



# An Audit of Encumbrance Reporting at the **Office of the Governor – Fiscal**

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**Glenn Hegar**  
Texas Comptroller of Public Accounts





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# Executive Summary

## Purpose and Scope

The objectives of the Office of the Governor – Fiscal (Office) 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 appropriations from appropriation year 2018, which expired on Aug. 31, 2020.

## Background

The governor of Texas is the chief executive of the state and is elected by the citizens every four years. The governor makes policy recommendations that lawmakers in both the state House and Senate chambers may sponsor and introduce as bills. The governor also appoints the secretary of state, as well as members of boards and commissions who oversee the heads of state agencies and departments.

Office of the Governor website  
<https://gov.texas.gov/>

## Audit Results

The Office 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. The following table shows an overview of audit results.

## Table Summary

<b>Encumbrance Reporting, Certification and Documentation</b>		
<b>Audit Question</b>	<b>Results</b>	<b>Rating</b>
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 Findings

## Lapsed Appropriated Funds Previously Encumbered

Auditors selected transactions associated with Appropriation 13033 funds 0001 and 5107, titled "Create Jobs and Promote Texas" from appropriation year (AY) 2018 for audit. The appropriated funds were selected due to the amounts lapsed, both in amount and percentage. At the end of this appropriation's three-year life, the amount lapsed under funds 0001 and 5107 as of Aug. 31, 2020 (the appropriation's expiration date) was \$19,299,866.13 and \$38,673,068. The lapses represented roughly 43% and 72% of the amount encumbered at the end of the second year of the appropriation's life.

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**.

Appropriation 13033 purpose is listed in the General Appropriations Act as Strategy C.1.1 and detailed in the section titled "Trusted Programs within the Office of the Governor". This appropriation serves several purposes and consists of many types of contracts/ expenditures including grants. The transactions reviewed included awards for multiyear contracts for the creation of jobs that are paid based on annual milestones, grants from the Moving Image Industry Incentive program paid based on costs submitted at the end of the project up to an amount defined in the award letter, a contract with a foreign office to promote economic development and tourism, and marketing and training contracts to promote Texas and create jobs. The Office explained that the appropriated funds were partly unused/lapsed due to the nature of the programs. For these grants and incentive programs, the full amount of the contract is encumbered since the final invoice amount is unknown until the project is complete.

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 expenditures as of Oct. 30. See [FPP A.019](#) for more information. 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 Office'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. 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 Office maintained supporting documentation for these legal obligations to ensure recorded encumbrances and payables were supported. The audit revealed no exceptions in the selected transactions.

## Encumbrance Recording Requirements

An agency must use a specific T-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. 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 Office had no miscellaneous claims from Aug. 31, 2020, when the appropriation year 2018 appropriations expired, to present. The audit 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 Office of the Governor – Fiscal's (Office) encumbrance transactions that processed through USAS on Aug. 31, 2018 to determine compliance with FPP A.019.

The Office 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 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

*Amanda Price, CFE, CTCD, Lead Auditor*

*Eunice Miranda, 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 audit of the agency.