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State Auditor

An Audit Report on

**Accounts Payable and
Encumbrances at Selected State
Agencies**

August 2011
Report No. 11-045

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at Selected State Agencies**

SAO Report No. 11-045
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Overall Conclusion

The State Auditor's Office audited accounts payable and encumbrances as of August 31, 2010, and as of February 28, 2011, at three state agencies:

- The Texas Education Agency (TEA).
- The Department of Aging and Disability Services (DADS).
- The Texas Department of Transportation (TxDOT).

Accounts payable at TEA, DADS, and TxDOT were supported by valid obligations for each time period tested.

TEA's encumbrances were supported by valid obligations for each time period tested, but auditors identified issues related to encumbrances at both DADS and TxDOT. Specifically:

- Encumbrances that DADS reported as of August 31, 2010, were supported by valid obligations. However, DADS did not report encumbrances as of February 28, 2011, which is not in compliance with Texas Government Code, Section 403.021(b).
- Encumbrances that TxDOT reported as of August 31, 2010, and as of February 28, 2011, were not fully supported by valid obligations. The TxDOT districts, divisions, regions, and offices that auditors tested did not consistently retain adequate supporting documentation to determine whether the reported encumbrances were correct and supported by valid obligations.

TEA, DADS, and TxDOT used reasonable methodologies for calculating and recording accounts payable and encumbrances. They derived accounts payable and encumbrances from either (1) a combination of actual obligations owed at a given date and estimates or (2) entirely from estimates. Valid obligations to support accounts payable and encumbrances included estimates based on notices of grant awards, actuarial data, data obtained from the Uniform Statewide Accounting

Background Information

Accounts payable: Generally accepted accounting principles define accounts payable as the amounts due to suppliers relating to the purchase of goods and services.

According to the Office of the Comptroller of Public Accounts' Accounting Policy Statement 018, which specifies requirements for accounts payable reporting, accounts payable are amounts obligated for goods or services actually rendered or provided to an agency by the end of a reporting period, but for which the agency has not yet made payment.

Encumbrances: According to the Governmental Accounting Standards Board, an encumbrance is a reservation of budgetary authority used primarily to avoid over expenditure of a specific appropriation during a budgetary period. After an agency creates a contract to obtain a good or service, a reserve in the amount specified in the contract, or in an amount that may reasonably be expected to be paid relating to the contract during the budgetary period, should be encumbered.

According to the Office of the Comptroller of Public Accounts' Accounting Policy Statement 018, which specifies requirements for encumbrance reporting, an encumbrance is a contract, agreement, or other action that legally obligates state funds. An encumbrance is a commitment for goods that is made before the end of a reporting period, but the actual receipt of goods does not occur until after the end of the reporting period.

System (USAS), invoices, receiving reports, purchase orders, contracts, remaining appropriations, and legal obligations.

Auditors also analyzed fiscal year 2010 expenditures and fiscal year 2011 expenditures through February 28, 2011, to determine the agencies' compliance with other laws and regulations regarding accounts payable and encumbrances and determined the following:

- TEA and DADS complied with state requirements that generally specify that obligations must be paid within two years following the last day of the appropriation year.
- TxDOT complied with state requirements that (1) non-construction obligations must be paid within two years following the last day of the appropriation year and (2) construction obligations must be paid within four years following the expiration of the appropriation year.
- TEA, DADS, and TxDOT complied with state requirements that limit a state agency's or other governmental entity's expenditures in the last quarter of a fiscal year to no more than one-third of the state agency's or other governmental entity's appropriations for that fiscal year.

Auditors also identified other less significant issues that were communicated separately in writing to TEA, DADS, and TxDOT management.

Summary of Management's Response

DADS and TxDOT agreed with the recommendations addressed to each of those agencies. This report did not address any recommendations to TEA.

Summary of Information Technology Review

Auditors performed a limited review of general controls over key accounts payable and encumbrance files, which involved testing user access and user rights to folders in which DADS and TxDOT maintained key files and reviewing certain application controls related to TEA's accounting and interface systems. As a part of that review, auditors identified less significant issues and communicated those issues to the appropriate agency in writing.

