



CREDIT UNION COMMISSION AUDIT COMMITTEE MEETING

*Credit Union Department Building
914 East Anderson Lane
Austin, Texas*

**August 10, 2023
10:00 a.m.**

AGENDA

This meeting of the Texas Credit Union Commission's Audit Committee will be held at the Credit Union Department Building at 914 E. Anderson Ln., Austin, Texas 78752 and is open to the public. Only onsite testimony will be allowed; however, the meeting will be transmitted live through a link on the Department's webpage at www.cud.texas.gov on the day of the meeting, August 10, 2023 at 10:00 a.m.

An electronic copy of the agenda is now available at www.cud.texas.gov under Credit Union Commission, Commission Meetings, along with a copy of the meeting materials. A recording of the meeting will be available after August 18, 2023. To obtain a recording, please contact Isabel Velasquez at 512-837-9236.

Public comment on any agenda item or issue under the jurisdiction of the Credit Union Commission is allowed. Unless authorized by a majority vote of the meeting quorum, the comments of any persons wishing to address the Commission will be limited to no more than ten (10) minutes.

The Committee may discuss and/or take action regarding any item on this agenda.

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	1. Ascertain Quorum	
	2. Appoint Recording Secretary	
	3. Invitation for Public Input	
	4. Acknowledge Guests	
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Adjournment

Executive Session: The Credit Union Commission Audit Committee may go into executive session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Texas Government Code, Chapter 551.

Meeting Recess: In the event the Committee does not finish deliberation of an item on the first day for which it was posted, the Committee might recess the meeting until the following day at the time and place announced at the time of recess.

Meeting Accessibility: Under the Americans with Disabilities Act, the Credit Union Commission will accommodate special needs. Those requesting auxiliary aids or services should notify Joel Arevalo, Credit Union Department, 914 East Anderson Lane, Austin, Texas 78752--(512) 837-9236, as far in advance of the meeting as possible.

A

CALL TO ORDER

TEXAS CREDIT UNION COMMISSION AUDIT COMMITTEE

Members

- *Kay Swan, Chair*
- *Liz Bayless*
- *David Bleazard*
- *Jim Minge, Ex-officio*

Legal Counsel

- *Helen Kelley, Assistant Attorney General*

Staff

- *Michael S. Riepen*
- *Robert W. Etheridge*
- *Isabel Velasquez*

B

AUDIT COMMITTEE MEETING MINUTES

Draft copy of the minutes of the Committee's meeting held on March 9, 2023, is located under *TAB B*.

RECOMMENDED ACTION: The Department requests that the Committee approve the minutes as presented.

RECOMMENDED MOTION: I move that the minutes of the Committee's March 9, 2023, meeting be approved as presented.

**CREDIT UNION COMMISSION AUDIT COMMITTEE
MEETING MINUTES
914 East Anderson Lane, Austin, Texas
March 9, 2023**

A. CALL TO ORDER – Chair Kay Swan called the meeting to order at 2:02 p.m. pursuant to Chapter 551 of the Texas Government Code. Other Commission members present included Liz Bayless, David Bleazard and Ex-officio Jim Minge. The Chair introduced General Counsel Nancy Elmilady, who will serve as legal counsel for the committee at this meeting. Staff members in attendance were Michael S. Riepen, Commissioner, Robert W. Etheridge, Deputy Commissioner, and Executive Assistant, Isabel Velasquez. The Chair appointed Isabel Velasquez as recording secretary. The Chair inquired and the Commissioner confirmed that the notice of the meeting was properly posted with the Secretary of State (**February 24, 2023, TRD#2023001168**).

❖ **INVITATION FOR PUBLIC INPUT FOR FUTURE CONSIDERATION**
– Chair Swan invited public input for future consideration by the committee. There was none.

B. RECEIVE MINUTES OF PREVIOUS MEETING (November 3, 2022)
– Mrs. Bayless moved to approve the minutes of November 3, 2022, as presented. Mr. Bleazard seconded the motion, and the motion was unanimously adopted.

C. PROPOSED INTERNAL AUDITOR SOLICITATION REQUEST FOR QUALIFICATIONS (RFQ) – General Counsel Elmilady briefly reported on the Evaluation Committee’s recommendation of which respondent to award the contract to for conducting internal auditing services of the department as a result of the posted RFQ 469-23-001. Ms. Elmilady stated the Evaluation Committee is recommending that the Audit Committee award the contract subject to final execution and negotiation, to Respondent #3. Furthermore, Ms. Elmilady

explained that there were three respondents that submitted proposals. She explained that Cheli Castro, Chair of the Evaluation Committee is in attendance in case there were any questions the Committee wished to have directed towards her. At this time, Ms. Elmilady took a moment to thank Mrs. Castro for all her help and hard work that she did on this procurement.

Ms. Elmilady presented a packet of information, including the proposal and scoring sheets, to assist the Audit Committee in determining whether to accept the staff's recommendation.

After a few minutes to review the packet of information, Mr. Bleazard moved to approve the Evaluation Committee's recommendation to award the contract for conducting internal auditing services of the CUD as a result of RFQ 469-23-001 solicitation to Respondent #3, subject to successful completion of any final contract drafting, negotiation, and final execution, and to recommend that staff have the authority to draft and work on the contract, and the Commissioner to execute said contract. Mrs. Bayless seconded the motion, and the motion was unanimously adopted.

D. NEXT COMMITTEE MEETING – Chair Swan reminded everyone that, if necessary, the next meeting of the Committee would be tentatively scheduled for Thursday, July 13, 2023.

ADJOURNMENT – There being no further business for the Committee, Chair Swan adjourned the meeting at 2:15 p.m.

Kay Swan
Chair

Isabel Velasquez
Recording Secretary

Distribution:

Legislative Reference Library

DRAFT

C

INTERNAL AUDIT CHARTER

C. Discussion and Possible Recommendation for the Commission to Approve the Internal Audit Charter.

BACKGROUND: As part of the Sunset Advisory Commission review, it was recommended that the Department implement an internal audit program. Weaver and Associates was selected as the Department Internal Auditor, and their Internal Audit Charter outlines the purpose and mission of the internal audit, which will be conducted according to Texas Government Code, Chapter 2102 (Texas Internal Auditing Act) and Generally Accepted Government Auditing Standards (GAGAS).

The Scope of Internal Audit Activities includes an examination of the adequacy and effectiveness of the Department's governance, risk management, compliance, and internal control processes. Some of the primary audit areas include: an evaluation of whether risks related to Department operations, information technology, and strategic objectives are appropriately identified and managed; a review of compliance with policies, procedures, applicable laws and regulations; a review of whether operations are being carried out effectively and efficiently; and, a review of whether Information and the means used to identify, measure, classify, and report such information are reliable and have integrity.

RECOMMENDED ACTION: Staff suggests to the Committee that they recommend approval of the Internal Audit Charter to the Commission.

RECOMMENDED MOTION: The Committee recommends that the Commission approve the Internal Audit Charter.

INTERNAL AUDIT CHARTER

Purpose and Mission:

The purpose of the Texas Credit Union Department's (the Department) internal audit activity is to provide independent and objective assurance and consulting services designed to add value and improve the Texas Credit Union Department's operations. The mission of internal audit is to enhance and protect organization value by providing risk-based and objective assurance, advice, and insight. The internal audit activity assists the Department in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Department's governance, risk management, compliance, and internal control processes.

Role:

The internal audit activity is established by the Texas Credit Union Commission (the Commission) in accordance with Texas Government Code Chapter 2102, known as the Texas Internal Auditing Act. The Internal Auditor will report functionally to the Commission, providing information to the Commission's Audit Committee, and administratively (i.e. day to day operations) to the Commissioner, or the Deputy Commissioner.

