

BUDGET LETTER

	NUMBER: 09-37
SUBJECT: STATEWIDE ACCOUNTS RECEIVABLE MANAGEMENT ENHANCEMENTS 2009-10	DATE ISSUED: September 29, 2009
REFERENCES: STATE ADMINISTRATIVE MANUAL SECTIONS 8776,8776.6, AND 8790 , GOVERNMENT CODE SECTIONS 13292.5, 13943.1 AND 16583.1	SUPERSEDES:

TO: Agency Secretaries
Department Directors
Departmental Budget Officers
Departmental Accounting Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

This Budget Letter (BL) informs departments of a new resource to assist in managing accounts receivable (AR) and to provide instructions to implement recent statutory changes related to ARs.

BACKGROUND

In March 2008, the Department of Finance (Finance) convened a Statewide Accounts Receivable (SAR) Workgroup to review the state's collection processes and procedures, to identify deficiencies, and make recommendations for improvement that may potentially increase revenues. The SAR Workgroup is comprised of more than a dozen revenue-generating and fiscal oversight agencies, including the Franchise Tax Board, the Board of Equalization, the Employment Development Department, the State Controller's Office (SCO), and Finance. Many other departments have also participated in the SAR Workgroup based on the subject matter.

The SAR Workgroup has implemented new administrative procedures for AR management, established subgroups to focus on improvements in specific topic areas, such as the discharge from accountability process, improving collections from other state departments, and providing a web-based AR Toolkit for departments to use in managing their accounts receivable functions. On behalf of the SAR Workgroup, Finance submitted a Budget Change Proposal for fiscal year 2009-10 to implement initial recommendations by the SAR Workgroup that required funding and statutory changes. The proposal was approved by the Legislature and included several components. Limited funding was provided to pay for the contingency fees of private collection agencies. The proposal also included funding for two limited-term positions for the SCO to collect and analyze AR data from all departments. Based on the data received, the SCO will prepare a report of their findings and recommendations for improving statewide AR practices and enhancing revenue opportunities by December 31, 2010. Statutory changes to improve AR processes were also included in the proposal. Instructions to implement these changes are described below in this BL.

Although the SAR Workgroup has made important progress to date, improving the state's AR processes and practices is a long-term project. The SAR Workgroup will continue to meet to identify areas of improvement and evaluate the AR data and recommendations made in the SCO's report.

AR TOOLKIT

This new resource provides departments with guidelines and information for managing their ARs with the goal of improving statewide AR procedures and collection practices. The toolkit is available on the Finance website, at: http://www.dof.ca.gov/accounting/fscu/documents/Accounts_Receivable_Toolkit.pdf.

FEE TO RECOVER COLLECTION COSTS

Departments are encouraged to adopt practices, when feasible, that will help prevent ARs from occurring and encourage prompt collections to prevent delinquent ARs. As such, Government Code (GC) Section 16583.1 was added [Chapter 23, Statutes of 2009, Fourth Extraordinary Session (SB 16)]. GC Section 16583.1 allows departments to charge a reasonable fee, not to exceed the actual costs incurred by the department, to recover the department's collection costs on past due ARs.

When preparing billing notices/invoices, departments should indicate on the billing notice/invoice possible consequences of not paying timely, such as additional fees that may be incurred pursuant to GC Section 16583.1. If your department plans to recover costs pursuant to this Section, departments should consider actual costs incurred, including, but not limited to, staff time to send out collection letters, postage, equipment costs, and contingency fees for private collectors.

Departments will record this fee as revenue, source code: 162100 - Delinquent Receivables – Cost Recoveries. Departments are requested to maintain a count of the number of accounts collected with this fee added. Finance may later request this information to determine the effectiveness of adding this fee to delinquent accounts.

INCREASE IN LIMIT TO INTERNALLY DISCHARGE ARs

Chapter 23 also amended GC 13943.1 to increase the amount departments can internally discharge ARs from \$250 to \$500 after receiving authorization from the Victim Compensation and Government Claims Board (VCGCB). Authority to discharge receivables for amounts less than \$500 is only granted when collection efforts have been exhausted and it is no longer cost beneficial to pursue collection. The \$500 threshold applies to the total of all amounts owed by the debtor, not to each invoice. Please note that discharging the receivable relieves the department from pursuing collection; however, it does not relieve the debtor of the obligation until the statute of limitation expires for the debt.

In the request to the VCGCB, departments must certify the following:

- Required collection steps have been followed as outlined in SAM 8776.6.
- Collection efforts have been exhausted and it is no longer cost beneficial to pursue collection.
- The department understands that discharge from accountability does not release the debtor from the debt owed to the state.

Departments must submit requests to the VCGCB for the \$500 threshold even if prior approval was received for the \$250 threshold.

Requests may be submitted to:

Victim Compensation and Government Claims Board
 Government Claims Program
 PO Box 3035
 Sacramento, CA 95812-3035

If you have questions regarding this BL, please contact the Fiscal Systems and Consulting Unit Hotline at (916) 324-0385 or e-mail fscuhotline@dof.ca.gov.

/s/ Michael C. Genest

MICHAEL C. GENEST
 Director