



# **An Audit of Encumbrance Reporting at the Texas Water Development Board**

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# Executive Summary

## Purpose and Scope

The objectives of the Texas Water Development 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 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 years (AYs) 2020 and 2021, which expired on Aug. 31, 2022 and 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 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 mission of the Board is to lead the state's efforts in ensuring a secure water future for Texas. The Board's main responsibilities are collecting and disseminating water-related data; assisting with regional water supply and flood planning that contributes to preparing the state water plan and state flood plan; and administering cost-effective financial programs for constructing water supply, wastewater treatment, flood control, and agricultural water conservation projects.

Texas Water Development Board  
website <https://www.twdb.texas.gov/>



## Audit Results

The Board largely complied with [\*Encumbrance Report 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 requirements for recording encumbrance-related transactions; miscellaneous claim payments related to expired appropriations; and over-encumbering and certification of encumbrances and payables. 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?	No issues	Fully Compliant
Did the agency over-encumber or over-accrue funds?	No issues	Fully Compliant
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 official?	No issues	Fully Compliant
Did the agency request multiple miscellaneous claim payments related to expired appropriations?	No issues	Fully Compliant

## Key Recommendations

None.





# Detailed Findings

## Lapsed Appropriated Funds Previously Encumbered or 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 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. The Texas Water Development Board is unique in that it has unexpended balance (UB) authority over most of its funds. Rather than lapsing, most unexpended funds are either carried forward to the next fiscal year or used for debt service. As a result, large lapse amounts were not used to determine the sample tested. Auditors chose funds with large encumbrances and reviewed them to ensure that funds were not over-encumbered or under-encumbered.

### 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.

Auditors reviewed 16 encumbrance transactions from AY 2020 and 20 encumbrance transactions from AY 2021 processed across multiple funds by the Board. The one instance in the sample with general revenue appropriations, where the funds lapsed, the Board documented the appropriateness of the encumbrance and lapsed the funds when the contract was complete. The audit revealed no issues in this area.

## Over-Encumbrance or Accrual of Funds

Agencies should avoid either under-encumbering or over-encumbering an appropriation, if possible. Under-encumbering 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 Opinion Numbers 0-2815 (1940), V-1139 (1950), WW-40 (1957), and WW-978 (1961). An outstanding encumbrance is a contract,

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.



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.

Auditors reviewed 16 encumbrance transactions from AY 2020 and 20 encumbrance transactions from AY2021 processed across multiple funds by the Board. For the encumbrances reviewed, the Board had contracts in place and encumbered the remaining balances of those contracts. When the contracts were complete the Board used its UB authority to either forward the unexpended balance or for debt services purposes. The audit revealed no issues in this area.

## **Documentation for Encumbrances, Payables, and Reinstating Lapsed Balances**

Agencies must maintain proper 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. The audit revealed no issues in this area.

## **Encumbrance and 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. An agency must also use a specific T-code to record payables at the end of the year. See FPP A.019. The Board used the proper T-codes. 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 quarterly and annually for each current year's appropriations. If an agency wishes to have a lapsed appropriation balance reinstated, the chief fiscal officer (CFO) or higher official must submit a lapse reversal request that includes a justification for the reversal to the agency's appropriation control officer for approval. See FPP A.019.

Auditors found that the Board did follow proper procedures for any reversals or reinstatements processed on lapsed appropriations during the audit period. The Board also complied with the certification reporting requirements. The audit revealed no issues in these areas.



## **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 two miscellaneous claims processed after Aug. 31, 2022, and Aug. 31, 2023, when the AY 2020 and AY 2021 appropriations expired, to present. There were two additional miscellaneous claims processed during this period related to previous AYs. 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 Board:

- 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

Auditors reviewed a sample of the Texas Water Development Board (Board) encumbrance transactions that processed through USAS on Aug. 31, 2022, and Aug. 31, 2023, to determine compliance with FPP A.019. Based on auditor judgment, the auditors selected 36 encumbrances from the agency appropriations for detailed testing. Auditors also looked at all appropriations when determining whether the Board accurately and timely reported binding encumbrances and payables 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 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 the Board's documents comply in the future. The Board 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

*Amanda Price, CFE, CTCD, CTCM, Lead Auditor*

*Karla Garcia Dominguez, CTCD, CTCM*



## 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.