Standards for the Professional Practice of Internal Auditing:

The internal audit activity will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. The internal audit activity will also comply with the following legal requirements and professional standards:

- Texas Government Code, Chapter 2102, (*Texas Internal Auditing Act*);
- *Generally Accepted Government Auditing Standards (GAGAS)* and related ethical principles issued by the U.S. Government Accountability Office.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to the Department's relevant policies and procedures and industry best practices for internal audit. The Internal Auditor will report periodically to executive management and the Audit Committee regarding the internal audit activity's conformance to the Code of Ethics and the *Standards*.

Authority:

To establish, maintain, and assure that the Texas Credit Union Department's internal audit activity has sufficient authority to fulfill its duties the Commission will:

- Approve the internal audit charter.
- Approve the risk based internal audit plan.
- Approve the internal audit budget and resource plan.
- Receive communications from the Internal Auditor on the internal audit activity's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Internal Auditor.
- Approve the remuneration of the Internal Auditor.
- Make appropriate inquiries of management and the Internal Auditor to determine whether there is inappropriate scope or resource limitations.

The Internal Auditor will have unrestricted access to, and communicate and interact directly with, the Audit Committee, including in private meetings without management present.

The Commission authorizes the internal audit activity to:

- Have full, free, and unrestricted access to all records, resources, properties, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Audit any function, unit, or activity of the Department including vendors, contractors, and subcontractors.
- Obtain assistance from the necessary personnel of the Department, as well as other specialized services from within or outside the Department, in order to complete the engagement.

Independence and Objectivity:

The internal audit activity will remain free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Internal Auditor determines that independence or objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operations duties for the Department.
- Initiating or approving transactions external to the internal audit activity.
- Directing the activities of any Department personnel not employed by the internal audit activity, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Internal Auditor has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity. Internal Auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.

The Internal Auditor will confirm to the Commission, at least annually, the organizational independence of the internal audit activity.

The Internal Auditor will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope of Internal Audit Activities:

The scope of internal auditing encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Commission, management, and outside parties on the adequacy and effectiveness of the Department's governance, risk management, compliance, and internal control processes. Internal audit assessments include evaluating whether:

- Risk relating to the achievement of the Department's strategic objectives are appropriately identified and managed.
- The actions of the Department's officers, directors, employees, and contractors are in compliance with the Department's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, regulations that could significantly impact the Department.
- Information and the means used to identify, measure, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and are adequately protected.

The Internal Auditor will report periodically to executive management, the Commission, and the Audit Committee regarding:

- The internal audit activity's purpose, authority, and responsibility.
- The internal audit activity's plan and performance relative to its plan.
- The internal audit activity's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the Department.

The Internal Auditor will also coordinate activities and, where possible, consider relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit activity may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit activity does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, compliance and internal control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibilities:

The Internal Auditor has the responsibility to:

- Submit, at least annually, to executive management, the Commission, and the Audit Committee a risk-based internal audit plan for review and approval.
- Communicate to executive management and the Audit Committee the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in the Department's business, risks, operations, programs, systems, and controls.
- Communicate to executive management and the Audit Committee any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow-up on engagement findings and corrective actions, and report periodically to executive management and the Audit Committee any corrective actions not effectively implemented.
- Perform inquiries and investigate possible instances of fraud, waste, or abuse.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit activity collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact the Department are considered and communicated to executive management and the Audit Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit activity.
- Ensure adherence to the Department's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to executive management and the Audit Committee.
- Ensure conformance of the internal audit activity with the Standards, with the following qualifications:
 - If the internal audit activity is prohibited by law or regulation from conformance with certain parts of the Standards, the Internal Auditor will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
 - If the Standards are used in conjunction with requirements issued by other authoritative bodies, the Internal Auditor will ensure that the internal audit activity conforms to the Standards, even if the internal audit activity also conforms to the more restrictive requirements of the other authoritative bodies.

Reporting and Monitoring:

A written report will be prepared and issued by the Internal Auditor or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the executive management and the Audit Committee. Reports from each internal audit will be reviewed and recommended by the Audit Committee to the Commission for final approval. Following the completion of the internal audit plan for each fiscal year, the Internal Auditor will prepare and distribute the Annual Internal Audit Report to Department Management, Commission and Texas State Auditor's Office per Texas Government Code, Section 2102.015.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and management responses. All significant findings will remain in an open issues file until cleared.

The Internal Auditor will periodically report to the Audit Committee on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by executive management and the Audit Committee.

Quality Assurance and Improvement Program:

The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Internal Auditor will communicate to executive management and the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every three years, by a qualified, independent assessor or assessment team from outside the internal audit activity.

Scope of Non-audit Services:

The Internal Auditor may provide non-audit services such as consulting services. Consulting services are advisory in nature, and are performed at the specific request of executive management or the Commission. The nature and scope of the consulting engagement are subject to agreement with executive management or the Commission. When performing consulting services, the Internal Auditor will maintain objectivity and not assume management responsibility. The Internal Auditor will establish and document their understanding with executive management or the Commission regarding the objectives of the non-audit services, services to be performed, executive management or the Commission's acceptance of its responsibilities, and the Internal Auditor's responsibilities, including any known limitations. Any non-audit services will be performed in accordance with the Institute of Internal Auditors' International Professional Practices Framework consulting standards. Based on the level of anticipated work, the deliverable(s) will be at the discretion of the Internal Auditor.

Approved this 11th day of August, 2023.

Internal Auditor

Presiding Officer of the Texas Credit Union Commission

Audit Committee Chair

Commissioner
August, 2023

D

ANNUAL INTERNAL RISK ASSESSMENT

D. Discussion and Possible Vote to Recommend that the Commission Approve the Submission of the Annual Internal Risk Assessment Report.

BACKGROUND: The Annual Internal Risk Assessment established a risk-based assessment of 32 significant Agency-Wide, Operational and Financial Activities of the Department. These activities were ranked according to the level of inherent risk in each activity, considering both the probability of a negative occurrence as well as the impact a negative occurrence would have on the Department.

Risk quadrants were developed based on the level of risk associated with a negative occurrence and include: (1) High Risk (high impact, high probability); (2) Moderate Probability (higher probability, moderate impact); (3) Moderate Impact (higher impact, moderate probability); and (4) Low Risk (low impact, low probability). Based on the risk assessment, a recommended three-year audit plan was developed which proposes a schedule of auditing high or moderate risk processes each year.

RECOMMENDED ACTION: Staff suggests to the Committee that they recommend approval of the Annual Internal Risk Assessment Report to the Commission.

RECOMMENDED MOTION: The Committee recommends that the Commission approve the Annual Internal Risk Assessment Report.

Texas Credit Union Department

Internal Audit Risk Assessment Report

For Fiscal Year Ending 2023

Issued: August 1, 2023

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August 1, 2023

Commissioners of the
Texas Credit Union Department
914 E Anderson Ln
Austin, Texas 78752

Dear Commissioners:

We have completed our internal audit risk assessment, which included establishing a risk-based, prioritized internal audit universe for the Texas Credit Union Department (CUD or the Department). Enclosed you will find the following documentation which depict the results of the assessment:

- Risk Rated Internal Audit Universe – Sorted High to Low
- Three Risk Maps depicting (1) Top 32 Rated Activities (2) Agency-Wide and Operations, and (3) Financial Activities.
- Proposed Three-Year Internal Audit Plan
- Risk Rated Internal Audit Universe

Our risk assessment was performed on June 22, 2023, in accordance with the applicable Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors. The risk assessment process and the resulting risk-ranked internal audit universe were completed based on the existing operating conditions present at the time of the assessment. The audit universe and risk rankings should be periodically updated to appropriately reflect the changing risk profile of the department as organizational changes occur.

