



An Audit of Encumbrance Reporting at the **Texas Education Agency**

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Executive Summary

Purpose and Scope

The objectives of the Texas Education Agency (Agency) encumbrance reporting audit were to determine whether:

- The agency let large amounts of previously encumbered appropriated funds lapse instead of using them.
- The agency accurately and timely reported binding encumbrances and payables and submitted the required certifications.
- The agency accurately and timely submitted requests to reinstate lapsed appropriations, including proper justifications from the chief fiscal officer (CFO) or a higher official.
- The agency over-encumbered.
- The agency maintained appropriate documentation for encumbrances, payables, reinstating lapsed balances, etc.
- The agency followed Uniform Statewide Accounting System (USAS) and Centralized Accounting and Payroll/Personnel System (CAPPS) requirements for recording encumbrance-related transactions.
- The agency requested multiple miscellaneous claim payments related to expired appropriations.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office) and covers a selected appropriation from appropriation year 2016, which expired on Aug. 31, 2018. The selected appropriation had a large percentage of previously encumbered amounts lapse at the end of the appropriation's three-year life.

Background

The Texas Education Agency is the state agency that oversees primary and secondary public education. It is headed by the commissioner of education. The mission of the Agency is to provide leadership, guidance and resources to help schools meet the educational needs of all students.

Texas Education Agency website
https://tea.texas.gov/About_TEA

Audit Results

The Agency complied with Comptroller's office policy [*Encumbrance Report and Lapsing of Appropriations \(APS 018\) \(FPP A.019\)*](#).

Auditors noted no errors in the current audit. An overview of audit results is presented in the following table.

Table Summary

Encumbrance Reporting, Certification and Documentation		
Audit Question	Results	Rating
Did the agency let large amounts of previously encumbered appropriated funds lapse instead of using them?	No issues	Fully Compliant
Did the agency accurately and timely report binding encumbrances and payables, and submit the required certifications? Did the agency accurately and timely submit requests to reinstate lapsed appropriations, including proper justifications from the CFO or higher official?	No issues	Fully Compliant
Did the agency over-encumber funds?	No issues	Fully Compliant
Did the agency maintain appropriate documentation for encumbrances, payables and reinstatement of lapsed balances?	No issues	Fully Compliant
Did the agency follow USAS and CAPPs requirements for recording encumbrance-related transactions?	No issues	Fully Compliant
Did the agency request multiple miscellaneous claim payments related to expired appropriations?	No issues	Fully Compliant



Detailed Results

Lapsed Appropriated Funds Previously Encumbered

Auditors selected transactions associated with Appropriation 13051, titled "Improving Educator Quality and Leadership," from appropriation year (AY) 2016 for audit. This appropriation was selected due to its high "committed lapse," both in absolute amount and in percentage. The encumbrance balance on this appropriation under Fund 0001 (General Revenue) as of Aug. 31, 2017, was \$2,783,936. At the end of this appropriation's three-year life, the amount lapsed as of Aug. 31, 2018 (the appropriation's expiration date), was \$1,455,009. This lapse represented roughly 52% of the amount encumbered at the end of the second year of the appropriation's life. Auditors wanted to know whether this high percentage of appropriation authority lapsed, or returned unused, indicated any issues in the way the Agency accounted for budgetary transactions.

A **committed lapse** is a lapse of appropriation for which the Legislature provided both spending authority and actual dollars. In contrast, for some appropriations, the Legislature provides only the spending authority, and the agency is responsible for collecting the actual dollars. The lapsing of such an appropriation is a **collected lapse**.

Appropriation 13051 was a state-funded grant to Texas school districts, education service centers, charter schools or other eligible applicants, with the Agency serving as the pass-through entity. This grant program was known as the Educator Excellence Innovation Program (EEIP), and the AY 2016 appropriation provided funding for the third year of the program. Auditors confirmed that all grant agreements (specifically, grant renewal agreements) were signed before Aug. 31, 2016, and that the Agency established encumbrance balances against this appropriation and fund as of Aug. 31, 2016, in anticipation of disbursing grant funds to the grantees based on their qualifying expenditures.

At the end of the four-year pilot program, the unused portion of the Legislature's appropriation to the Agency was de-obligated and lapsed. Auditors reviewed the EEIP program rules and the General Appropriation Acts (GAA) from the 83rd and 84th Legislatures to confirm spending authorizations related to the EEIP. It was noted that the GAA from the 83rd Legislature, for the 2014-15 biennium, first established this program with Rider 47 under the Texas Education Agency (TEA). However, this rider did not appropriate unexpended balances from 2014 or 2015 to the Agency for use in other purposes or programs. Similarly, the GAA from the 84th Legislature, for the 2016-17 biennium, continued this program with Rider 44 under TEA, but again this rider did not permit the Agency to use unexpended balances from 2016 or 2017 on other purposes or programs.



