchase items for resale and sell them at a profit, the proceeds, less the costs, going to the employee recognition fund.

2.4.5. Collaborate with merchants in selling the merchant’s goods or services for a commission, fee or percentage of the sales, provided that such endeavors do not otherwise contravene any law or rule or violate public policy.

2.4.6. Engage in other fundraising activities the results of which are not determined by chance, are not in contravention of any Federal, State or local law, rule or policy, and which do not bring disrepute upon the State of Arizona, its officers or employees.

2.5. An agency may accept gifts and donations from a public entity, a private entity or any person for the conduct of employee recognition programs.

2.5.1. The funds solicited or accepted by a State employee should neither be nor have the appearance of being a gift, gratuity, favor designed to influence an employee’s official conduct.

For example: Employees working at the Department of Revenue who are responsible for determining the tax liability of restaurants should not solicit or accept gift certificates from any restaurant.

For example: Employees charged with overseeing a construction company building a prison for the State should not solicit or accept a contribution of any sort from the construction company doing the work.

2.6. The donor (e.g., local businesses, state employees, etc.) and the receiving agency are to acknowledge in writing, using Form GAO-802 that the donation will be used exclusively to support employee recognition.

2.7. Donations may be solicited from any entity, including individuals, corporations, partnerships, etc.

2.8. Donations to an agency’s employee recognition fund are tax deductible. See SAAM 8020.

3. How money from employee recognition activities may be spent.

3.1. Awards may be of cash, cash equivalents, merchandise or services.

3.1.1. Awards of cash, cash equivalents or articles readily convertible to cash are taxable income as are other awards that have a value that meets or exceeds the State established de minimis fifty dollars ($50).
3.1.1.1. Cash equivalents include: gift cards, gift certificates, U.S. Savings Bonds, etc.

3.1.1.2. Articles that are readily convertible to cash include items that can be easily pawned (such as jewelry that neither bears an agency or State logotype nor is personalized with the employee’s name) or readily sold (such as transferable tickets for entertainment, sporting events, lodging or travel).

3.1.1.2.1. To reduce the likelihood of selling or pawning an award, the award of a physical good, to the extent possible and to the degree consistent with the nature of the award, should be identified with the logotype of the State agency making the award and be personalized with the name of the employee receiving the award.

3.2. While there may, upon initial consideration, seem to be few restrictions to the ways in which employee recognition funds may be used, it is not unreasonable to deduce that the Legislature’s intent was that they be spent to acknowledge and encourage superior service to the public.

3.2.1. This means that it is inappropriate to use employee recognition funds or other public monies for such life events as birthdays, marriages, and deaths in the family.

3.2.1.1. It is appropriate, however, to use private monies, e.g., managers’ funds or employees’ funds, for life events like marriages, birthdays, and deaths in the family.

3.3. The economic reasonability of any award made to an employee under an Employee Recognition Program needs to be considered. (As stated in the Introduction, these limits do not apply to incentives, stipends, leave, and other awards for meritorious service granted in connection with compensation strategies not contemplated by A.R.S. § 41-709.)

3.3.1. The table at the end of this section titled “Employee Recognition Award Limits by Years of Service” lists the maximum amounts that may awarded for various lengths of service and retirement. listed immediately below are presented to ensure that the value of the awards is not disproportionate to the benefit that the public derives from the Department giving such awards.

3.3.2. On-the-spot awards should be limited to twenty-five dollars ($25).

3.3.3. Other awards should not be disproportionate to the amounts listed in the table.

3.4. Employee recognition awards, when given, must be given in recognition of achievement, performance, longevity or retirement. Employee recognition awards are not to be distributed indiscriminately or by lottery or chance.
3.4.1. It is possible, for example, that an employee recognition award distributed indiscriminately or by lottery or chance is bestowed upon an employee who performs poorly. This outcome sends precisely the wrong message to other employees and can serve as a disincentive and demoralizer.

3.4.2. However, distribution of employee recognition awards can contain an element of chance when all the possible winners would otherwise, by their superior performance, be eligible for an employee recognition award. This might be of particular value when there are severely limited employee recognition funds available but a fairly large number of employees who, due to their achievements, merit recognition.

3.5. Those charged with determining the value, cost and timing of awards should consider the ephemeral nature of contributions and availability of funds. Distributing many or large awards when employee recognition funds are plentiful may result in a dearth of awards when funds are scarce.

3.6. Awards of cash or cash equivalents are always reportable and subject to tax.

3.7. Awards of merchandise or services (excluding cash or cash equivalents which are always reportable and taxable) the value of which is in excess of de minimis, are reportable and subject to tax.

3.8. Employee recognition awards should acknowledge exemplary service to the public and motivate employees to continue or increase their model performance. Types of awards that are appropriate include:

3.8.1. Length of service. These are generally awarded in five- or ten-year increments. Gifts of money or merchandise are appropriate and generally increase in value with greater lengths of service.

3.8.2. Noteworthy performance. These awards recognize instances or patterns in which a team’s or an employee’s efforts are exemplary, often going “above and beyond the call of duty.” Common categories include Employee of the Quarter, Employee of the Year, Team of the Quarter, Team of the Year, etc. Recipients of these awards may receive such things as plaques, agency-wide recognition in a newsletter or its electronic equivalent, reserved parking spaces and, in truly exceptional cases, meritorious service leave (see A.A.C. R2-5A-B611).