The risk rated audit universe for the Department was designed by weighting risk factors in each area and establishing an overall risk-rank for each process. The risks were assessed for each process based on the inherent risk related to each process. Inherent risk is the risk related to a process in its uncontrolled state, without consideration of any control activities the Department may have implemented to address those risks. The tables on the attached pages represent the risk-rated internal audit universe separated into all risk-rated activities and the functional areas: Agency-Wide and Operations and Financial. Each area naturally lends itself to a particular audit scope. These areas include policies and procedures, operational, compliance and internal audit, with internal audit defined as loss mitigation, asset protection and fraud prevention. Each significant activity has been plotted onto the risk map to visually illustrate the overall balance of the universe.

Risk represents the degree of likelihood and the magnitude that an unfavorable event will impact a functional area's ability to meet the Department's objectives, as well as the speed at which the impact will occur and the duration of time that the event will impact the Department.

- Probability – Factors that affect the environment related to the risk criteria that influence the possibility that the risk might occur.
- Impact – Specific risk occurrences and the degree of significance that their result would have on the department including the considerations of:
 - Impact – The magnitude of the impact to the significant process if there is an occurrence.
 - Persistence – Factors that affect the length of time of which an influential event might occur.
 - Velocity – Specific risk occurrences and the speed by which their impact is felt after their occurrence.

Risk maps have been prepared for the combined universe, as well as separately for Agency-Wide and Operation and Financial activities. The risk maps were designed to be a visual representation of the risk profile for each grouping. The risk maps plot each audit area based on its probability of error, fraud or misstatement, and the area's impact on the Department resulting from potential error, fraud, or misstatement. Areas plotted in the red region should be considered for evaluation in the upcoming year, while areas in the yellow and green regions can be evaluated in future periods. The risk maps are split into four quadrants that assist in prioritizing response efforts to ensure higher risk areas are evaluated first. The four quadrants are described below:



Moderate (Higher Probability)
Impact < 2.7, Probability > 3.24
 Areas of lower inherent exposure (impact) with a higher likelihood of occurrence (probability) should be monitored.



High
Impact > 3.25, Probability > 3.25
 Areas of high inherent exposure (impact) with a higher likelihood of occurrence (probability) must be a key priority for controls.



Low
Impact < 2.69, Probability < 2.69
 Areas of lower inherent exposure (impact) with a lower likelihood of occurrence (probability) may generate opportunities to optimize the process and controls for efficiency.



Moderate (Higher Impact)
Impact > 3.24, Probability 2.7
 Areas of high inherent exposure (impact) with a lower likelihood of occurrence (probability) may be consciously accepted by the organization.

Based on the risk assessment and prior internal audit history we have prepared a recommended three-year Internal Audit Plan for the Department. The Internal Audit Plan proposes a schedule of auditing a high or moderate risk process each year, based on the Department's ability to absorb the changes that result in response to internal audit findings.

The Department should develop and implement internal audit steps and fraud prevention action plans to obtain reasonable reassurance that control activities are in place to adequately address the risks identified for all significant process areas as part of the risk assessment.

Sincerely,

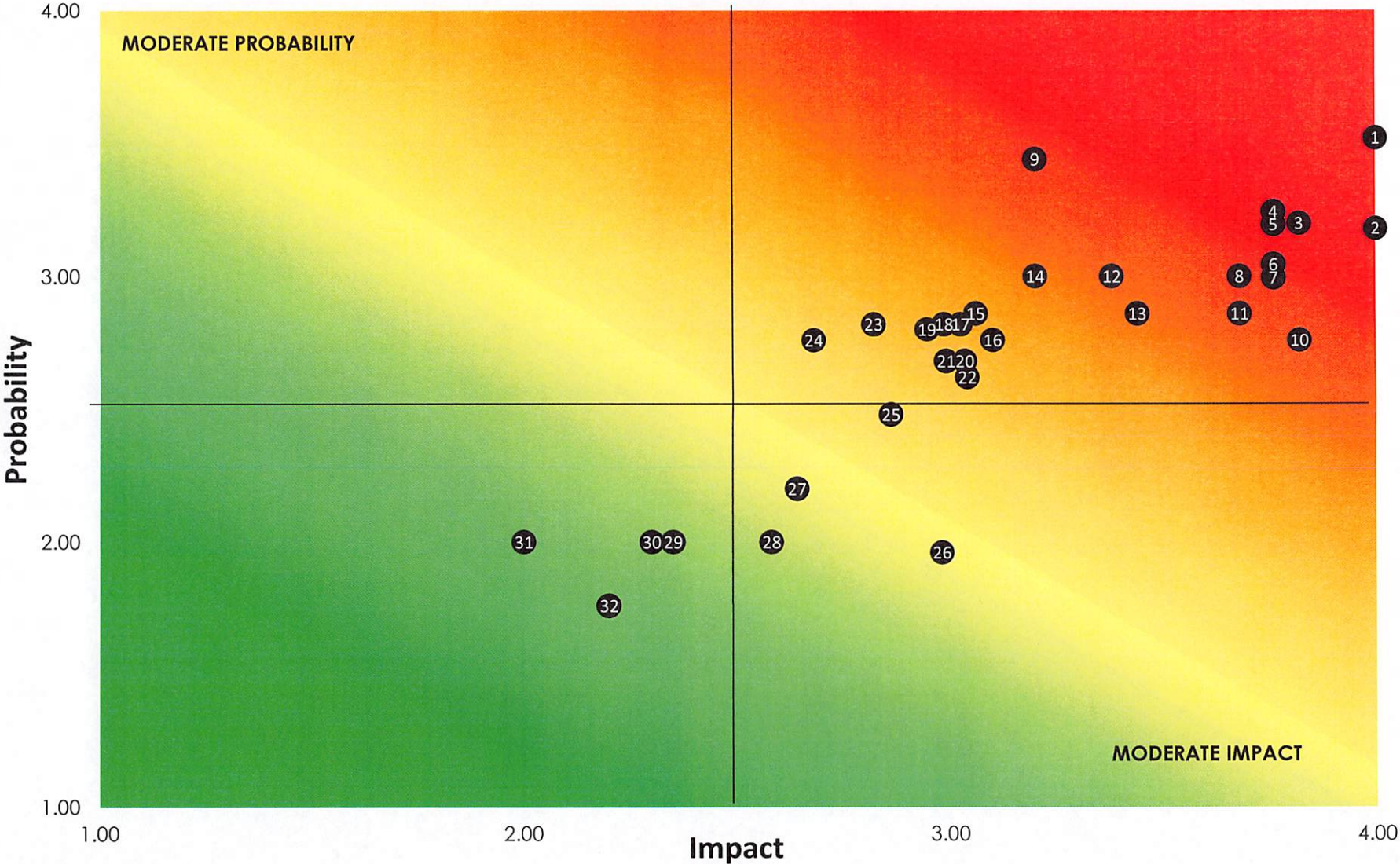
Daniel Graves
 Partner, Risk Advisory Services

**Texas Credit Union Department
Risk Assessment Results
Sorted High to Low
For Fiscal Year Ending 2023**

High	An overall average rating of 3.25 or higher is considered High.
Moderate	An overall average rating from 2.7 to 3.25 is considered Moderate.
Low	An overall average rating of 2.69 or less is considered Low.

