



# An Audit of Encumbrance Reporting at the **Texas Funeral Services Commission**

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# Executive Summary

## Purpose and Scope

The objectives of the Texas Funeral Services Commission (Commission) encumbrance accounting audit were to determine whether the Commission:

- Over-encumbered funds, allowing large amounts of previously encumbered appropriated funds to lapse instead of using them.
- Reported binding encumbrances and payables accurately and in a timely manner, and submitted the required certifications.
- Submitted requests to reinstate lapsed appropriations accurately and in a timely manner, including proper justifications from the chief fiscal officer or a higher-ranking official.
- Maintained appropriate documentation including approval 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 2020, which expired on Aug. 31, 2022. Auditors requested information related to binding encumbrances or payables associated with the audited appropriations, but were informed the Commission did not maintain documentation to support the payables set up for these appropriations.

The Commission processed payables, but it did not process any encumbrances for appropriation year 2020. Payables (accruals) are amounts obligated for goods or services provided to the agency by the end of the reporting period but for which the agency has not yet made payment. Encumbrances are commitments for goods or services made before the end of the reporting period, but the actual receipt of the good or service does not occur until after the end of the reporting period.

## Background

The Texas Funeral Services Commission was established by the Legislature in 1903. The Commission's mission is to protect the public from deceptive practices in the funeral and death care industry through a process of impartial enforcement, inspection, licensing, and education in order to guarantee every person's final disposition is conducted professionally and ethically.

Texas Funeral Services  
Commission website  
<https://tfsc.texas.gov/>



## Audit Results

Commission did not comply fully with Comptroller’s office policy [Encumbrance Reporting and Lapsing of Appropriations \(APS 018\) \(FPP A.019\)](#). Auditors were unable to determine whether there were significant errors in the audited transactions due to lack of documentation noted in the findings. Auditors noted two errors in the current audit. These errors are noted in the detailed findings below. 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 or accrued appropriated funds lapse instead of using them?	Missing documentation	Noncompliant
Did the agency over-encumber or over-accrue funds?	Missing documentation	Noncompliant
Did the agency maintain appropriate documentation for encumbrances, payables, reinstating lapsed balances (including the appropriation control officer’s approval), etc.?	Missing documentation	Noncompliant
Did the agency follow USAS and CAPPs requirements for recording encumbrance-related or payables-related transactions?	Missing documentation	Noncompliant
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 chief fiscal officer or higher official?	Non-timely submission of APS 018 certification	Noncompliant
Did the agency request multiple miscellaneous claim payments related to expired appropriations?	No issues	Fully Compliant

## Key Recommendations

- The Commission must ensure no encumbrance or payable is recorded without sufficient supporting documentation and should periodically review and update its procedures for maintaining proper supporting documentation for all transactions.
- The Commission must comply with the requirements of FPP A.019 and submit the certifications on time.



# Detailed Findings

## Lapsed Appropriated Funds Previously Accrued

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. FPP A.019 requires payables be entered by Sept. 30. Similarly, FPP A.019 recommends encumbrances be entered by Sept. 30 for GCAs. 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. Auditors found that the Commission did not comply with this requirement when processing payables for appropriation year 2020. See the missing documentation finding noted below.

### General Revenue (GR) consolidated agencies

A GR consolidated agency (GCA) produces Annual Financial Reports (AFRs) reporting smaller dollar amounts and less complex fund structures. GCAs also do not report any federal funding.

## Under/Over-Encumbrance of Funds

Agencies should avoid either under or over-encumbering or accruing 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 and payables. 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. Outstanding payables are amounts obligated for goods or services provided to the agency by the end of the reporting period but for which the agency has not yet made payment. See [FPP A.019](#).

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 contracts and other valid instruments for committing state funds. This may improperly shield a portion of previous budgeted funds from lapsing and becoming available for subsequent appropriation by the Legislature.

Auditors found that the Commission did not comply with this requirement when processing payables for appropriation year 2020. See the missing documentation finding noted below.