Auditors relied upon application and general controls reviews over key systems at all three agencies that the State Auditor's Office and external auditors had previously performed. Those application and general control reviews determined that controls over key systems related to accounts payable and encumbrances were generally sufficient.

Summary of Objective, Scope, and Methodology

The objective of this audit was to examine accounts payable and encumbrances at selected state entities to determine whether the accounts payable and encumbrances are supported by valid obligations.

The scope of this audit included accounts payable and encumbrances that TEA, DADS, and TxDOT reported as of August 31, 2010, and February 28, 2011.

The audit methodology included collecting information and documentation from the selected state entities; reviewing policies, procedures, statutes, rules, and other guidance related to accounts payable and encumbrances; and analyzing and evaluating data and the results of tests. Auditors assessed the reliability of the accounts payable and encumbrance data in the agencies' accounting systems. Except for the inconsistencies noted in certain date fields at TxDOT (see Chapter 3), auditors determined that accounts payable and encumbrance data from those accounting systems was sufficiently reliable for the purpose of this audit.

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Detailed Results

Chapter 1

Accounts Payable and Encumbrances That TEA Reported Were Supported by Valid Obligations

TEA's Processes for Accounts Payable and Encumbrances

TEA reported accounts payable of \$1,764,331,456 and \$226,898,889 as of August 31, 2010, and February 28, 2011, respectively.

TEA reported encumbrances of \$3,845,285,625 and \$1,757,292,944 as of August 31, 2010, and February 28, 2011, respectively.

TEA's process for recording accounts payable and encumbrances is generally automated and based on information in its accounting system and its Texas Grant Interface (TGIF) system.

Accounts payable and encumbrances that the Texas Education Agency (TEA) reported as of August 31, 2010, and February 28, 2011, were supported by valid obligations. TEA calculated and recorded accounts payable and encumbrances in accordance with the Office of the Comptroller of Public Accounts' reporting requirements and Accounting Policy Statement 018.

As of February 28, 2011, TEA's fiscal year 2011 expenditures for appropriation year 2010 totaled \$1,692,178,128. Its accounts payable and encumbrances as of August 31, 2010, totaled \$5,609,617,081.

Auditors reviewed a sample of TEA's estimates of accounts payable and encumbrances based on outstanding grants contained in TEA's automated grant interface system. Auditors also reviewed invoices, receiving reports, contracts, and purchase orders in TEA's automated accounting system.

All accounts payable items tested were supported by valid obligations.

Auditors tested 19 accounts payable items totaling \$127.9 million (of the \$1.8 billion TEA reported at August 31, 2010) and 30 accounts payable items totaling \$20.9 million (of the \$226.9 million TEA reported at February 28, 2011). All items tested were adequately supported by valid obligations. Auditors also verified that TEA's program code for its automated grant interface system consistently and accurately calculated accounts payable related to outstanding grants.

All encumbrance items tested were supported by valid obligations.

Auditors tested 30 encumbrance items totaling \$189.2 million (of the \$3.8 billion TEA reported at August 31, 2010) and 30 encumbrance items totaling \$489.0 million (of the \$1.8 billion TEA reported at February 28, 2011). With the exception of one \$500 item, all items tested were adequately supported by valid obligations.

TEA complied with other state laws and regulations.

TEA complied with other state laws and regulations regarding accounts payable and encumbrances. Auditors analyzed fiscal year 2010 expenditures and fiscal year 2011 expenditures through February 28, 2011, and determined that:

- TEA complied with Section 6, Article VIII, Texas Constitution, and the Office of the Comptroller of Public Accounts' *Fiscal Matters on Appropriations - Section 3 Payments out of appropriations*. Those requirements generally specify that obligations must be paid within two years following the last day of the appropriation year.
- TEA complied with Section 6.06, page IX-26, General Appropriations Act (81st Legislature) and the Office of the Comptroller of Public Accounts' *Fiscal Matters on Appropriations - Section 4 Last quarter expenditures*. Those requirements limit a state agency's or other governmental entity's expenditures in the last quarter of a fiscal year to no more than one-third of the state agency's or other governmental entity's appropriations for that fiscal year.

