



An Audit of Encumbrance Reporting at the **Department of State Health Services**

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Executive Summary

Purpose and Scope

The objectives of the Department of State Health Services (Department) encumbrance accounting audit were to determine whether the Department:

- 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 justification and approval from the chief fiscal officer or a higher-ranking official.
- Maintained appropriate documentation for encumbrances and payables.
- 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 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. 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 for which the actual receipt of the good or service may not occur until after the end of the reporting period.

Background

The Department of State Health Services has a mission to support and improve the health, safety and well-being of Texas residents. As part of the Health and Human Services (HHS) system, it provides a wide range of services and regulatory functions.

Department of State Health
Services website
<https://www.dshs.texas.gov/>

Audit Results

The Department generally complied with [Encumbrance Reporting and Lapsing of Appropriations \(APS 018\) \(FPP A.019\)](#). Auditors found no issues with lapse reversal transactions, reporting and certifying binding encumbrances, compliance with



CAPPS and USAS requirements for recording encumbrance-related transactions, or miscellaneous claim payments related to expired appropriations. However, auditors noted certain issues with over-encumbering. 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?	Over-encumbrance of funds on an incorrect appropriation year	Compliant, Finding Issued
Did the agency report binding encumbrances and payables accurately and in a timely manner, and did it submit the required certifications?	No issues	Fully Compliant
Did the agency submit requests to reinstate lapsed appropriations accurately and in a timely manner, including proper justification and approval from the CFO or a higher-ranking official?	Incorrect appropriation year used for reinstatement of lapsed balance	Compliant, Finding Issued
Did the agency maintain appropriate documentation for encumbrances and payables?	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 request multiple miscellaneous claim payments related to expired appropriations?	No issues	Fully Compliant

Key Recommendations

- The Department must minimize over-encumbrances of funds by ensuring staff uses the correct appropriation year when issuing purchase orders.
- The Department must ensure staff uses the correct appropriation year for lapse reversals.



Detailed Findings

Lapsed Appropriated Funds Previously Encumbered or Accrued

According to [Encumbrance Reporting and Lapsing of Appropriations \(APS 018\) \(FPP A.019\)](#), 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 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.

Full Reporting Agencies

A full reporting agency produces annual financial reports reporting larger dollar amounts and more complex fund structures such as proprietary funds, which require the submission of a statement of cash flows. Full reporting agencies also may report larger amounts of federal funding.

Auditors reviewed five appropriation year 2020 non-construction appropriations that had lapses. Four of the five appropriations had mixtures of federal and state funding, while the last appropriation was fully funded by state funds (general revenue); auditors' review focused on encumbrances and lapses of state funds, including when lapses might be due to the federal funds reimbursement process.

For all five appropriations reviewed, the lapses arose primarily due to the Department having issued purchase orders (POs) that were not fully paid out. However, the Department retained documentation that justified the amounts of the POs and was able to provide reasonable explanations for those POs in the review sample with PO amounts that were not fully liquidated. The following issue was noted in this area.

Over-Encumbrance of Funds on an Incorrect Appropriation Year

Agencies should avoid either under- or over-encumbering an appropriation, if possible. Under- or over-encumbering funds 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 opinions 0-2815 (1940), V-1139 (1950), WW-40 (1957)

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 budgeted funds from lapsing and becoming available for subsequent appropriation by the Legislature.



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 APS 018.

To determine whether the Department potentially over-encumbered funds, auditors developed a sample of 14 POs totaling approximately \$4,020,116 from the five appropriation year 2020 non-construction appropriations selected for review. In one of the POs, the underlying purchase was for services that were scheduled to be provided (and were in fact provided) during fiscal 2021. As a result, the portion of the PO that had encumbered appropriation year 2020 funds went unused, and the encumbrances were subsequently lapsed. While auditors confirmed that the actual payment for the vendor's invoice(s) was correctly charged to appropriation year 2021, this is still an instance of over-encumbrance; the Department should have encumbered only appropriation year 2021 funds on this PO, and appropriation year 2020 funds should not have been used at all.

According to [eXpendit — Appropriation Year Determination](#), a state agency must charge a purchase of services to the appropriation year the services were rendered in. A state agency may not charge an appropriation year for the purchase of services if the services were rendered during a different appropriation year. When an agency establishes a PO to encumber funds for a firm commitment of future expenditures, it must follow eXpendit and encumber the correct appropriation year; this will allow the subsequent payment issued against the PO to be coded to the correct appropriation year.

Recommendation/Requirement

The Department must ensure staff uses the correct appropriation year when issuing purchase orders. The Department must not encumber funds in an appropriation year that does not conform to the appropriation year determination rules established by the Comptroller's office.

