



An Audit of Encumbrance Reporting at the **Soil and Water Conservation Board**

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Executive Summary

Purpose and Scope

The objectives of the Soil and Water Conservation Board (Board) encumbrance accounting audit were to determine whether the Board:

- 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 claims related to expired appropriations.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers those appropriations from appropriation year 2021 that expired on Aug. 31, 2023. Auditors requested information related to binding encumbrances or payables associated with the audited appropriations. Payables (accruals) are amounts obligated for goods or services provided to the agency by the end of the reporting period, but that the agency has not yet paid for. Encumbrances are commitments made before the end of the reporting period for goods or services that will be received after the end of the reporting period.

Background

The Soil and Water Conservation Board is the state agency that administers Texas' soil and water conservation law and coordinates conservation and nonpoint source water pollution abatement programs throughout the state.

Soil and Water Conservation Board website

<https://www.tsswcb.texas.gov>

Audit Results

The Board largely complied with [***Encumbrance Reporting and Lapsing of Appropriations \(APS 018\) \(FPP A.019\)***](#). Auditors found no issues with the agency's documentation to support encumbrances and compliance with CAPPS and USAS requirements for recording



encumbrance-related transactions; there were also no issues with miscellaneous claim payments related to expired appropriations. However, auditors noted certain issues with over-encumbering and certification of encumbrances and payables. The following table presents 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?	No issues	Fully Compliant
Did the agency over-encumber or over-accrue funds?	Over-encumbrance of binding expenditure commitment	Compliant, Finding Issued
Did the agency maintain appropriate documentation for encumbrances, payables, reinstating lapsed balances (including the appropriation control officer's approval), etc.?	No issues	Fully Compliant
Did the agency follow USAS and CAPPs requirements for recording encumbrance-related or payables-related transactions?	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 chief fiscal officer or higher-ranking official?	Untimely submissions of APS 018 certification	Compliant, Finding Issued
Did the agency request multiple miscellaneous claims related to expired appropriations?	No issues	Fully Compliant

Key Recommendations

- The Board must consistently adjust encumbrance amounts promptly to reflect changes in the amount of the binding expenditure commitment.
- The Board must consistently submit all APS 018 certifications by the due date established by Comptroller policy.



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. [Encumbrance Reporting and Lapsing of Appropriations \(APS 018\) \(FPP A.019\)](#) requires general revenue consolidated agencies to enter encumbrances and payables by 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.

Auditors reviewed three appropriation year 2021 non-construction appropriations that had lapses. Two of the three appropriations had mixtures of federal and state funding, while the third appropriation was fully funded by state funds (general revenue); the audit review focused on encumbrances and lapses of state funds only.

For all three appropriations reviewed, the lapses arose because the Board issued purchase orders (POs) that were not fully paid out. However, the Board retained documentation to justify the amounts of the POs and was able to provide reasonable explanations for those POs in the review sample where the PO amounts were not fully liquidated. The audit revealed no issues in this area.

Over-Encumbrance or Accrual of Funds

Over-Encumbrance of Binding Expenditure Commitment

Agencies should avoid both under-encumbering and over-encumbering appropriations when possible. Under- or over-encumbering funds could skew the data included in the Biennial Revenue Estimate used by the Legislature to determine available resources and amounts potentially available for deposit to the Economic Stabilization Fund. 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 opinions [O-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 that the agency has not yet paid for. See APS 018.

The Board did not make adjustments for three grants' encumbered amounts as required. For the first grant, the Board did not adjust its encumbrance amount, resulting in over-encumbered funds for about four months.



The Board had received and approved an application from the grant recipient in 2021, and established POs in anticipation of upcoming payments for the cost-sharing grant to the grant recipient and a 5 percent administrative fee to the local conservation district. Subsequently, in 2023, the Board received and approved a revised application with a smaller cost-sharing amount the Board would be expected to pay. Based on the revised amount, both the cost-sharing grant PO and the administrative fee PO should have been reduced. However, the Board reduced the cost-sharing grant PO but did not adjust the PO amount for the administrative fee. Despite the PO error, auditors confirmed the actual administrative fee payment to the local district was correctly calculated as 5 percent of the actual payment to the grant recipient.

According to the Board, this error was an administrative oversight; the staff responsible for reviewing and maintaining purchase orders failed to make the revision.