Accounts Payable and Encumbrances That DADS Reported Were Supported by Valid Obligations

DADS's Processes for Accounts Payable and Encumbrances

DADS reported accounts payable of \$338,699,047 and \$597,086,193 as of August 31, 2010, and February 28, 2011, respectively.

DADS's process for recording accounts payables uses amounts that are projected or estimated.

DADS reported encumbrances of \$215,646,254 as of August 31, 2010. It did not report encumbrances for the quarter ending February 28, 2011.

DADS uses a reasonable methodology to encumber funds at the end of a fiscal year. That methodology considers remaining appropriations and legal obligations¹ of DADS.

¹ DADS is required to provide certain services through the Medicaid program. Section 1902 (a)(8) of the Social Security Act requires that Medicaid benefits be furnished to all eligible individuals. In addition, Section 1902(a)(10) of the Social Security Act specifies criteria for individuals who are required to have Medicaid eligibility under the Medicaid State Plan, and for other populations to which eligibility may be granted at the State's option. Section 1902(a)(10)(B) of the Social Security Act requires that all eligible individuals under the Medicaid State Plan be granted benefits of the same amount, duration, or scope.

Accounts payable that the Department of Aging and Disability Services (DADS) reported as of August 31, 2010, and February 28, 2011, were supported by valid obligations. However, DADS should enhance its process for estimating accounts payable by implementing a formal review process.

Encumbrances that DADS reported as of August 31, 2010, were supported by valid obligations. However, DADS did not report encumbrances as of February 28, 2011, which is not in compliance with Texas Government Code, Section 403.021(b).

DADS used reasonable methodologies to estimate and record accounts payable and encumbrances in accordance with the Office of the Comptroller of Public Accounts' reporting requirements and Accounting Policy Statement 018 and actuarial standards. Auditors reviewed and recalculated a sample of DADS's estimates based on actuarial standards, adjustments, and calculations to determine remaining appropriations.

As of February 28, 2011, DADS's fiscal year 2011 expenditures for appropriation year 2010 totaled \$457,855,018. Its accounts payable and encumbrances as of August 31, 2010, totaled \$554,345,301.

All accounts payable items tested were supported by valid obligations; however, DADS's process for estimating accounts payable lacks a formal review.

Auditors reviewed, recalculated, and traced to supporting data DADS's accounts payable calculations for five major program areas for both time periods tested. For the five programs tested, DADS accurately calculated and reported accounts payable balances. The five programs tested represented \$137,296,431 (41 percent) of the \$338,699,047 in accounts payable that DADS reported at August 31, 2010, and \$265,344,848 (44 percent) of the \$597,086,193 in accounts payable that DADS reported at February 28, 2011.

To calculate its accounts payable, DADS downloads program data, such as service authorizations and payment data, from its data warehouses and applies actuarial standards to project current fiscal year services rendered. It then records those projections as accounts payable.

DADS used reasonable methodologies to estimate and record accounts payable in accordance with the Office of the Comptroller of Public Accounts' reporting requirements and Accounting Policy Statement 018 and the Actuarial Standards Board's Actuarial Standard of Practice No. 5 (December

2000). However, DADS did not conduct a formal review of the spreadsheets and compilations it created. As a result, auditors identified minor clerical errors in the transfer of information from one spreadsheet to another. To help eliminate such errors and prevent future errors, DADS should enhance its process for estimating accounts payable by implementing a formal review process.

Encumbrances reported at August 31, 2010, were supported by valid obligations; however, DADS did not report encumbrances at February 28, 2011.

Auditors reviewed the calculation spreadsheets that DADS used to determine its August 31, 2010, encumbrance balances. DADS's methodology is to encumber remaining appropriations, taking into consideration its accounts payable calculations. DADS accurately calculated and reported encumbrances using that methodology.

As discussed above, DADS did not report encumbrances as of February 28, 2011, which is not in compliance with Texas Government Code, Section 403.021(b). This occurred because DADS does not report encumbrances for the first three quarters of each fiscal year.

DADS complied with other state laws and regulations.