3.8.3. Public service. These awards recognize employees who have demonstrated through volunteerism or other public service activity, a commitment to civic responsibility and a concern for the community.

3.8.4. Professional achievement. These recognize employees who have demonstrated exceptional levels of performance within their career fields.

3.8.5. Retirement awards. These recognize state employees for their years of service to the State of Arizona upon retirement.
3.9. All statutes, rules and policies governing the expenditure of monies for employee recognition must be followed. This requirement extends to:

3.9.1. Awards themselves.

3.9.2. The purchase of services or merchandise to be given as awards.

3.9.3. Any expenditure to support an employee recognition program.

3.10. Expenditures related to employee recognition are typically paid as other operating expenditures/expenses and should be considered when an agency prepares its budget and allocations. The types of expenditures/expenses to take into consideration may include (but are not limited to) such things as:

3.10.1. The awards themselves.

3.10.2. Printing of nomination forms.

3.10.3. Printing of brochures, flyers, newsletters and other communication materials.

3.11. Unless an agency has specific authority, appropriated or non-appropriated funds should not be used to pay for food and beverages.

3.12. For events in which State employees are encouraged to participate, such as bake sales, silent auctions, etc., a notice should be posted that all proceeds will be used for employee recognition purposes.

3.13. If items for an employee recognition event are to be purchased by an employee using his own money, he should be advised in advance, in writing, that he will only be reimbursed for his expenditures and that all profits will be ceded to the employee recognition fund.

4. Accounting for donations received.

4.1. In accordance with A.R.S. § 35-149, every agency must document the following information related to any private funds or contributions it receives:

4.1.1. The source of the funds;

4.1.2. The terms and conditions under which the funds were accepted and the purpose for which the funds were received;

4.1.3. The names of the trustees or administrators of the funds or contributions; and

4.1.4. The name of the person authorized to approve expenditures from each fund.
4.2. The documentation requirements set forth by A.R.S. § 35-149 for funds are specifically and unambiguously extended by this section of SAAM to donations of items, goods or non-monetary property of any kind.

4.3. For monetary contributions, a fund must be established with the GAO.

4.4. Cash or cash equivalencies received as donations or representing the proceeds of fund raising activities should be handled in the manner prescribed by SAAM 2010.

4.5. To effect proper record keeping, both the gross receipts and the cash outlays involved in any fund raising activity—not just the net proceeds from such an activity—should be recorded.

4.6. When merchandise or goods are received instead of cash, internal controls and proper record keeping are still required. Suitable arrangements must made for the storage and safeguarding of merchandise or goods that have been contributed to an Employee Recognition Program.

5. **Reporting, taxing and accounting for awards distributed.**

5.1. Cash prizes or awards given to employees are always subject to Federal and State income and employment taxes.

5.1.1. Cash includes both cash and cash equivalents, such as gift cards, pre-paid credit or debit cards.

5.2. Except for the three situations noted below, non-cash prizes or awards given to employees are subject to Federal and State income and employment taxes:

5.2.1. **De minimis** awards and prizes, which are subject to the following constraints:

5.2.1.1. Cash and equivalents are never considered to be de minimis.

5.2.1.2. **De minimis** awards have a value of less fifty dollars ($50).

5.2.1.3. Such awards and prizes are provided infrequently.

5.2.2. Certain employee achievement awards, which are subject to the following constraints:

5.2.2.1. The award must be given for length-of-service or safety.

5.2.2.2. The award must be an item of tangible personal property (i.e., an item that is not cash or a cash equivalent).

5.2.2.3. The award must be awarded as part of a meaningful presentation.
5.2.2.4. The award must be awarded pursuant to a written plan that does not discriminate in favor of highly compensated employees.

5.2.2.5. The award must not be wages in disguise.

5.2.3. Certain prizes or awards transferred to charities, which are subject to the following constraints:

5.2.3.1. Awards and prizes given over to a qualified charity before being received are generally not taxable to the awardee, if:

5.2.3.2. The awardee agrees to give the award to a qualified charitable organization (under IRC § 170 (c)) before receiving it, and

5.2.3.3. The award is given for achievement, and

5.2.3.4. The recipient was selected without entering any contest, and

5.2.3.5. No substantial future services are required of the awardee or transferee.

5.3. Employee recognition awards are subject to:

5.3.1. The provisions outlined in SAAM 5555 in determining their taxability.

5.3.2. The provisions outlined in SAAM 5556 in reporting taxable awards to a recipient’s agency payroll office.

5.4. Records must be kept, and retained for the period prescribed by LAPR, as to any employee recognition distribution made to any employee.

5.5. All applicable statutes, rules, and policies must be observed when conducting employee recognition activities.

6. Tips and guidelines relating to employee recognition programs.

6.1. Employee recognition awards can take many forms, some of which, though effective, may be very economical:

6.1.1. Thank you notes.

6.1.2. Pins, plaques and certificates.

6.1.3. Reserved parking spaces.

6.1.4. Honorable mention in an agency’s newsletter.

6.1.5. A notice placed on a workplace bulletin board or verbal recognition at a gathering or meeting.
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