## Encumbrance/Payables Recording Requirements

An agency must use a specific transaction code (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 did not have any encumbrances for the period audited. An agency must also use a specific T-code to record payables at the end of the year. The Commission was unable to provide documentation to support the payables entered and auditors were unable to verify whether the Commission followed the policy requirements with respect to the T-codes used for payable-related transactions. As a result, auditors determined the Commission failed to comply with this requirement. See the missing documentation finding noted below.

### Missing Documentation

Auditors were unable to verify the validity of 21 out of 27 of the payables the Commission submitted for fiscal 2020. The Commission was unable to locate the documentation to support 21 of the submitted payables. Without proper documentation, auditors could not determine whether the information reported in USAS was an accurate reflection of the outstanding payables or whether the Commission used the correct T-codes. Agencies must maintain proper documentation to verify that encumbrances and payables are accurately reported and to ensure a proper audit trail. See [FPP A.019](#). The Commission stated that the period audited was managed by the prior administration and they were unable to locate all the documentation to support the payables for that period.

### Recommendation/Requirement

The Commission must ensure no payable or encumbrance is recorded without sufficient supporting documentation and must ensure it creates and maintains that supporting documentation. The Commission should periodically review and update its procedures for maintaining proper supporting documentation for all transactions. See [FPP A.019](#).

### Commission Response

*The commission's chief financial officer reorganized the agency's electronic and physical filing system of financial records. Physical copies of the necessary documents (e.g., purchase orders, contracts, paid vouchers) are separated by vendor and by fiscal year, and filed accordingly. For electronic records, orders to pay and invoice documentation are scanned and saved in the agency's internal shared drive, which is accessible to the supervisors as needed. In addition, the Commission uses the option in CAPPs to scan and attach documents to entries made in the system. This function allows full transparency of the agency's financial transactions.*



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

State agencies and institutions of higher education must record and certify binding encumbrances and payables for each current year's appropriations quarterly and annually. The chief financial officer (CFO) for each agency must approve and submit all the required certifications. See [FPP A.019](#). Auditors found that the Commission did not reinstate any lapsed appropriations during the audit period; however, it did not comply with the certification requirements. The following issue was noted in this area.

### Non-Timely Submission of APS 018 Certification

The CFO or higher official for each state agency must approve and submit quarterly and annual certifications. See [FPP A.019](#). Auditors requested copies of the Commission's certifications submitted from fiscal 2019 through fiscal 2022. The second, third, and fourth quarter certifications from fiscal 2020, the first through fourth quarter certifications from fiscal 2021, and the first through fourth quarter certifications from fiscal 2022 were either not submitted or were submitted late to the appropriation control officer. The Commission stated the certifications were not submitted on time due to employee turnover.

### Recommendation/Requirement

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The Commission must comply with the requirements of FPP A.019 and submit the certifications on time.

### Commission Response

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*The CFO has already created an accounting calendar that includes a review of the APS 018 encumbrance dates at the beginning of each fiscal year to ensure that encumbrances are certified with the comptroller by the posted deadline. The CFO also has created, and timely reviews, a spreadsheet that includes a list of all pending encumbrances (amounts and periods of settlement) for the remainder of the particular fiscal year. Finally, to prevent the past error from reoccurring, the agency's CFO is currently developing written policies and procedures of the financial processes to be used by the agency regarding encumbrances and payables reports and certification. All of these practices ensure the Commission will continue to comply with the FPP A.019 and timely submit the required certifications.*

## 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 Commission had no miscellaneous claims from Aug. 31, 2022, when the appropriation year 2020 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 agency compliance with Comptroller's office [\*\*\*Encumbrance Report and Lapsing of Appropriations \(APS 018\) \(FPP A.019\)\*\*\*](#). The audit examined whether the Commission:

- Over-encumbered or lapsed funds.
- Reported and certified binding encumbrances and payables.
- Accurately and timely requested reinstatement of lapsed appropriations.
- Maintained appropriate documentation and followed USAS and CAPPs requirements for recording encumbrance and payable transactions.
- Accurately handled expired appropriations.

### Audit Scope

Due to the scope limitation noted in the report, auditors were unable to review a sample of the Commission's payables (accruals) transactions that processed through USAS on Aug. 31, 2020, and to determine compliance with FPP A.019.

The Commission received appendices with the full report 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**

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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"> <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.