DADS complied with other state laws and regulations regarding accounts payable and encumbrances. Auditors analyzed fiscal year 2010 expenditures and fiscal year 2011 expenditures through February 28, 2011, and determined that:

- DADS complied with Section 6, Article VIII, Texas Constitution and the Office of the Comptroller of Public Accounts' *Fiscal Matters on Appropriations - Section 3 Payments out of appropriations*. Those requirements generally specify that obligations must be paid within two years following the last day of the appropriation year.
- DADS complied with Section 6.06, page IX-26, General Appropriations Act (81st Legislature) and the Office of the Comptroller of Public Accounts' *Fiscal Matters on Appropriations - Section 4 Last quarter expenditures*. Those requirements limit a state agency's or other governmental entity's expenditures in the last quarter of a fiscal year to no more than one-third of the state agency's or other governmental entity's appropriations for that fiscal year.

Recommendations

DADS should:

- Develop and implement a formal review process to ensure that it calculates and reports estimated accounts payable accurately.

- Comply with Texas Government Code, Section 403.021(b), and report encumbrances in each quarter of a fiscal year.

Management's Response

DADS management is in agreement with the findings and recommendations of the audit. DADS is in the process of redesigning and formalizing the processes used to estimate accounts payable and encumbrances. The new process will include redesigned automated support for the quarterly and annual process which produces and reports both accounts payable and encumbrances. The proposed DADS redesign will also incorporate the additional, less significant issues and findings of this audit.

DADS will modify its current reporting and review practices accordingly, in order to report encumbrances as well as accounts payable on a quarterly basis as required by Texas Government Code Section 403.021(b), and to develop and implement a formal review process to ensure data accuracy.

Responsible Management: Budget Director

Target Date: December 1, 2011

Accounts Payable That TxDOT Reported Were Supported by Valid Obligations, But Encumbrances That TxDOT Reported Were Not Fully Supported by Valid Obligations

TxDOT's Processes for Accounts Payable and Encumbrances

TxDOT reported accounts payable of \$822,539,479 and \$281,466,587 as of August 31, 2010, and February 28, 2011, respectively.

TxDOT's process for determining accounts payable is based on a series of estimates.

TxDOT reported encumbrances of \$131,350,158 and \$1,593,379,506 as of August 31, 2010, and February 28, 2011, respectively.

To report encumbrances, TxDOT uses estimates and actual amounts that include information self-reported by its districts, divisions, regions, or offices (DDRO).

TxDOT does not encumber services; supplies; or amounts contracted for right of way, highway construction, and preventative maintenance at year end. According to TxDOT, it does not encumber those items because any future obligations will be paid from appropriations at the time the payment is made or the service is rendered.

TxDOT compiles the above accounts payable and encumbrances into a single spreadsheet and compares it to historical expenditures to derive additional estimated amounts.

Accounts payable that the Texas Department of Transportation (TxDOT) reported as of August 31, 2010, and February 28, 2011, were supported by valid obligations. However, TxDOT should improve its process for estimating accounts payable by periodically reviewing key data it uses in its methodology.

Encumbrances that TxDOT reported as of August 31, 2010, and February 28, 2011, were not fully supported by valid obligations.

TxDOT used reasonable methodologies to estimate and record accounts payable and encumbrances in accordance with the Office of the Comptroller of Public Accounts' reporting requirements and Accounting Policy Statement 018. Auditors reviewed TxDOT's program code and process for estimating accounts payable and reviewed invoices, receiving reports, contracts, and purchase orders provided by TxDOT districts, divisions, regions, or offices (DDRO).

As of February 28, 2011, TxDOT's fiscal year 2011 expenditures for appropriation year 2010 totaled \$817,703,589. Its accounts payable and encumbrances as of August 31, 2010, totaled \$953,889,637.

Accounts payable items tested were supported by valid obligations; however, TxDOT should improve its process for estimating accounts payable by implementing a periodic review of key data.

To calculate its accounts payable, TxDOT uses an ad hoc report that compiles actual expenditures TxDOT paid in a given month for goods or services that it received prior to that month. TxDOT then uses those expenditures to estimate and record accounts payable.

Auditors reviewed the program code that generates the ad hoc report and TxDOT's accounts payable estimation process. TxDOT used reasonable methodologies to estimate and record accounts payable in accordance with the Office of the Comptroller of Public Accounts' reporting requirements and Accounting Policy Statement 018. However, TxDOT should improve its methodologies. Auditors identified instances in which service dates—a key field for the ad hoc report in determining when goods were received or services were rendered—were often blank or contained dates that could affect the accuracy of the ad hoc report. Therefore, TxDOT should enhance its process for estimating accounts payable by periodically reviewing key data.

