

# SEPA Revenues and Accounts Receivable

## Report No. 92-10 -- Report Summary

Paul Walker, Financial Auditor  
Mac Fletcher, Principal Financial Auditor  
Bert Golla, Senior Financial Auditor

---

### TABLE OF CONTENTS

- ▶ [Introduction and Background](#)
- ▶ [Objective and Scope](#)
- ▶ [Summary Statement of Findings](#)
- ▶ Major Findings:

- ▶ [Finding](#) - No formal, written policies and procedures relating to accounts receivable.
  - ▶ [Finding](#) - Accounts receivable duties were not separated, resulting in an internal control weakness.
  - ▶ [Finding](#) - Projects were not billed in a timely manner as required by the county code.
  - ▶ [Finding](#) - Invoices were not controlled and resulted in double billing of some accounts.
  - ▶ [Finding](#) - MDNS billings included environmental checklist review time, which resulted in overbilling.
  - ▶ [Finding](#) - Project timesheet reporting was not uniform, resulting in inconsistent project billing.
  - ▶ [Finding](#) - Checks were not deposited when received.
  - ▶ [Finding](#) - Checklist fees were not collected or recorded for all projects; thus, potential revenues were not realized.
  - ▶ [Finding](#) - SEPA revenue amounts listed in ARMS reports were understated because SEPA reported on a cash basis.
  - ▶ [Finding](#) - Uncollectible accounts receivable were not estimated or written off.
  - ▶ [Finding](#) - Detailed project accounting records were not complete, making determination of transaction validity difficult.
  - ▶ [Finding](#) - "Earned" and "unearned" revenue classifications were not applied consistently, resulting in understatement of earned revenues.
-

## INTRODUCTION AND BACKGROUND

The State Environmental Policy Act (SEPA) revenues and accounts receivable audit was included in the Auditor's Office 1992 work program. The audit was prompted by concerns noted in the King County Building and Land Development Division (BALD) Financial and Management Study completed by Arthur Andersen & Co.

The State Environmental Policy Act, RCW 43.21C, is intended to ensure that environmental values are considered by state and local government officials when making decisions. SEPA rules, WAC 197-11, were adopted to implement SEPA and to establish uniform requirements and guidance for compliance with SEPA.

The SEPA Section, which is part of the Environmental Division of the Department of Parks, Planning and Resources, is responsible for administering state law on behalf of King County and for reviewing all applications to BALD which may have a significant impact on the environment.

---

## OBJECTIVE AND SCOPE

The audit objective was to evaluate the effectiveness of the Environmental Division's system of accounting controls relating to SEPA revenues and accounts receivable.

The scope of the audit was limited to a review of the billing, receipting, recording, and reporting process relating to SEPA revenues and accounts receivable. The audit focused on revenues and accounts receivable from 1991 through April 1992.

Audit methodology included interviews with SEPA Section and Environmental Division staff and management, BALD management, and Office of Financial Management (OFM) staff. Audit staff examined the SEPA database file including project and billing information, mitigated determination of non-significance (MDNS) and determination of significance (DS) billing files, and the BALD 1991 cash receipts database. Analytical tests of the data were performed.

---

## SUMMARY STATEMENT OF FINDINGS

The general audit conclusion was that improvements were needed to enhance the accounting and internal controls relating to SEPA revenues and accounts receivable.

---

## MAJOR FINDINGS AND RECOMMENDATIONS

Finding 1. No formal, written policies and procedures relating to accounts receivable.

The SEPA Section did not have formal, written policies and procedures relating to billing, collecting, recording, and reporting revenues and accounts receivable. Consequently, the assignment of responsibility and accountability for the accounts receivable system was not clearly defined, resulting in internal control deficiencies.

*The audit recommended* that the SEPA Section develop formal written policies and procedures which describe the accounts receivable functions.

Finding 2. Accounts receivable duties were not separated, resulting in an internal control weakness.

Cash receipts were received by the Environmental Division and given to the individual who prepared the invoice. The individual then posted the receipt information to the SEPA accounts receivable database system. To reduce the possibility that intentional or unintentional errors occur, adequate internal controls require that certain incompatible accounting duties be separated.

*The audit recommended* that SEPA segregate accounting duties so that the individual who has custody of cash receipts does not prepare the invoices, or post the cash receipts to the PERMITS system or to the SEPA accounting system.

Finding 3. Projects were not billed in a timely manner as required by the county code.

A review of the DS and MDNS billing files for determinations made from 1989 to April 1992 indicated a total of \$174,330 in outstanding accounts receivable as of April 1992. The audit noted that many projects with fees outstanding had not been billed in months, and that there was no systematic follow-up of outstanding accounts.

*The audit recommended* that the SEPA Section establish a monthly billing cycle for MDNS and DS accounts, that outstanding accounts be billed monthly until paid, and that a late penalty charge be added to past due accounts.

Finding 4. Invoices were not controlled and resulted in double billing of some accounts.

