



# **An Audit of Encumbrance Reporting at the Texas Military Department**

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# Executive Summary

## Purpose and Scope

The objectives of the Texas Military Department (Department) lapse accounting audit were to determine whether:

- The agency over-encumbered funds allowing 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 maintained appropriate documentation including approval 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 appropriations from appropriation year 2016, which expired on Aug. 31, 2018, and a selected appropriation from appropriation year 2017, which expired on Aug. 31, 2019. Auditors requested information related to these appropriations but were informed that the Department did not maintain documentation to support the encumbrances.

## Background

The Texas Military Department is commanded by the adjutant general of Texas, the state's senior military official appointed by the governor. It is composed of the Texas Military Department, the Texas Army National Guard, the Texas Air National Guard and the Texas State Guard. The mission of the Department is to provide the governor and the president with ready forces in support of state and federal authorities at home and abroad.

Texas Military Department website  
<https://tmd.texas.gov/about-us>

## Audit Results

The Department did not fully comply with Comptroller's office policy [Encumbrance Report and Lapsing of Appropriations \(APS 018\) \(FPP A.019\)](#).

Auditors were unable to determine if there were significant errors in the current audit due to the lack of documentation noted in the finding. The following table shows an overview of audit results.

## 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?	Missing documentation	Scope Limitation
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?	Missing documentation	Scope Limitation
Did the agency over-encumber funds? If so, why?	Missing documentation	Scope Limitation
Did the agency maintain appropriate documentation for encumbrances, payables and reinstatement of lapsed balances?	Missing documentation	Scope Limitation
Did the agency follow USAS and CAPPs requirements for recording encumbrance-related transactions?	Missing documentation	Scope Limitation
Did the agency request multiple miscellaneous claim payments related to expired appropriations?	No issues	Fully Compliant

## Key Recommendations

- The Department must ensure that no encumbrance is recorded without sufficient supporting documentation. The Department should periodically review and update its procedures for maintaining proper supporting documentation for all transactions.





# Detailed Findings

## Lapsed Appropriated Funds Previously Encumbered

All agencies must lapse appropriation balances that exceed the level necessary to satisfy any outstanding binding encumbrances and/or payables by Oct. 30 of each year. (The recommended due date for simplified reporting agencies is Sept. 30.) The lapse transaction must reduce the remaining cash basis budget and the appropriation cash available to an amount equal to the amount needed to pay outstanding binding encumbrances/payables. Once all binding encumbrances and payables are entered into USAS, the committed lapse amount should equal the current remaining encumbrance basis budget minus any previously obligated amounts still available for expenditure as of Oct. 30. See [FPP A.019](#) for more information. Audit review could not be completed due to missing documentation.

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. The agency is responsible for collecting the actual dollars. The lapsing of such an appropriation is a **collected lapse**.

## 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 review could not be completed due to missing documentation.

## 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 available for deposit to the Economic Stabilization Fund (ESF) per the [Texas Constitution, Article III, Section 49-g](#). 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. See [FPP A.019](#). The audit review could not be completed due to missing documentation.



## 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. Agencies must maintain supporting documentation for these legal obligations to ensure recorded incumbrances and payables are supported. The audit review could not be completed due to missing documentation.

## Encumbrance Recording Requirements

An agency must use a specific T-code to record the encumbrance amount quarterly if the agency does not record encumbrances into USAS when making obligations. See [FPP A.019](#). The Department followed policy requirements with respect to the T-codes used for encumbrance-related transactions. The audit revealed the following deficiency in the Department's reporting of encumbrances.

## Missing Documentation Resulting in a Scope Limitation

Auditors were unable to verify the validity of the binding encumbrances submitted by the Department for fiscal 2016 and fiscal 2017. The Department was unable to locate the documentation to support the encumbrances it submitted. According to the Department, before migrating to CAPPs, it reconciled its encumbrances using the Air Force's Integrated Engineering Management System (iEMS) and USAS. While it was able to provide the reconciliation, it did not detail the purchase orders/vouchers that made up the encumbrances and it was not able to duplicate the information using the two systems during the audit.

Without proper documentation, auditors could not determine whether the information reported in USAS was an accurate reflection of the outstanding encumbrances or whether the Department used the correct T-codes. Agencies must maintain proper documentation to verify that encumbrances are accurately reported and to ensure a proper audit trail. An encumbrance is for actual contracts awarded, not anticipated contracts or contracts under negotiation. The Department is writing and implementing new policies and procedures for recording and documenting binding encumbrances. See [FPP A.019](#).

## Recommendation/Requirement

The Department must ensure no encumbrance is recorded without sufficient supporting documentation. The Department must also ensure it creates and maintains supporting documentation for audit review. The Department should periodically review and update its procedures for maintaining proper supporting documentation for all transactions.





## Department Response

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*During the active audit engagement period, the agency immediately developed standard operating procedures for the preparation, completion, and documentation retention as it relates to Accounting Policy Statement 018. All supporting documentation, reports, and queries that are utilized to validate the binding encumbrance and accrual amounts are kept in a physical binder; which is provided to the Chief Financial Officer to review prior to certifying the report online. Additionally, the documentation will also be stored digitally on our internal SharePoint site in a folder named "APS." The primary staff section that compiles the report data is the Office of State Administration Budget Office, in collaboration with the accounts payable and accounts receivable offices. The CFO is responsible for reviewing the documentation prepared and completing the online certification on or before the published due date. Copies of the auto-generated certification completion email will also be kept in the binder to ensure the agency has confirmation that the report was indeed submitted as required.*

## 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 Department had no miscellaneous claims from Aug. 31, 2018, when the appropriation year 2016 appropriations expired, to present. The audit revealed no exceptions.



# 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 over-encumbered funds and/or 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 maintain appropriate documentation (including the ACO's approval) 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 were unable to review a sample of the Texas Military Department's (Department) encumbrance transactions that processed through USAS as of Aug. 31, 2016, and Aug. 31, 2017, to determine compliance with FPP A.019 due to the scope limitation noted in the report.

The Department 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.

*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.*

### Audit Methodology

The Expenditure Audit section uses limited sampling to conduct a post-payment 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

*Amanda Price, CFE, CTCD, Lead Auditor*

*Shanda Hernandez, CTCD*



## 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"><li>• Lack of appropriate and sufficient evidentiary matter.</li><li>• Restrictions on information provided to auditor.</li><li>• Destruction of records.</li></ul>	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 post-payment audit of the agency.