Significant Processes and Activities	Process Group	Financial Stability and Fraud		Operations and Complexity		Information Technology		Organization and Human Capital		Reputational		Probability Sub-Total	Impact Sub-Total	Overall Average
		P	I	P	I	P	I	P	I	P	I			
Information Security	Operational Activities	4	4	3	4	4	4	3	4	4	4	3.52	4.00	3.76
Information Technology Services	Operational Activities	3	4	3	4	4	4	3	4	3	4	3.18	4.00	3.59
Credit Union Examinations	Operational Activities	3	4	3	4	3	3	3	4	4	4	3.20	3.82	3.51
Payroll	Financial Activities	3	4	4	4	3	4	3	3	3	4	3.24	3.76	3.50
Budget and Planning	Financial Activities	3	4	3	4	3	4	3	3	4	4	3.20	3.76	3.48
Disaster Recovery/Business Continuity	Operational Activities	2	4	3	3	4	4	3	4	3	4	3.04	3.76	3.40
Financial Close	Financial Activities	3	4	3	4	3	4	3	3	3	4	3.00	3.76	3.38
Enforcement Administration	Operational Activities	3	3	3	4	3	3	3	4	3	4	3.00	3.68	3.34
Travel	Operational Activities	3	3	4	3	3	3	3	3	4	4	3.44	3.20	3.32
Governance	Agency-Wide Activities	3	4	2	4	3	3	3	4	3	4	2.76	3.82	3.29
General Counsel	Agency-Wide Activities	2	3	3	4	3	3	3	4	3	4	2.86	3.68	3.27
Application Selection/Development	Operational Activities	3	3	3	3	3	4	3	3	3	4	3.00	3.38	3.19
Reporting	Financial Activities	2	3	3	3	3	3	3	4	3	4	2.86	3.44	3.15
Personnel Training	Operational Activities	3	3	3	3	3	3	3	3	3	4	3.00	3.20	3.10
Member Service	Operational Activities	2	2	3	3	3	3	3	3	3	4	2.86	3.06	2.96
Revenue	Financial Activities	3	4	3	3	3	3	2	2	3	4	2.76	3.10	2.93
Credit Union Charter Application	Operational Activities	3	3	3	3	2	2	3	3	3	4	2.82	3.02	2.92
Human Resources Administration	Operational Activities	3	3	3	3	2	3	3	3	3	3	2.82	3.00	2.91
Procurement	Financial Activities	3	4	3	3	3	2	3	3	2	3	2.80	2.96	2.88
Contract Administration	Operational Activities	2	3	3	3	2	2	3	3	3	4	2.68	3.02	2.85
Compliance and Compliance Reporting	Agency-Wide Activities	2	3	3	3	2	3	3	3	3	3	2.68	3.00	2.84
Records Management	Agency-Wide Activities	2	2	3	3	3	4	2	3	3	3	2.62	3.04	2.83
Communications	Operational Activities	2	2	2	2	3	3	3	3	4	4	2.82	2.82	2.82
Accounts Payable and Disbursements	Financial Activities	3	4	2	2	3	2	3	2	3	4	2.76	2.68	2.72
Project Management	Agency-Wide Activities	2	2	3	3	2	3	3	3	2	3	2.48	2.86	2.67
Purchasing Cards and Kleba Cards	Financial Activities	3	4	2	3	1	1	2	3	2	4	1.96	2.98	2.47
External Affairs	Agency-Wide Activities	2	2	2	2	2	2	2	3	3	4	2.20	2.64	2.42
Payment Processing	Financial Activities	2	3	2	3	2	2	2	2	2	3	2.00	2.58	2.29
Cash Management	Financial Activities	2	3	2	2	2	2	2	2	2	3	2.00	2.34	2.17
Capital Assets	Financial Activities	2	3	2	2	2	2	2	2	2	3	2.00	2.34	2.17
Benefits Administration	Operational Activities	2	2	2	2	2	2	2	2	2	2	2.00	2.00	2.00
Collections	Financial Activities	2	2	1	2	2	2	2	2	2	3	1.76	2.20	1.98

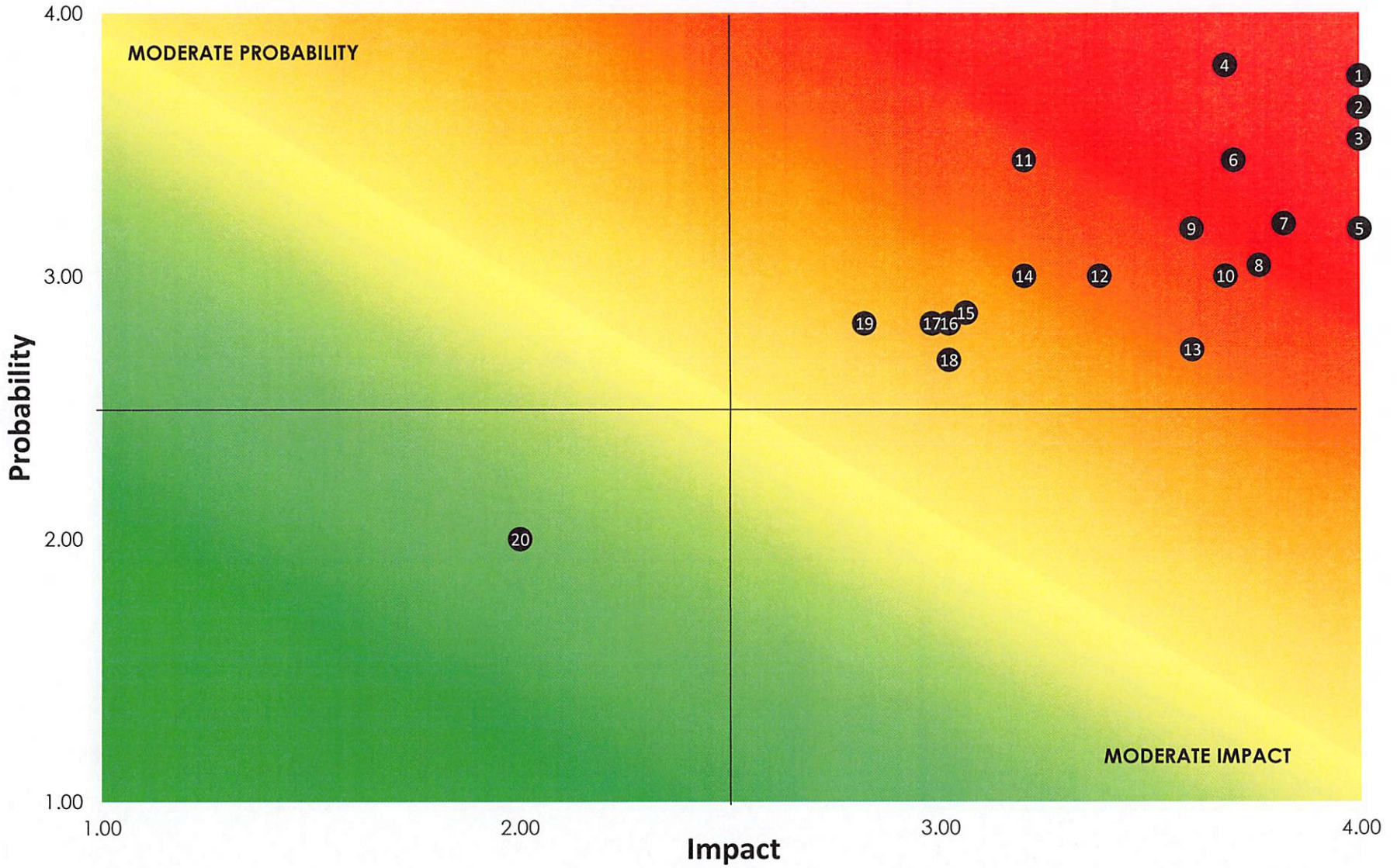
Texas Credit Union Department
Risk Assessment
Entity Wide Risk Map
For Fiscal Year Ending 2023



Texas Credit Union Department
 Entity-Wide Process Level Activities
 Risk Map Legend
 For Fiscal Year Ending 2023

