



# An Audit of Encumbrance Reporting at the **Texas Commission on Environmental Quality**

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**Glenn Hegar**  
Texas Comptroller of Public Accounts



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# Executive Summary

## Purpose and Scope

The objectives of the Texas Commission on Environmental Quality (Commission) encumbrance accounting audit were to determine whether the Commission:

- Let large amounts of previously encumbered appropriated funds lapse instead of using them.
- Reported accurate and timely binding encumbrances and payables and submitted the required certifications.
- Submitted accurate and timely requests to reinstate lapsed appropriations, including proper justifications from the chief fiscal officer (CFO) or a higher official.
- Over-encumbered funds.
- Maintained appropriate documentation for encumbrances, payables, reinstating lapsed balances, etc.
- Followed Uniform Statewide Accounting System (USAS) and Centralized Accounting and Payroll/Personnel System (CAPPS) requirements for recording encumbrance-related transactions.
- 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 Texas Commission on Environmental Quality (Commission) is the environmental agency for the state. The Commission has approximately 2,800 employees in its Austin central office and 16 regional offices in Texas.

Texas Commission on  
Environmental Quality website  
<https://tceq.texas.gov>

The Commission strives to protect the state's public health and natural resources consistent with sustainable economic development. The Commission's goal is clean air, clean water, and the safe management of waste.

## Audit Results

The Commission complied with the Comptroller's office policy [\*Encumbrance Report and Lapsing of Appropriations \(APS 018\) \(FPP A.019\)\*](#). Auditors noted one error in the current audit. 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?	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 transfer unexpended balances without appropriate legislative authority?	No issues	Fully Compliant
Did the agency maintain appropriate documentation for encumbrances, payables and reinstatement of lapsed balances?	Missing Documentation for Lapse Reversals	Partially 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

## Key Recommendation

The Commission must keep a record of requests for lapse reversal, signed by the chief fiscal officer (CFO), as required by [FPP A.019](#).



# Detailed Findings

## Large Lapses of Appropriated Funds

Auditors reviewed large appropriation lapses to ensure the Commission adequately recorded/reported encumbrances to protect them from lapsing.

Auditors obtained a table of the Nov. 1, 2018 lapse and reversal amounts for each appropriated fund at the Commission. This report showed four instances of appropriated funds with lapse amounts over \$1 million. The Commission explained the lapses were subsequently reversed to meet specified payment objectives, and to make authorized transfers of unobligated balances in each case.

## 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 CFO for each agency must approve and submit all the required certifications. See [FPP A.019](#). The Commission's CFO approved and submitted the certifications for all appropriations in a timely manner. The audit revealed no exceptions in the selected transactions.

An **under-encumbrance** results from not timely recording legally enforceable commitments for goods and services, resulting in an inflated budgetary balance in an appropriation(s). This may improperly imply that the appropriation authority is not needed and the balance can be lapsed.

An **over-encumbrance** reserves more of the budgetary balance within an appropriation(s) than what may be supported by actual contracts awarded. This may improperly shield a portion of previous budgeted funds from lapsing and becoming available for subsequent appropriation by the Legislature.

## Under/Over-Encumbrance of Funds

Agencies should avoid either under or over-encumbering an appropriation, if possible. Doing this could skew the data included in the *Biennial Revenue Estimate* (BRE) used by the Legislature to determine available resources and amounts potentially available for deposit to 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](#).

Auditors reviewed 11 contracts or purchase orders, and all the associated encumbrances to the applicable funds. There were no issues due to over or under-encumbering funds.



## Missing Documentation for Lapse Reversals

[FPP A.019](#) requires that the Commission's CFO, or a higher official, submit a lapse reversal request that includes a justification for the reversal to the agency's appropriation control officer for approval. The request presumes that the reversal is needed to pay a valid expenditure incurred prior to the end of the appropriation year for which the reversal is requested, and that the existence and timing of the expenditure is substantiated by a copy of or reference to a purchase order or contract that existed on the date the expense or obligation was incurred.

The Commission retained records of 2018 lapsed funds reversals and also maintained purchase orders, contracts, and invoices supporting 2018 encumbrances and payables. However, the Commission could not produce a record of the CFO's authorization to request the reversals, nor the existence of documentation required to authorize a lapse reversal.

The Commission submitted its 2018 schedule of lapsed funds reversals entered in USAS. This showed at least 81 appropriated funds for which reversals were being made, 22 on Nov. 12, 2018, and 59 on Dec. 13, 2018. These lapse reversals were entered and released in USAS by two separate Commission accounting specialists. The Commission could not provide any record of communication related to the reversals, nor was there a record of what documents were used or would have been used to support each reversal. The Commission indicated that related communication was carried out over email, and the email is no longer available.

### Recommendation/Requirement

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The Commission must maintain documentation to prove it complied with [FPP A.019](#). Requests for lapse reversals must be formally made to the Comptroller's office and include the signature of the CFO. The Commission must also seek and retain written permission to make the reversals.

### Commission Response

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*TCEQ has updated the existing lapse reversal procedure to ensure FPP A.019 is complied with and all supporting documentation is retained through the following steps:*

- 1. General Ledger Team staff member will forward lapse reversal request with related support to CFO.*
- 2. CFO will review and reply with approval, denial or request for additional information. If approval is given, signature will be included in the response.*
- 3. If request is approved, General Ledger Team member will initiate the lapse reversal entry in USAS and forward documentation including CFO approval and signature to the Comptroller's Appropriations Control Officer requesting approval and to post the lapse reversal in USAS.*



4. *After General Ledger Team member receives confirmation the lapse reversal has been completed from the Comptroller Appropriations Control Officer, all supporting documentation will be saved in electronic format in a shared folder location.*

## **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 Commission followed policy requirements with respect to the T-codes used for encumbrance-related transactions. The audit revealed no issues in this area.

## **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 audited appropriation/funds had no miscellaneous claims from Aug. 31, 2020, when the appropriation year 2018 appropriations expired, to present. The audit revealed no issues in this area.



# Appendices

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

### Audit Objectives

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

- Let large amounts of previously encumbered appropriated funds lapse instead of using them.
- Reported accurate and timely binding encumbrances and payables and submitted the required certifications.
- Submitted accurate and timely requests to reinstate lapsed appropriations, including proper justifications from the CFO or a higher official.
- Over-encumbered funds.
- Maintained appropriate documentation for encumbrances, payables, reinstating lapsed balances, etc.
- Followed USAS and CAPPs requirements for recording encumbrance-related transactions.
- Requested multiple miscellaneous claim payments related to expired appropriations.

### Audit Scope

Auditors reviewed a sample of the Texas Commission on Environmental Quality (Commission) encumbrance transactions that processed through USAS on Aug. 31, 2018, to determine compliance with FPP A.019.

The Commission 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 lapse accounting audit.





## 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

*Scott Coombes, CTCM, Lead Auditor*

*David Saldivar, CTCD, CTCM*

*Jack Lee*



## 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.