The Agency explained that the unused/lapsed appropriation funds were due to the nature of the program. For this pilot program, the Agency was directed to allow flexibility within certain parameters to the grantees. However, multiple unpredictable factors may have contributed to the underspending. For instance, some grantees had committed to certain activity levels or performance goals for various aspects of the program (recruitment, training, etc.) in their application, but were ultimately unable to achieve such levels or goals. As a result, those grantees did not qualify to draw down the full amount of their grant awards. The Agency further explained that such failures were sometimes caused by school or district leadership changes. Auditors reviewed the EEIP program rules as well as each grantee's application to evaluate this explanation. The audit revealed no exceptions in the selected transactions.

Reporting and Certification of Binding Encumbrances and Payables and Reinstatement of Lapsed Appropriations

State agencies and institutions of higher education must quarterly and annually record and certify binding encumbrances and payables for each current year's appropriations. The chief fiscal officer or higher official for each agency must approve and submit all the required certifications. See [FPP A.019](#). The audit found that the Agency's CFO approved and submitted the certifications for all appropriations in a timely manner. The audit revealed no exceptions in the selected transactions.

Over-Encumbrance of Funds

Agencies should avoid over-encumbering an appropriation. Over-encumbering of funds could skew the data included in the Biennial Revenue Estimate (BRE) used by the Legislature to determine available resources and the amount deposited into the Economic Stabilization Fund (ESF). State agencies and institutions of higher education must accurately report all encumbrances. Amounts obligated for goods or services through contractual obligations should be encumbered according to Texas attorney general opinion numbers 0-2815 (1940), V-1139 (1950), WW-40 (1957) and WW-978 (1961). An outstanding encumbrance is a contract, agreement or other action that legally obligates state funds. For appropriations that are grants, the Agency uses a standard formula to estimate the encumbrance and payable balances to carry at year end. Auditors determined that this formula is appropriate to apply to the appropriation selected for testing. See [FPP A.019](#). Audit tests revealed no exceptions in the selected transactions.



Documentation for Encumbrances and Payables

Encumbrances are commitments for goods made before the end of the reporting period for actual contracts awarded, not anticipated contracts or contracts under negotiation. The Agency maintained supporting documentation for these legal obligations to ensure recorded encumbrances and payables were supported for the selected appropriation. The audit revealed no exceptions in the selected transactions.

Encumbrance Recording Requirements

An agency must use a specific transaction code to record the encumbrance amount quarterly if the agency does not record encumbrances in USAS when making obligations. See [FPP A.019](#). The Agency followed policy requirements with respect to the T-codes used for encumbrance-related transactions for the selected appropriation. The audit revealed no exceptions in the selected transactions.

Miscellaneous Claims for Expired Appropriations

Valid claims not presented within the statutory time limit can be paid from funds appropriated to the Comptroller's office for miscellaneous claims. The Agency's miscellaneous claims from Aug. 31, 2018, when the appropriation year 2016 appropriations expired, to present were all payroll related. No claims were processed that appeared to have been caused by over- or under-encumbering of funds for the selected appropriation. Audit tests revealed no exceptions in the selected transactions.



Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team

Audit Objectives

The objectives of this audit were to review agency compliance with Comptroller's office [*Encumbrance Report and Lapsing of Appropriations \(APS 018\) \(FPP A.019\)*](#). The audit focus included:

- Did the agency let large amounts of previously encumbered appropriated funds lapse instead of using them?
- Did the agency accurately and timely report binding encumbrances and payables and submit the required certifications?
- Did the agency accurately and timely submit requests to reinstate lapsed appropriations, including proper justifications from the CFO or a higher official?
- Did the agency over-encumber funds?
- Did the agency maintain appropriate documentation for encumbrances, payables, reinstating lapsed balances, etc.?
- Did the agency follow USAS and CAPPs requirements for recording encumbrance-related transactions?
- Did the agency request multiple miscellaneous claim payments related to expired appropriations?

Audit Scope

Auditors reviewed a sample of the Texas Education Agency's (Agency) encumbrance transactions that processed through USAS on Aug. 31, 2016, and Aug. 31, 2017, to determine compliance with FPP A.019. Based on auditor judgment, the auditors selected one appropriation for detailed testing. Auditors also looked at all appropriations when determining whether the Agency accurately and timely reported binding encumbrances and payables and submitted the required certifications.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

The Agency received appendices with the full report and/or a management letter, including a list of the identified errors. Copies of the appendices may be requested through a [**Public Information Act**](#) inquiry.



Audit Methodology

The Expenditure Audit section uses limited sampling to conduct an encumbrance reporting audit, and relies on professional judgment to select areas the auditor considers high risk.

Fieldwork

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based on the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what action or additional procedures would be appropriate.

Audit Authority

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

Audit Team

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Appendix 2 — Definition of Ratings

Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant
Restrictions on auditor's ability to obtain sufficient evidence to complete all aspects of the audit process. Causes of restriction include but are not limited to: <ul style="list-style-type: none"> Lack of appropriate and sufficient evidentiary matter. Restrictions on information provided to auditor. Destruction of records. 	Scope Limitation

Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented. These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

Repeat Finding Icon Definition



This issue was identified during the previous audit of the agency.