<u>Plot Number</u>	<u>Matrix Position</u>	<u>Process Area</u>	<u>Process Group</u>
1	High	Information Security	Operational Activities
2	High	Information Technology Services	Operational Activities
3	High	Credit Union Examinations	Operational Activities
4	High	Payroll	Financial Activities
5	High	Budget Planning	Financial Activities
6	High	Disaster Recovery/Business Continuity	Operational Activities
7	High	Financial Close	Financial Activities
8	High	Enforcement Administration	Operational Activities
9	High	Travel	Operational Activities
10	High	Governance	Agency-Wide Activities
11	High	General Counsel	Agency-Wide Activities
12	Moderate	Applications Selection/Development	Operational Activities
13	Moderate	Reporting	Financial Activities
14	Moderate	Personnel Training	Operational Activities
15	Moderate	Member Service	Operational Activities
16	Moderate	Revenue	Financial Activities
17	Moderate	Credit Union Charter Application	Operational Activities
18	Moderate	Human Resources Administration	Operational Activities
19	Moderate	Procurement	Financial Activities
20	Moderate	Contract Administration	Operational Activities
21	Moderate	Compliance and Compliance Reporting	Agency-Wide Activities
22	Moderate	Records Management	Agency-Wide Activities
23	Moderate	Communications	Operational Activities
24	Moderate	Accounts Payable and Disbursements	Financial Activities
25	Low	Project Management	Agency-Wide Activities
26	Low	Purchasing Cards and Kleba Cards	Financial Activities
27	Low	External Affairs	Agency-Wide Activities
28	Low	Payment Processing	Financial Activities
29	Low	Cash Management	Financial Activities
30	Low	Capital Assets	Financial Activities
31	Low	Benefits Administration	Operational Activities
32	Low	Collections	Financial Activities

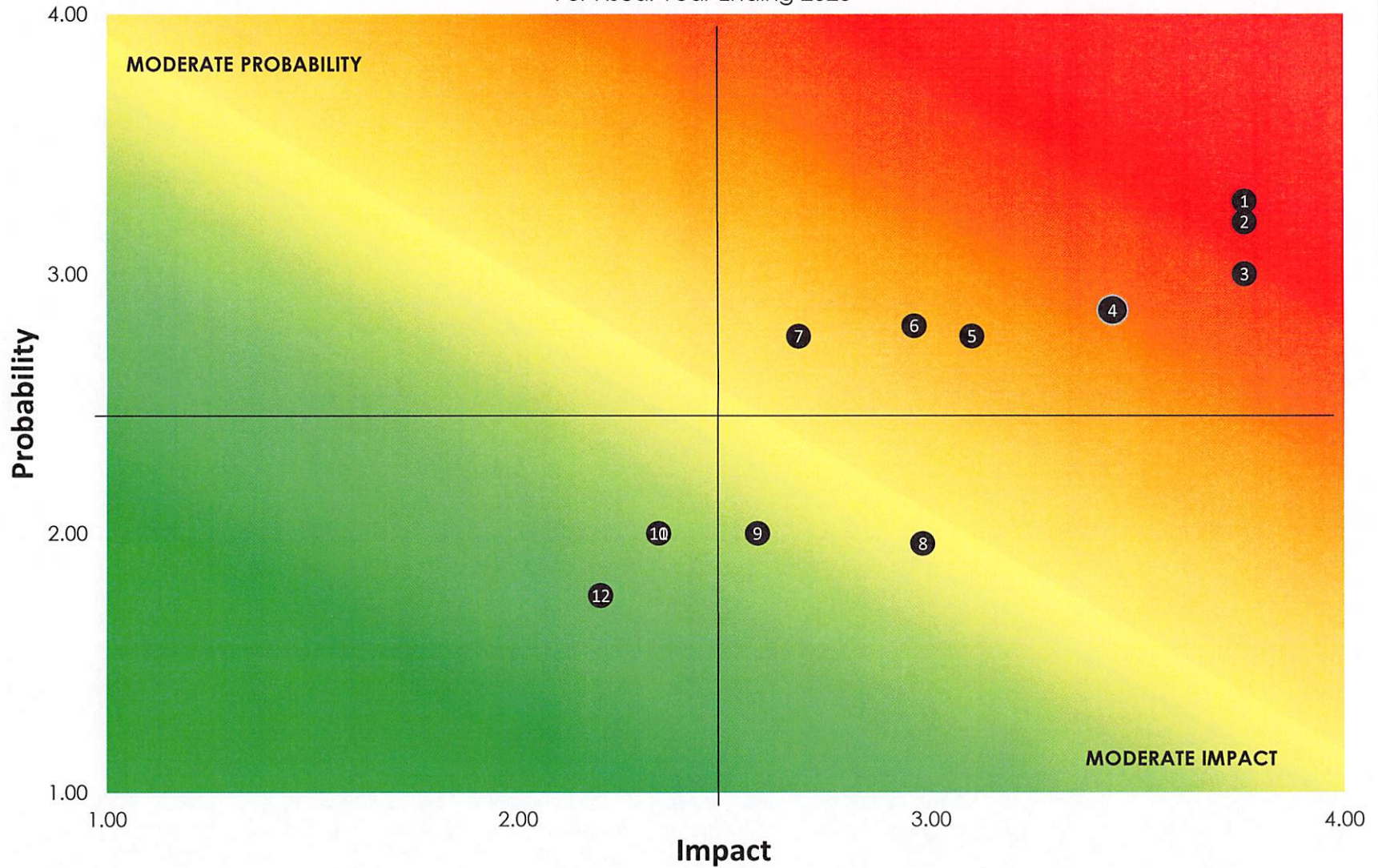
Texas Credit Union Department
 Risk Assessment
 Agency-Wide and Operations Risk Map
 For Fiscal Year Ending 2023



Texas Credit Union Department
 Agency-Wide and Operations Level Activities
 Risk Map Legend
 For Fiscal Year Ending 2023

<u>Plot Number</u>	<u>Matrix Position</u>	<u>Process Area</u>	<u>Process Group</u>
1	High	Governance	Agency-Wide Activities
2	High	General Counsel	Agency-Wide Activities
3	High	Information Security	Operational Activities
4	High	Compliance and Compliance Reporting	Agency-Wide Activities
5	High	Information Technology Services	Operational Activities
6	High	External Affairs	Agency-Wide Activities
7	High	Credit Union Examinations	Operational Activities
8	High	Disaster Recovery/Business Continuity	Operational Activities
9	Moderate	Records Management	Agency-Wide Activities
10	Moderate	Enforcement Administration	Operational Activities
11	Moderate	Travel	Operational Activities
12	Moderate	Application Selection/Development	Operational Activities
13	Moderate	Project Management	Agency-Wide Activities
14	Moderate	Personnel Training	Operational Activities
15	Moderate	Member Service	Operational Activities
16	Moderate	Credit Union Charter Application	Operational Activities
17	Moderate	Human Resources Administration	Operational Activities
18	Low	Contract Administration	Operational Activities
19	Low	Communications	Operational Activities
20	Low	Benefits Administration	Operational Activities

Credit Union Department
Risk Assessment
Finance Activities Risk Map
For Fiscal Year Ending 2023



Texas Credit Union Department
 Finance Level Activities Risk Map Legend
 For Fiscal Year Ending 2023

<u>Plot Number</u>	<u>Matrix Position</u>	<u>Process Area</u>	<u>Process Group</u>
1	High	Procurement	Financial Activities
2	High	Accounts Payable and Disbursements	Financial Activities
3	Moderate	Purchasing Cards and Kleba Cards	Financial Activities
4	Moderate	Payroll	Financial Activities
5	Moderate	Revenue	Financial Activities
6	Low	Collections	Financial Activities
7	Low	Payment Processing	Financial Activities
8	Low	Cash Management	Financial Activities
9	Low	Capital Assets	Financial Activities
10	Low	Budget and Planning	Financial Activities
11	Low	Financial Close	Financial Activities
12	Low	Reporting	Financial Activities