Similarly, in the other two grants, the Board did not adjust its encumbrance amounts on the POs for administrative fees. Again, the Board indicated the errors were an administrative oversight.

Recommendation/Requirement

The Board must revise its internal processes to ensure encumbrance amounts established with purchase orders are promptly adjusted to reflect any changes in the actual expenditure commitment. This helps minimize potential over-encumbering of funds.

Board Response

The Fiscal Management Division of the Texas State Soil and Water Conservation Board will ensure all components of a purchase order are adjusted to reflect any changes in commitment. Internal training has been provided to Fiscal Management staff on the timely and accurate adjustment of all components of a purchase order commitment.

Documentation for Encumbrances, Payables and Reinstating Lapsed Balances

Agencies must maintain documentation to substantiate outstanding encumbrances and payables. Encumbrances must be based on firm commitments (i.e., awarded contracts or signed agreements) for the purchase of goods and services or disbursements of grant funds. The Board maintained supporting documentation for these legal obligations to ensure recorded encumbrances were substantiated for the selected appropriations, and the audit revealed no issues in this area.



Encumbrance and Payables Recording Requirements

Agencies must use a specific transaction code (T-code) to record encumbrance amounts quarterly in USAS. Agencies must also use a specific T-code to record payables at the end of the year. See APS 018. The Board used the proper T-codes, and the audit revealed no issues in this area.

Reporting and Certification of Binding Encumbrances and Payables and Requesting 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. If an agency wishes to have a lapsed appropriation balance reinstated, the chief fiscal officer or a higher-ranking official must submit a lapse reversal request that includes a justification for the reversal to the agency's appropriation control officer (ACO) for approval. See APS 018.

The Board 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.

Untimely Submission of APS 018 Certification

Auditors reviewed information provided by the Board's ACO on the timeliness of the Board's APS 018 certifications. The Board did not submit the annual certifications to its ACO in a timely manner. They were due Sept. 30 in both 2021 and 2022, but each was more than one month late. However, auditors noted that the quarterly certifications due over the first three quarters of fiscal 2021 were submitted on time.

According to the Board, the late submissions were due to staff oversight.

As required by APS 018, quarterly entries of encumbered and payable amounts must be made into USAS with an effective date on or before the end date of the quarter or year. The chief fiscal officer or higher-ranking official for each agency must then approve and submit:

- Quarterly certification that the binding encumbrance and payable entries have processed in USAS for each of the first three quarters of the fiscal year; due dates are Dec. 30 (first quarter), March 30 (second quarter) and June 30 (third quarter).
— and —
- Annual certification that the binding encumbrances, payable entries, budget revisions and expenditure transfers have processed in USAS and all unobligated balances have been lapsed or brought forward for previous year appropriations



(includes the fourth quarter of the previous appropriation year); the due date is Oct. 30 for full reporting agencies and Sept. 30 for general revenue (GR) consolidated agencies.

Recommendation/Requirement

The Board must follow its internal processes to ensure APS 018 certifications are consistently submitted to the ACO by the due dates established by Comptroller policies.

Board Response

The Chief Fiscal Officer (CFO) of the Texas State Soil and Water Conservation Board is responsible for the timely submission of APS 018 certifications. The CFO will set calendar notifications to ensure timely submission of APS 018 certifications in the future.

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 Board had no miscellaneous claims from Aug. 31, 2023, when the appropriation year 2021 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 the Comptroller's [*Encumbrance Report and Lapsing of Appropriations \(APS 018\) \(FPP A.019\)*](#). The audit examined whether the Board:

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

Audit Scope

Auditors reviewed a sample of the Soil and Water Conservation Board's (Board's) encumbrance transactions that processed through USAS and CAPPs on Aug. 31, 2022, and Aug. 31, 2023, to determine compliance with APS 018. The auditors selected three appropriations, based on auditor judgment, for detailed testing. Auditors also looked at all appropriations when determining whether the Board reported binding encumbrances and payables accurately and in a timely manner, 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 Board received appendices, if applicable, with the full report, including a list of the identified errors. Copies of the appendices may be requested through a [**Public Information Act**](#) inquiry.

The audit provides a reasonable basis for the findings set forth in this report. The Board should implement the recommendations listed in the Detailed Findings of this report. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the Board's documents comply in the future. The Board must ensure that the findings discussed in this report are resolved.

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.