

# AUDIT MEMO

SUBJECT: Management and Internal Audit Responsibilities for Collecting Accounts Receivable	NO.: 06-01
REFERENCES: Government Code Sections 13405(c), 16580-16586, 19838; State Administrative Manual Sections 8116.3, 8776.6-8776.7	DATE ISSUED: May 2006

**PURPOSE:** This memo reminds state departments of their responsibility to collect accounts receivable and employee revolving fund advances timely and internal audit units of their responsibility to review the controls over accounts receivable and revolving fund advances to ensure timely collections.

**BACKGROUND:** The following State Administrative Manual (SAM) Sections describe the procedures to ensure the timely collection of accounts receivable, and employee salary and travel advances.

SAM Section 8776.6 requires departments to develop collection procedures that will assure prompt follow-up on receivables from non-employees and includes procedures and guidelines for the collection of amounts owed to the state. These procedures are in accordance with the Accounts Receivable Management Act as provided in Government Code (GC) Sections 16580-16586.

Government Code Section 19838 requires reimbursement to the state of overpayments made to employees. SAM Section 8116.3 and 8776.7 detail the procedures and guidelines for the collection of amounts owed to the state by employees.

The Department of Finance, as required by GC Section 13405(c) is to coordinate internal auditing. The Department's Office of State Audits and Evaluations (OSAE) provides the internal control audit guide for use by OSAE and department internal audit units. The guide includes audit procedures to determine if departmental controls over the establishment and collection of accounts receivable and revolving fund advances are adequate to safeguard state assets.

**ISSUE:** Recently conducted internal control reviews have identified timely collection of accounts receivable as an area that needs improvement. Departments need to be sure they are making every available effort to collect accounts receivable and revolving fund advances timely. The longer accounts receivable and revolving fund advances remain outstanding the greater the risk they may become uncollectible, resulting in the loss of state funds.

**REQUIREMENTS:** In accordance with its responsibility to provide direction on statewide issues, the OSAE is requiring departments and internal audit units to perform the following:

1. Department management should review the SAM Sections noted above regarding collection procedures for accounts receivable and revolving fund advances and determine if current collection efforts are adequate to ensure timely collections.
2. Management should determine if corrective action plans were developed and complied with for inadequate accounts receivable and revolving fund advance collection efforts previously reported by internal or external auditors.

3. Internal audit units should review the controls over accounts receivable and revolving fund advances using the audit procedures noted in the OSAE Audit Guide for the Evaluation of Internal Control (<http://www.dof.ca.gov/FISA/OSAE/IC%20Audit%20Guide%202003.doc>). The review should include:
  - a. A follow-up on any prior audit findings regarding inadequate accounts receivable and revolving fund advance collection efforts and determine if the department prepared and complied with a corrective action plan.
  - b. A determination that accounts receivable are established timely for amounts due. The earlier accounts receivable can be monitored, the earlier unpaid accounts receivable can be identified and the earlier the department can start collection efforts.
  - c. A determination that collection efforts for accounts receivable and revolving fund advances are timely. Report any inadequate accounts receivable and revolving fund collection efforts to management. Request management to submit a corrective action plan to the internal audit unit and to implement the plan.

Please ensure this Audit Memo is distributed to departmental management and audit organizations. If you have any questions, please contact Janet I. Rosman, Assistant Chief, at (916) 322-2985, Ext. 3103.

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