Texas Credit Union Department
Proposed Internal Audit Plan
August 2023

Audit Area	Risk Rating	Summary Procedures	Audit Focus	Estimated Hours
2024 Planned New Internal Audits				
Enforcement Administration	High	Internal Audit will include an evaluation of risks and internal controls in place related to the Credit Union Department's examination processes. Examination areas to be evaluated will include the Complaints Processing, Investigations, Litigation, Remedial Exams, Orders and Prohibitions, Fines and Penalties, Compliance Monitoring, and Appeals.	Internal Audit	250
2024 Planned Annual Requirements				
Project Management	NA	Track overall internal audit procedures, coordinate audit activities, and reporting to management.	Project Management	15
Update Risk Assessment	NA	Perform required annual update of risk assessment.	Policy Compliance	15
Annual and Quarterly Board Reports	NA	Prepare and submit required Annual Internal Audit Report and quarterly reports to the Audit Committee of internal audit activities.	Policy Compliance	20
Total 2024 Internal Audit Estimated Hours				300

Audit Area	Risk Rating	Summary Procedures	Audit Focus	Estimated Hours
2025 Planned New Internal Audits				
Information Technology Services	High	Internal Audit will include an evaluation of risks and internal controls in place related to the Credit Union Department's Information Technology practices. Activities to be evaluated will include Network Operations, Help Desk, Change Management, Software Maintenance, Software Licensing and Usage, Monitoring Third Party Providers, and Project Management.	Internal Audit	200
2025 Planned Internal Audit Follow-up				
Enforcement Administration	High	Internal Audit will perform follow-up procedures on 2024 Internal Audit findings to ensure corrective action has been taken.	Follow-up	50
2025 Planned Annual Requirements				
Project Management	NA	Track overall internal audit procedures, coordinate audit activities, and reporting to management.	Project Management	15
Update Risk Assessment	NA	Perform required annual update of risk assessment.	Policy Compliance	15
Annual and Quarterly Board Reports	NA	Prepare and submit required Annual Internal Audit Report and quarterly reports to the Audit Committee of internal audit activities.	Policy Compliance	20
Total 2025 Internal Audit Estimated Hours				300

Texas Credit Union Department
Proposed Internal Audit Plan
August 2023

Audit Area	Risk Rating	Summary Procedures	Audit Focus	Estimated Hours
2026 Planned New Internal Audits				
Payroll	High	Internal Audit will include an evaluation of risks and internal controls in place related to the Credit Union Department's Payroll Management practices. Activities to be evaluated will include Timekeeping and Approval, Payroll Processing, Payroll Taxes, Compliance Reporting, Voluntary Deductions, and Accrued Leave.	Internal Audit	200
2026 Planned Internal Audit Follow-up				
Enforcement Administration	High	Internal Audit will perform follow-up procedures on 2024 Internal Audit findings to ensure corrective action has been taken.	Follow-up	50
Information Technology Services	High	Internal Audit will perform follow-up procedures on 2025 Internal Audit findings to ensure corrective action has been taken.	Follow-up	
2026 Planned Annual Requirements				
Project Management	NA	Track overall internal audit procedures, coordinate audit activities, and reporting to management.	Project Management	15
Update Risk Assessment	NA	Perform required annual update of risk assessment.	Policy Compliance	15
Annual and Quarterly Board Reports	NA	Prepare and submit required Annual Internal Audit Report and quarterly reports to the Audit Committee of internal audit activities.	Policy Compliance	20
Total 2026 Internal Audit Estimated Hours				300

**Texas Credit Union Department
Risk Assessment Worksheet
Fiscal Year Ending 2023**

Summary: Responses to the internal audit risk assessment were accumulated and input into the worksheet below. The risk factors were assigned weightings. For each process area and activity, an average of the probability, impact, and overall average was calculated and weighted by each risk factor. For each significant activity, a risk quadrant was assigned based on the weighted probability and impact. Each activity was assigned a High, Moderate, or Low evaluation based on these results of assessment as expressed in the "Overall Average". Determination of this evaluation was based on the following scale

High	An overall average rating of 3.25 or higher is considered High.
Moderate	An overall average rating from 2.7 to 3.25 is considered Moderate.
Low	An overall average rating of 2.69 or less is considered Low.

2023 Risk Assessment														
Risk Factor	Financial Stability and Fraud Risk		Operations and Complexity Risk		Information Technology Risk		Organization and Human Capital Risk		Reputational Risk		Composite			Risk Quadrant
	P	I	P	I	P	I	P	I	P	I	P	I	Total	
SIGNIFICANT ACTIVITIES														
AGENCY - WIDE ACTIVITIES														
Governance	3	4	2	4	3	3	3	4	3	4	2.76	3.82	3.29	4
Strategic Plan Commission and Management Leadership Department Relations and Reporting Advisory Boards Support Ethics Monitoring														
General Counsel	2	3	3	4	3	3	3	4	3	4	2.86	3.68	3.27	4
Policy Support Litigation Support Public Information Act Requests Rulemaking and Review														

Texas Credit Union Department
Risk Assessment Worksheet
Fiscal Year Ending 2023

Risk Factor	2023 Risk Assessment													Risk Quadrant
	Financial Stability and Fraud Risk		Operations and Complexity Risk		Information Technology Risk		Organization and Human Capital Risk		Reputational Risk		Composite			
SIGNIFICANT ACTIVITIES	P	I	P	I	P	I	P	I	P	I	P	I	Total	
Compliance and Compliance Reporting	2	3	3	3	2	3	3	3	3	3	2.68	3.00	2.84	4
Annual Report Professional Services Legislative Reports Performance Measures														
External Affairs	2	2	2	2	2	2	2	3	3	4	2.20	2.64	2.42	4
Governmental Affairs Public Forum Participation Biennial Questionnaire Public Relations														
Records Management	2	2	3	3	3	4	2	3	3	3	2.62	3.04	2.83	4
Records Retention Disposal State Library Liaison														
Project Management	2	2	3	3	2	3	3	3	2	3	2.48	2.86	2.67	4
Special Projects Portfolio Project Management														

Texas Credit Union Department
Risk Assessment Worksheet
Fiscal Year Ending 2023

Risk Factor	2023 Risk Assessment														Risk Quadrant
	Financial Stability and Fraud Risk		Operations and Complexity Risk		Information Technology Risk		Organization and Human Capital Risk		Reputational Risk		Composite				
SIGNIFICANT ACTIVITIES	P	I	P	I	P	I	P	I	P	I	P	I	Total		
OPERATIONS ACTIVITIES															
Human Resources Administration	3	3	3	3	2	3	3	3	3	3	2.82	3.00	2.91	4	
Recruiting/Selection Process															
New Hire and Separation Process															
Employee Setup and Changes															
Pay Rate Authorization and Job Classification															
Employee Policies and Procedures															
Employee Performance Review															
Grievance and Appeals															
Compliance Reporting															
Benefits Administration	2	2	2	2	2	2	2	2	2	2	2.00	2.00	2.00	4	
Benefits Selection															
Benefits Processing															
Retirement (ERS)															
Other Benefits															
Personnel Training	3	3	3	3	3	3	3	3	3	4	3.00	3.20	3.10	4	
Orientation and Technical Training															
Employee Compliance and Ethics Training															
Professional Development Training															

Texas Credit Union Department
Risk Assessment Worksheet
Fiscal Year Ending 2023

Risk Factor	2023 Risk Assessment													Risk Quadrant
	Financial Stability and Fraud Risk		Operations and Complexity Risk		Information Technology Risk		Organization and Human Capital Risk		Reputational Risk		Composite			
SIGNIFICANT ACTIVITIES	P	I	P	I	P	I	P	I	P	I	P	I	Total	
Information Technology Services	3	4	3	4	4	4	3	4	3	4	3.18	4.00	3.59	4
Network Operations Help Desk Change Management Software Maintenance Software Licensing and Usage Monitoring Third Party Providers Project Management														
Information Security	4	4	3	4	4	4	3	4	4	4	3.52	4.00	3.78	4
Perimeter and Network Security Cyber-Security Logical Access Physical Access Risk Assessment														
Application Selection/Development	3	3	3	3	3	4	3	3	3	4	3.00	3.38	3.19	4
Application Selection System Development Life Cycle Application Implementation														