Encumbrances reported at August 31, 2010, and February 28, 2011, were not fully supported by valid obligations.

While TxDOT's methodology for reporting encumbrances complies with the Office of the Comptroller of Public Accounts' reporting requirements and Accounting Policy Statement 018, encumbrances that TxDOT reported as of August 31, 2010, and February 28, 2011, were not fully supported by valid obligations. TxDOT's DDROs are required to self-report their actual encumbrances at the end of each quarter to TxDOT's Finance Division. TxDOT's Finance Division then compiles the DDROs' self-reported amounts into a single spreadsheet and reports the encumbrances in total.

Auditors reviewed encumbrance amounts that four DDROs reported as of August 31, 2010, and that five DDROs reported as of February 28, 2011 and identified the following:

- TxDOT does not have documented policies and procedures for determining accounts payable and encumbrances. As a result, there are inconsistencies among the DDROs responsible for reporting encumbrances, and DDROs' processes for determining encumbrances and retaining supporting calculations and documentation vary depending on the staff performing those processes. In addition, TxDOT does not perform a detailed, secondary review of processes DDROs use to compile and report encumbrances.
- For encumbrances reported as of August 31, 2010, all four DDROs tested did not consistently have supporting documentation showing that valid obligations existed for the sample encumbrances tested. Specifically:
 - ♦ Two of the four DDROs tested provided support for all sample items requested. However, the amount encumbered did not agree with the support for 27 (48 percent) of the 56 items tested. The DDROs overreported those 27 items by \$1.0 million, which represented approximately 7 percent of the \$15.5 million associated with all 56 items tested.
 - ♦ The remaining two DDROs did not have supporting documentation for the encumbrances they reported as of August 31, 2010. One of those DDROs was unable to provide support for \$9.7 million (78 percent) of the \$12.4 million in encumbrances that the Finance Division reported. This DDRO was able to provide supporting documentation for 16 items tested. However, the amount the DDRO encumbered did not agree with the supporting documentation for 8 (50 percent) of those items. The DDRO overreported those 8 items by \$305,420, which represented 20 percent of the \$1.5 million associated with all 16 items tested.

The other DDRO reported approximately \$4.8 million in encumbrances to the finance division. The Finance Division excluded

that amount from total encumbrances because the DDRO classified those transactions as services and TxDOT does not encumber services at the end of a fiscal year. Auditors requested documentation to verify that \$3.5 million of that amount was related to services. The DDRO was unable to provide any detailed support that confirmed that the amount was related to services. Therefore, auditors could not determine whether TxDOT excluded appropriately \$3.5 million in accordance with its process. According to TxDOT, it does not encumber the cost of service contracts because any future obligations will be paid from appropriations at the time the payment is made or the service is rendered.

- ♦ For encumbrances reported as of February 28, 2011, three of the five DDROs tested did not have supporting documentation showing that valid obligations existed for all sample encumbrances tested. Specifically:
 - Two of the three DDROs were unable to provide supporting documentation for \$50.2 million (40 percent) of the \$124.7 million in encumbrances they reported.
 - Another DDRO was able to provide supporting documentation for all sample items tested. However, the amount that DDRO encumbered did not agree with the supporting documentation for 1 (5 percent) of the 20 items tested. That item represented \$29,174 (0.2 percent) of the \$18.7 million in encumbrances tested at that DDRO.

Auditors tested contracts totaling \$475.3 million of the \$1.2 billion in encumbrances the two remaining DDROs reported as of February 28, 2011. All items tested for those two DDROs were fully supported by valid obligations.

- Three of the four DDROs tested reported a total of approximately \$1.1 million as encumbrances as of August 31, 2010, that they also reported as accounts payable. This occurred because the DDROs included as an outstanding encumbrance actual expenditures paid after the end of the fiscal year that were for goods or services that they received prior to the end of the fiscal year. They also included those payments in the accounts payable ad hoc report and, therefore, reported them as accounts payable. The \$1.1 million included some of the items discussed above for which TxDOT did not have adequate supporting documentation.