Department Response

For context, this audit, which began in May 2023, reviewed transactions and appropriations for APY2020 that expired Aug. 31, 2022, covered a period during which the agency was impacted by the initial COVID pandemic public health response. The environment in which the agency was working to address the pandemic included heightened response responsibilities, staffing shortages, funding instability, multi-agency coordination, immediate need to reimburse responder related expenses, and supply shortage. After this time period, the agency established a more robust Accounts Payable Policy (AP-117 effective Aug. 27, 2024). This policy defines the roles and responsibilities related to the accounts payable process during routine operations and in the event of a pandemic response. The policy includes the



following requirements for invoice payment approval in accordance with Texas Administrative Code (TAC), Title 34 Chapter 20, Rule 20.487 that sets uniform invoicing standards including minimum information vendors must include in an invoice, dispute requirements, and provisions regarding requesting payment from the Comptroller of Public Accounts:

- *DSHS Policy AP-117 Section 4.1.4 It is the role of Accounting to request verification of expense and funding information from Division.*
- *DSHS Policy AP-117 Section 4.2.3 It is the role of the Division to provide invoice funding information and related supporting documentation, as instructed by Accounts Payable (AP), within the timelines and deadlines communicated.*

In addition, as per DSHS Policy AP-117 Section 5.1.4, approval of an invoice certifies that:

- 1. Payment has not previously been made.*
- 2. Payment is in accordance with purchase order terms, where applicable.*
- 3. Payment is covered by funds available in business area's operating budget.*
- 4. Goods or services have been delivered to the satisfaction of requesting unit.*

To address this finding, the CFO Division will distribute an agency communication to agency staff to remind them of requirements related to approving and processing invoices as referenced in policy, and in addition, will remind agency staff to use the correct appropriation year when issuing purchase orders and encumbering funds. Though we do not anticipate a return to pandemic conditions in the near future, we believe the establishment of this policy along with an appropriation year reminder, will serve to provide staff with the tools to successfully process invoice payments in full compliance with the Texas Comptroller requirements. This communication will be distributed agency-wide on Aug. 31, 2025 in preparation for the start of FY2026.

Reporting and Certification of Binding Encumbrances and Payables

State agencies and institutions of higher education must record and certify binding encumbrances and payables for each current year's appropriations quarterly and annually. See APS 018.

The Department reported and certified binding encumbrances and payables for all time periods relevant to the appropriation year 2020 appropriations reviewed. The audit revealed no issues in this area.



Requesting Reinstatement of Lapsed Appropriations

If an agency wishes to have a lapsed appropriation balance reinstated, the chief fiscal officer (CFO) or a higher-ranking official of the agency 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. An excessive number of lapse reversals could potentially indicate the agency is under-encumbering funds.

Auditors developed a sample of seven sets of lapse reversal transactions; each set consisted of the lapse and the corresponding reversals. The total amount of lapses and lapse reversals for appropriation year 2020 in this sample was \$22,484,958.45 and \$21,507,172.40, respectively. The following issue was noted in this area.

Incorrect Appropriation Year Used for Reinstatement of Lapsed Balance

The Department used an incorrect appropriation year in one of the seven sets of lapse reversal transactions. The vendor, the Department of Information Resources (DIR), had submitted an invoice to the Department for Texas.gov services rendered in November 2021. Since the services were provided in fiscal 2022, they should have been charged to appropriation year 2022, but instead the Department reinstated a portion of appropriation year 2020 funds to pay the DIR invoice.

According to [eXpendit — Appropriation Year Determination](#), a state agency must charge a purchase of services to the appropriation year the services were rendered in. A state agency may not charge an appropriation year for the purchase of services that were rendered during a different appropriation year.

Recommendation/Requirement

The Department must ensure staff uses the correct appropriation year for lapse reversals in accordance with the appropriation determination rules on eXpendit.

Department Response

As noted in the corrective response for the previous finding, DSHS will also address the use of the correct appropriation year for lapse reversals by way of policy AP-117. The expectation is that all agency staff follow the accounts payable policy and ensure appropriate funding is used to process, authorize, and pay invoices. In preparation for FY26, the DSHS CFO will send out an agency-wide communication by Aug. 31, 2025, to remind staff of the requirements involved in processing and authorizing invoices for payment. This will include a reminder regarding using the correct appropriation year.



Documentation for Encumbrances, Payables and Reinstating Lapsed Balances

Agencies must maintain proper documentation to support 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 the disbursements of grant funds.

The Department generally maintained supporting documentation for these legal obligations; the audit revealed no issues in this area.

Encumbrance and Payables Recording Requirements

If an agency does not record encumbrances in USAS when making obligations, it must use a specific transaction code (T-code) to record the encumbrance amount quarterly. An agency must also use a specific T-code to record payables at the end of the year. Agencies using CAPPs must also follow CAPPs procedures to properly establish, maintain, liquidate and close out POs. See APS 018.

The Department used the proper T-codes and generally followed CAPPs PO procedures. 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. Auditors developed a sample of four miscellaneous claim payment transactions totaling \$4,087,353.81 to determine why the Department was unable to pay these claims within the statutory time limit. 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 Department:

- 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.
- Handled expired appropriations accurately.

Audit Scope

Auditors reviewed a sample of the Department of State Health Services (Department) encumbrance transactions from appropriation year 2020, which expired on Aug. 31, 2022, to determine compliance with APS 018. The auditors selected five appropriations, based on auditor judgment, for detailed testing. Auditors also looked at all appropriations when determining whether the Department 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 Department 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 Department 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 the Department's documents comply in the future. The Department must ensure 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.