Texas Credit Union Department
Risk Assessment Worksheet
Fiscal Year Ending 2023

Risk Factor	2023 Risk Assessment													Risk Quadrant
	Financial Stability and Fraud Risk		Operations and Complexity Risk		Information Technology Risk		Organization and Human Capital Risk		Reputational Risk		Composite			
SIGNIFICANT ACTIVITIES	P	I	P	I	P	I	P	I	P	I	P	I	Total	
Disaster Recovery/Business Continuity	2	4	3	3	4	4	3	4	3	4	3.04	3.76	3.40	4
Disaster Recovery Business Continuity Planning														
Contract Administration	2	3	3	3	2	2	3	3	3	4	2.68	3.02	2.85	4
Contract Development Contract Management Contract Compliance Professional Services														
Credit Union Charter Application	3	3	3	3	2	2	3	3	3	4	2.82	3.02	2.92	4
Applications Processing Application Review Out of State Renewal and Review Charter Issuance														
Member Service	2	2	3	3	3	3	3	3	3	4	2.86	3.06	2.96	4
Information Changes/Updates Complaint Processing and Resolution Inquiry Responses Data/License Information Search														

Texas Credit Union Department
Risk Assessment Worksheet
Fiscal Year Ending 2023

Risk Factor	2023 Risk Assessment													Risk Quadrant
	Financial Stability and Fraud Risk		Operations and Complexity Risk		Information Technology Risk		Organization and Human Capital Risk		Reputational Risk		Composite			
SIGNIFICANT ACTIVITIES	P	I	P	I	P	I	P	I	P	I	P	I	Total	
Credit Union Examinations	3	4	3	4	3	3	3	4	4	4	3.20	3.82	3.51	4
Examination Process Examination Reports														
Enforcement Administration	3	3	3	4	3	3	3	4	3	4	3.00	3.68	3.34	4
Complaints Processing Investigations Litigation Remedial Exams Orders and Prohibitions Fine and Penalties Compliance Monitoring Appeals														
Communications	2	2	2	2	3	3	3	3	4	4	2.82	2.82	2.82	4
Website Content Email Listservs Newsletters FAQs Licensee Communications Industry Outreach and Training Media Relations Public Information														

Texas Credit Union Department
Risk Assessment Worksheet
Fiscal Year Ending 2023

Risk Factor	2023 Risk Assessment														Risk Quadrant
	Financial Stability and Fraud Risk		Operations and Complexity Risk		Information Technology Risk		Organization and Human Capital Risk		Reputational Risk		Composite				
SIGNIFICANT ACTIVITIES	P	I	P	I	P	I	P	I	P	I	P	I	Total		
Travel	3	3	4	3	3	3	3	3	4	4	3.44	3.20	3.32	4	
Travel Reporting Policy Compliance Travel Reimbursement Central Billing															
FINANCE ACTIVITIES															
Procurement	3	4	3	3	3	2	3	3	2	3	2.80	2.96	2.88	4	
Purchase Orders Bidding Processes and Award Contract Negotiation, Development, and Approval Procurement Reporting Vendor Management - Selection, Acceptance, and Set-up															
Accounts Payable and Disbursements	3	4	2	2	3	2	3	2	3	4	2.76	2.68	2.72	4	
Vendor Invoice Review, Approval, and Recording Vendor Payments Independent Contractors															

Texas Credit Union Department
Risk Assessment Worksheet
Fiscal Year Ending 2023

Risk Factor	2023 Risk Assessment													Risk Quadrant
	Financial Stability and Fraud Risk		Operations and Complexity Risk		Information Technology Risk		Organization and Human Capital Risk		Reputational Risk		Composite			
SIGNIFICANT ACTIVITIES	P	I	P	I	P	I	P	I	P	I	P	I	Total	
Purchasing Cards and Kleba Cards	3	4	2	3	1	1	2	3	2	4	1.96	2.98	2.47	2
Centralized P-Card P-Card Review Transaction Reconciliation														
Payroll	3	4	4	4	3	4	3	3	3	4	3.24	3.76	3.50	4
Timekeeping and Approval Payroll Processing Payroll Taxes Compliance Reporting Voluntary Deductions Accrued Leave														
Revenue	3	4	3	3	3	3	2	2	3	4	2.76	3.10	2.93	4
Operating Fees Examination Fees Application Fees Penalty Fees Refund/Reimbursement of Expenditures Fee Determination Process Other Revenue														

Texas Credit Union Department
Risk Assessment Worksheet
Fiscal Year Ending 2023

Risk Factor	2023 Risk Assessment													Risk Quadrant
	Financial Stability and Fraud Risk		Operations and Complexity Risk		Information Technology Risk		Organization and Human Capital Risk		Reputational Risk		Composite			
SIGNIFICANT ACTIVITIES	P	I	P	I	P	I	P	I	P	I	P	I	Total	
Collections	2	2	1	2	2	2	2	2	2	3	1.76	2.20	1.98	2
Collections, Fines, and Penalties Write-offs Allowance for Uncollectable Accounts Collections Agency Coordination														
Payment Processing	2	3	2	3	2	2	2	2	2	3	2.00	2.58	2.29	4
Daily Receipts and Deposits ACH Payments Credit Card Processing Cash Handling Payment Reconciliation														
Cash Management	2	3	2	2	2	2	2	2	2	3	2.00	2.34	2.17	4
Contingency Reserve Fund Treasury Reconciliation Revenue Forecasting														
Capital Assets	2	3	2	2	2	2	2	2	2	3	2.00	2.34	2.17	4
Capital Assets - Capitalization Procedures Physical Inventory of Fixed Assets														

Texas Credit Union Department
Risk Assessment Worksheet
Fiscal Year Ending 2023

Risk Factor	2023 Risk Assessment													
	Financial Stability and Fraud Risk		Operations and Complexity Risk		Information Technology Risk		Organization and Human Capital Risk		Reputational Risk		Composite			Risk Quadrant
SIGNIFICANT ACTIVITIES	P	I	P	I	P	I	P	I	P	I	P	I	Total	
Budget and Planning	3	4	3	4	3	4	3	3	4	4	3.20	3.76	3.48	4
Budgeting, Forecasting, and Planning Process Review and Amendment Capital Expenditures Budget Budget Monitoring														
Financial Close	3	4	3	4	3	4	3	3	3	4	3.00	3.76	3.38	4
Period End Closing Process GASB/FASB Compliance Financial Statement Preparation														
Reporting	2	3	3	3	3	3	3	4	3	4	2.86	3.44	3.15	4
Quarterly Financial Reporting LBB Reporting Management Reporting														

E

FY 2024 INTERNAL AUDIT REPORT

E. Discussion and Possible Vote to Recommend that the Commission Take Action on the Proposed FY 2024 Internal Audit Plan.

BACKGROUND: The Proposed 2024 Internal Audit Plan was developed by considering the risk ratings for each significant activity and prioritizing auditing of “High” risk activities. For FY 2024, the primary focus area is Credit Union Examinations and Enforcement Administration. As a Three-Year Internal Audit Plan has been developed, other high-risk activities will be the primary audit focus in future years. For FY 2025 the primary focus will be Information Technology, and in FY 2026 the primary focus area will be Payroll.

RECOMMENDED ACTION: Staff suggests to the Committee that they recommend approval of the Proposed FY 2024 Internal Audit Plan to the Commission.

RECOMMENDED MOTION: The Committee recommends that the Commission approve the FY 2024 Internal Audit Plan.