TxDOT complied with other state laws and regulations.

TxDOT complied with other state laws and regulations regarding accounts payable and encumbrances. Auditors analyzed fiscal year 2010 expenditures and fiscal year 2011 expenditures through February 28, 2011, and determined that:

- TxDOT complied with Section 6, Article VIII, Texas Constitution and the Office of the Comptroller of Public Accounts' *Fiscal Matters on Appropriations - Section 3 Payments out of appropriations* that (1) require non-construction obligations to be paid within two years following the last day of the appropriation year and (2) require construction obligations to be paid within four years following the expiration of the appropriation year.
- TxDOT complied with Section 6.06, page IX-26, General Appropriations Act (81st Legislature) and the Office of the Comptroller of Public Accounts' *Fiscal Matters on Appropriations - Section 4 Last quarter expenditures*. Those requirements limit a state agency's or other governmental entity's expenditures in the last quarter of a fiscal year to no more than one-third of the state agency's or other governmental entity's appropriations for that fiscal year.

TxDOT should require contractors to submit invoices within a reasonable amount of time.

TxDOT should strengthen its process for encumbering funds and recording accounts payable by requiring contractors to submit invoices within a reasonable amount of time. In fiscal year 2011, TxDOT paid \$812,817 for expenditures for appropriation years 2007 and 2008. TxDOT had not encumbered or recorded as accounts payable \$150,032 (18 percent) of that amount because a contractor did not bill TxDOT for all eligible services until fiscal year 2011. The contractor's maintenance services, which were classified as construction, were provided in fiscal years 2007 and 2008 and paid for within the required time frame. However, to pay for those services, TxDOT had to request that lapsed funds be reinstated.

Recommendations

TxDOT should:

- Develop detailed, documented policies and procedures for determining accounts payable and encumbrances. In developing those policies and procedures, TxDOT should consider (1) consistency in all phases of each process; (2) retention of records and supporting documentation; and (3) formal review of all phases of each process, including detailed review of manual compilations.
- Develop and implement processes for (1) identifying amounts to report as accounts payable or encumbrances and (2) ensuring that it does not report the same items as both accounts payable and encumbrances.
- Record encumbrances related to all activities that will require payments in future periods.

- Consider requiring contractors to provide invoices within a reasonable amount of time after they provide goods and services.

Management's Response

The Department agrees with recommendations for improving the accounts payable and encumbrance reporting process. The Department plans to develop detailed policies and procedures to ensure a consistent process is followed statewide and supporting documentation is maintained for a proper period. Documented policies and procedures are scheduled to be finalized by December 2011.

The Department agrees that encumbrances reported at August 31, 2010, and February 28, 2011, were not fully supported by valid obligations. Specifically the Department agrees that it did not consistently retain adequate supporting documentation to determine whether the reported encumbrances were correct and supported by valid obligations. The State Auditor's Office (SAO) did report that the Department used reasonable methodologies to estimate and record accounts payable and encumbrances in accordance with Office of the Comptroller of Public Accounts' (Comptroller's Office) reporting requirements. As reported by the SAO the Department recorded \$953,889,637 in accounts payable and encumbrances as of August 31, 2010. As of July 31, the Department's fiscal year 2011 expenditures for appropriation year 2010 totaled \$869,920,390, approximately 91% of total accounts payable and encumbrances reported.

The Department agrees that it did not encumber or record as an account payable amounts of \$150,032. The Department will explore requiring contractors to provide invoices within a reasonable amount of time after they provide goods and services. By December 2011 the Department will be in a better position to determine practicality of implementing this recommendation.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to examine accounts payable and encumbrances at selected state entities to determine whether the accounts payable and encumbrances are supported by valid obligations.

Scope

The scope of this audit included accounts payable and encumbrances that the Texas Education Agency (TEA), the Department of Aging and Disability Services (DADS), and the Texas Department of Transportation (TxDOT) reported as of August 31, 2010, and February 28, 2011.