DS invoices included an invoice number generated by the billing system but were not printed on a sequential pre-printed form. MDNS invoices were neither pre-printed nor did they include an invoice number. The use of pre-printed, sequential invoices is meant to prevent both the failure to bill and the occurrence of duplicate billings. During our review of billings it was discovered that

at least two accounts had been billed more than once.

*The audit recommended* that the DS and MDNS invoices be prepared using a pre-printed sequential invoice number and that the invoice number be maintained in the SEPA billing system so that the invoices can be accounted for and traced to payments made.

Finding 5. MDNS billings included environmental checklist review time, which resulted in overbilling.

A review of MDNS project timesheets showed that projects were billed for the total hours worked on a project with no distinction made between the time spent to review and process the environmental checklist which is included in the initial fee and time spent for additional review and processing of the MDNS which is included in the supplemental fee. The result was that projects were overbilled by the amount of time spent to review and process the checklist. The MDNS projects reviewed averaged about one hour of checklist review time.

*The audit recommended* that SEPA planners distinguish between project time spent to review and process the environmental checklist and time spent for addition review and processing of an MDNS or DS and that time spent to review the environmental checklist not be billed to the applicant.

Finding 6. Project timesheet reporting was not uniform, resulting in inconsistent project billing.

A review of project timesheets indicated that project timesheet reporting was not uniform. Many of the project timesheets reviewed did not list hours worked by activity code and only one timesheet categorized a portion of time spent working on an MDNS project as unbillable while the others did not. This led to inconsistent project billing. Also, some of the projects reviewed did not have a timesheet.

*The audit recommended* that project timesheets be reported uniformly and that project timesheets be kept for each project with the time categorized by activity code.

Finding 7. Checks were not deposited when received.

A review of checks received for MDNS and DS billings indicated that many checks were held in the SEPA Section for weeks or months. The longer checks are held by the SEPA Section, the greater the risk that they become lost, stolen, or misappropriated. Furthermore, checks not deposited reduce the amount of interest earned on deposits.

*The audit recommended* that checks received by the SEPA Section be recorded by SEPA and deposited with the BALD cashier the same day.

Finding 8. Checklist fees were not collected or recorded for all projects; thus,

potential revenues were not realized.

When an applicant submits an environmental checklist to BALD, a checklist fee should be collected by the BALD cashier. A review of SEPA records indicated that the difference between the total possible checklist fee collected and total amount collected for 1991 was \$7,718. The difference may have been caused by not collecting ECL fees for every project or by not recording the ECL fee collected.

Audit staff reviewed 11 completed MDNS projects to determine all fees paid on them as recorded by the PERMITS system. Our review indicated that the checklist fee was not paid on three of the 11 projects (27%).

*The audit recommended* that the SEPA Section determine that the environmental checklist fee has been paid for every project and that the checklist fee paid has been recorded in the PERMITS system before commencing work on the project.

Finding 9. SEPA revenue amounts listed in ARMS reports were understated because SEPA reported on a cash basis.

Environmental Division revenues are accounted for in the Building and Land Development Fund which is classified as a Special Revenue Fund. Special Revenue Funds use the modified accrual basis of accounting which recognizes revenues when they become measurable and available. The SEPA revenues listed in the ARMS financial reports were cash receipts only and did not include accruals.

An analysis of unpaid amounts from 1989 to 1992 showed that as of April 24, 1992, the accounts receivable balance was understated by \$174,330 which was the outstanding amount of MDNS and DS accounts receivable. The revenue amounts recorded by ARMS for the period reviewed, 1989 to 1992, were understated by the same amount.

*The audit recommended* that the SEPA Section report revenues using the modified accrual basis of accounting, that revenues be recognized when they become measurable and available and that the corrected revenue totals and the current accounts receivable balance be reported to the Office of Financial Management.

Finding 10. Uncollectible accounts receivable were not estimated or written off.

SEPA did not estimate or write off uncollectible accounts receivable. This would normally overstate the accounts receivable balance and revenue amounts, but because the SEPA Section did not recognize accounts receivables as revenues there was no impact on the ARMS accounting records.

*The audit recommended* that the SEPA Section follow King County Administrative Policies and

estimate the uncollectible accounts receivable and write off the uncollectible accounts.

Finding 11. Detailed project accounting records were not complete, making determination of transaction validity difficult.

Audit staff noted that not every project billing file contained adequate billing and accounts receivable information. Some lacked the BALD receipt even though the PERMITS records indicated payment had been made. Others lacked copies of the invoices sent.

*The audit recommended* that SEPA staff ensure that each SEPA project billing file contain all relevant billing and accounts receivable documentation and that the written policies and procedures describe the documentation to be kept in the billing files.

Finding 12. "Earned" and "unearned" revenue classifications were not applied consistently, resulting in understatement of earned revenues.

Generally, cash received for goods or services to be supplied in future periods is classified as unearned revenue. The audit noted that funds received for MDNS or EIS project payments were deposited to BALD and classified as "unearned revenue" and recorded as a liability. This classification was incorrect because the revenues received were in payment for work which had already occurred.

*The audit recommended* that payments received for work completed on MDNS and EIS projects be classified as earned revenue and recognized in the current period.