II. FLOWCHARTS
Overview of Approval Process for Contract Services with Individual - Part I

1. State Agency needs service (Part 1)
   1a. Can service be provided by Civil Service Employee?
      YES → 1b. Recruit using Civil Service procedures.
      NO → 1a(i). Is service exempt by Sec. 76-16, HRS or other legal authority not including Sec. 76-16(b)(2) or (15), HRS?
         YES → 1e. Establish exempt position (May contract if authorized by other statute). Comply with Budget Execution Policies & Instructions.
         NO → End

1d. Does service qualify for exemption pursuant to:
   1d(i). Sec. 76-16(b)(2)?
       1. Special or unique, or
       2. Essential to public interest and
       3. Cannot be obtained through Civil Service Recruitment procedures.
       NO → End
       YES → 1d(iii). Prepare Exemption of Contractual Services Checklist (DHRD Form).
   1d(ii). Sec. 76-16(b)(15)?
       1. Intermittent, or
       2. Perform concurrent with private business.
       NO → End
       YES → 1d(iv). DPO reviews exemption Checklist for propriety and completeness. If approved, DPO signs as a recommendation to approve.
   1d(v). Sec. 76-16(b)(15)?
       Contract with:
       1. Individual
       2. Firms
       3. Leasing agencies
       NO → 1d(vi). Establish exempt position (See 1e)
       YES → 1d(vii)(i). Prepare Certificate of Exemption From Civil Service and submit to DPO with contract.

1e. Use other means (e.g. reassignment of staff, shifting priorities).
   → 1d(vii)(i). Payroll Form W-2
Overview of Approval Process for Contract Services with Individual - Part II

1. State Agency needs service. (Part 2)

2. Complies with Budget Execution Policies and Instructions? NO END

3. Complete SAFORM D40 Employee/Employer Relationship Determination.

3a. Does an employee/employer relationship exist? NO YES

3a(i). Procure as an Independent Contractor - Form 1099.

3a(ii). Procure as a Personal Services Contractor (PSC) - Enroll in Payroll.

4. Begin Procurement process with Sec. 103D/103F, HRS procedures.

4a. Contractor selected.

4a(iv). Prepare Personal Services Contractor or Independent Contractor contract.

4a(v). Submit contract to DPO to complete DHHRD Check List.

4a(iv)(i). IF PSC, prepare SAFORM D41 to enroll in payroll.

5. Submit contract to Contractor to sign, Deputy AG to approve as to form, then to Dept. Director to sign.
Overview of Approval Process for Contract Services with Individual - Part III

1. Independent Contractor submits billing invoice.
   1a. State agency approves billing for payment.
   1b. State agency maintains a payment log. Payments not to exceed contract amount.
   1c. Billing processed through the State’s vendor payment system.
   1d. State agency prepares Form 1099 at year end.

2. Personal Service Contractor submits billing invoice.
   2a. State agency approves billing for payment.
   2b. State agency maintains a payment log. Payments not to exceed contract amount.
   2c. Billing processed through payroll using the hourly change schedule.
   2d. DARGS payroll prepares Form W-2 at year end.
# Overview of Employees Versus Independent Contractors

<table>
<thead>
<tr>
<th>STATUTE</th>
<th>Employees</th>
<th>Constitution, HRS</th>
<th>Contractors</th>
<th>Subject to Chapter 103D / 103F, HRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYMENT PROCESSED</td>
<td>Payroll</td>
<td>Voucher, Payroll</td>
<td></td>
<td></td>
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<tr>
<td>PAYMENT</td>
<td>W-2 issued</td>
<td>Form 1099, W-2 Issued</td>
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<tr>
<td>FUND SOURCE</td>
<td>Paid by Budgeted or Unbudgeted $ and Pegged to Position No.</td>
<td>Paid by Funds Not Pegged to Position No</td>
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<tr>
<td>RIGHT TO CONTROL WORK</td>
<td>Employer Retains Day-to-Day Control Over Work</td>
<td>NO</td>
<td>YES</td>
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<tr>
<td>EMPLOYMENT INSURANCE</td>
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<td>YES</td>
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<td>YES</td>
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<tr>
<td>- Workers' Compensation</td>
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<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>- TDI (conditions must be met)</td>
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<td>YES</td>
<td>NO</td>
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<tr>
<td>- Unemployment Insurance</td>
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<td>YES</td>
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<tr>
<td>PAYROLL WITHHOLDING</td>
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<td>- Federal and State Withholdings</td>
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<td>YES</td>
</tr>
<tr>
<td>- Social Security (unless PTS qualified)</td>
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<td>YES</td>
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<tr>
<td>- Medicare</td>
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<td>BENEFITS</td>
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<td>- ERS</td>
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</tr>
<tr>
<td>- Deferred Compensation</td>
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</tbody>
</table>

(a) Pending clarification from State Deferred Compensation Plan Board (Does not apply if retiree)

* Source DHHRD document "An Overview of General Employee Benefits & Services According to Type of Appointment"