Methodology

The audit methodology included collecting information and documentation from the selected state entities; reviewing policies, procedures, statutes, rules, and other guidance related to accounts payable and encumbrances; and analyzing and evaluating data and the results of tests. Specifically, auditors reviewed contracts, estimate calculations, purchase orders, and other binding agreements to determine whether accounts payable and encumbrances reported as of August 31, 2010, and February 28, 2011, were supported by valid obligations.

Auditors assessed the reliability of the accounts payable and encumbrance data in the selected state entities' accounting systems by interviewing entity management knowledgeable about the data; performing testing of key data elements; and reviewing and relying on work previously performed by the State Auditor's Office and work that external auditors completed for the federal portion of the statewide Single Audit. In addition, auditors gained more data reliability assurance by reviewing certain application controls related to input and processing of accounts payable and encumbrances in accounting systems and interfaced systems.

Except for the inconsistencies noted in certain date fields at TxDOT (see Chapter 3), auditors determined that accounts payable and encumbrance data from the accounting systems at the selected state entities was sufficiently reliable for the purpose of this audit.

Information collected and reviewed included the following:

- Policies and procedures for accounts payable and encumbrances at the selected state entities.
- Accounts payable and encumbrance balances the selected state entities reported as of August 31, 2010, and February 28, 2011, in annual financial reports and at the Office of the Comptroller of Public Accounts.
- Contracts, grant agreements, amendments, requisitions, purchase orders, invoices, adjustments to accruals, estimates, and other documents the selected entities used to support reported balances.
- Uniform Statewide Accounting System (USAS) expenditure data related to accounts payable and encumbrance balances reported as of August 31, 2010, and February 28, 2011.
- *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2010.

Procedures and tests conducted included the following:

- Interviewed management and key personnel at the selected state entities.
- Analyzed, recalculated, and tested accounts payable and encumbrances reported as of August 31, 2010, and February 28, 2011.
- Reviewed and tested compliance with selected state entities' policies and procedures and Office of the Comptroller of Public Accounts' Accounting Policy Statement 018 (Encumbrance Report and Lapsing of Appropriations).
- Reviewed application controls (input and processing) in selected accounting systems to assess data reliability of information tested.
- Reviewed other auditors' work papers on general and limited application controls in selected accounting and information technology systems.
- Reviewed input controls and access rights in selected accounting systems and other information technology systems.

Criteria used included the following:

- Office of the Comptroller of Public Accounts' Accounting Policy Statement 018 (Encumbrance Report and Lapsing of Appropriations).
- *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2010.

- Texas Government Code, Chapter 403.
- Texas Government Code, Section 2251.021.
- Section 49-g, Article III, Texas Constitution.
- Section 6, Article VII, Texas Constitution.
- Governmental Accounting Standards Board guidance.
- American Institute of Certified Public Accountants guidance.
- Selected state entities' policies and procedures.
- Actuarial Standard of Practice No. 5, Actuarial Standards Board, December 2000.
- General Appropriations Act (81st Legislature).

Project Information

Audit fieldwork was conducted from April 2011 through June 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Mary Ann Wise, CPA, CFE (Project Manager)
- Lilia Christine Srubar, CPA (Assistant Project Manager)
- Shahpar M. Ali, CPA, M/SBT
- Ben Carter
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- Mary Goldwater
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- Lindsay R. Johnson
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- Michele Pheeney, CPA, MBA
- Jeannette Quiñonez, CPA
- Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
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- Lisa R. Collier, CPA (Assistant State Auditor)

Related State Auditor's Office Work

| Related State Auditor's Office Work | | |
|-------------------------------------|---|--------------|
| Number | Product Name | Release Date |
| 11-029 | An Audit Report on the Emerging Technology Fund | April 2011 |

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Harvey Hilderbran, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Texas Education Agency

Mr. Robert Scott, Commissioner of Education

Health and Human Services Commission

Mr. Thomas Suehs, Executive Commissioner

Department of Aging and Disability Services

Mr. Chris Traylor, Commissioner

Texas Department of Transportation

Members of the Texas Transportation Commission

Ms. Deirdre Delisi, Chair

Mr. Ned S. Holmes

Mr. Ted Houghton

Mr. William Meadows

Mr. Fred Underwood

Mr. Amadeo Saenz, Jr., P.E., Executive Director



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