Texas Credit Union Department
Proposed Internal Audit Plan
August 2023

Audit Area	Risk Rating	Summary Procedures	Audit Focus	Estimated Hours
2024 Planned New Internal Audits				
Enforcement Administration	High	Internal Audit will include an evaluation of risks and internal controls in place related to the Credit Union Department's examination processes. Examination areas to be evaluated will include the Complaints Processing, Investigations, Litigation, Remedial Exams, Orders and Prohibitions, Fines and Penalties, Compliance Monitoring, and Appeals.	Internal Audit	250
2024 Planned Annual Requirements				
Project Management	NA	Track overall internal audit procedures, coordinate audit activities, and reporting to management.	Project Management	15
Update Risk Assessment	NA	Perform required annual update of risk assessment.	Policy Compliance	15
Annual and Quarterly Board Reports	NA	Prepare and submit required Annual Internal Audit Report and quarterly reports to the Audit Committee of internal audit activities.	Policy Compliance	20
Total 2024 Internal Audit Estimated Hours				300

Audit Area	Risk Rating	Summary Procedures	Audit Focus	Estimated Hours
2025 Planned New Internal Audits				
Information Technology Services	High	Internal Audit will include an evaluation of risks and internal controls in place related to the Credit Union Department's Information Technology practices. Activities to be evaluated will include Network Operations, Help Desk, Change Management, Software Maintenance, Software Licensing and Usage, Monitoring Third Party Providers, and Project Management.	Internal Audit	200
2025 Planned Internal Audit Follow-up				
Enforcement Administration	High	Internal Audit will perform follow-up procedures on 2024 Internal Audit findings to ensure corrective action has been taken.	Follow-up	50
2025 Planned Annual Requirements				
Project Management	NA	Track overall internal audit procedures, coordinate audit activities, and reporting to management.	Project Management	15
Update Risk Assessment	NA	Perform required annual update of risk assessment.	Policy Compliance	15
Annual and Quarterly Board Reports	NA	Prepare and submit required Annual Internal Audit Report and quarterly reports to the Audit Committee of internal audit activities.	Policy Compliance	20
Total 2025 Internal Audit Estimated Hours				300

Texas Credit Union Department
Proposed Internal Audit Plan
August 2023

Audit Area	Risk Rating	Summary Procedures	Audit Focus	Estimated Hours
2026 Planned New Internal Audits				
Payroll	High	Internal Audit will include an evaluation of risks and internal controls in place related to the Credit Union Department's Payroll Management practices. Activities to be evaluated will include Timekeeping and Approval, Payroll Processing, Payroll Taxes, Compliance Reporting, Voluntary Deductions, and Accrued Leave.	Internal Audit	200
2026 Planned Internal Audit Follow-up				
Enforcement Administration	High	Internal Audit will perform follow-up procedures on 2024 Internal Audit findings to ensure corrective action has been taken.	Follow-up	50
Information Technology Services	High	Internal Audit will perform follow-up procedures on 2025 Internal Audit findings to ensure corrective action has been taken.	Follow-up	
2026 Planned Annual Requirements				
Project Management	NA	Track overall internal audit procedures, coordinate audit activities, and reporting to management.	Project Management	15
Update Risk Assessment	NA	Perform required annual update of risk assessment.	Policy Compliance	15
Annual and Quarterly Board Reports	NA	Prepare and submit required Annual Internal Audit Report and quarterly reports to the Audit Committee of internal audit activities.	Policy Compliance	20
Total 2026 Internal Audit Estimated Hours				300

F

FY 2023 ANNUAL INTERNAL AUDIT REPORT

F. Discussion and Possible Vote to Recommend that the Commission Take Action on the FY 2023 Annual Internal Audit Report.

BACKGROUND: In FY 2023, an Internal Audit Risk Assessment was developed. As part of the risk assessment, CUD assesses the probability and impact of the following risk categories across all significant activities of the department, which include the information technology risks and considerations related to:

- financial stability and fraud risk
- operations and complexity risk
- information technology risk
- organization and human capital risk
- reputational risk

All significant activities were then assigned a risk rating (High, Moderate or Low) for probability and impact related to each risk category. The internal audit plan was developed by considering risk ratings for each significant activity and prioritizing “High” risk activities. For the FY 2024 Internal Audit Plan, the primary focus area is Credit Union Examinations. The other Significant Activities rated as “High” Risk are as follows:

1. Information Security
2. Information Technology Services
3. Payroll
4. Budget Planning
5. Disaster Recovery/Business Continuity
6. Financial Close
7. Enforcement Administration
8. Travel
9. Governance
10. General Counsel

RECOMMENDED ACTION: Staff suggests to the Committee that they recommend approval of the FY 2023 Annual Internal Audit Report to the Commission.

RECOMMENDED MOTION: The Committee recommends that the Commission approve the FY 2023 Annual Internal Audit Report.

Texas Credit Union Department

Fiscal Year 2023 Annual Internal Audit Report

August 31, 2023

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Texas Credit Union Department

Fiscal Year 2023 Annual Internal Audit Report

I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site

Texas Government Code, Section 2102.015 requires state agencies and higher education institutions, as defined in the statute, to post their Internal Audit Plan, Internal Audit Annual Report, and other audit information on the Internet.

The Texas Credit Union Department (CUD or the department) will post this report and its Fiscal Year 2024 Internal Audit Plan on its website at cud.texas.gov. CUD's department reviewed and approved the Annual Internal Audit Report as part of their regular meeting held on August 11, 2023. In accordance with Texas Government Code, Section 2102.015, CUD will post the Annual Internal Audit Report and Fiscal Year 2024 Internal Audit Plan on its website within 30 days of the department's approval.

CUD will update its posting with a detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by performance of the audit plan as they are identified. CUD will also update the posting with the corrective action taken to address any issues identified.

II. Internal Audit Plan for Fiscal Year 2023

There were no internal audits planned for fiscal year 2023. A risk assessment was performed in fiscal year 2023 to develop the fiscal year 2024 internal audit plan. Internal audits will begin after September 1, 2023.

III. Consulting Services and Non-audit Services Completed

Weaver, as CUD's Internal Auditor, did not perform any consulting services, as defined in the Institute of Internal Audit Auditors' International Standards for the Professional Practice of Internal Auditing or any non-audit services, as defined in the Government Auditing Standards, 2011 Revision, Sections 3.33 – 3.58, or Government Auditing Standards, 2018 Revision, Sections 3.64-3.106, as applicable.

Texas Credit Union Department Fiscal Year 2023 Annual Internal Audit Report

IV. External Quality Assurance Review

In accordance with professional standards, and to meet the requirements of the Texas Internal Auditing Act, Internal Audit is required to undergo an external quality assurance review at least once every three years. Weaver's review was performed in October 2019.



Report on Firm's System of Quality Control

September 19, 2022

To the Partners of Weaver & Tidwell, L.L.P.
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Weaver & Tidwell, L.L.P. (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended May 31, 2022. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of and compliance with the firm's system of quality control based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans, an audit performed under FDICIA, and examinations of service organizations [SOC 1 and SOC 2 engagements].)

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Texas Credit Union Department Fiscal Year 2023 Annual Internal Audit Report

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Weaver & Tidwell, L.L.P. applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended May 31, 2022, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Weaver & Tidwell, L.L.P. has received a peer review rating of *pass*.



Elde Bailly LLP

V. Internal Audit Plan

The Internal Audit Plan was submitted to the CUD commissioners. The commissioners approved the plan on August 11, 2023. Below is the Fiscal Year 2024 Internal Audit Plan submitted to the agency's Commission based on the results of the 2023 Internal Audit Risk Assessment. The approved internal audit plan will be submitted to the State Auditor's Office on November 1, 2023.

Fiscal Year 2024 Internal Audit Plan		
Audit Area	2024 Risk Rating	Estimated Hours
Credit Union Examinations	High	250-300

There are no planned follow-up procedures for fiscal year 2024 due to the internal audit function beginning in fiscal year 2024.

As part of the risk assessment, CUD assesses the probability and impact of the following risk categories across all significant activities of the department, which include the information technology risks and considerations related to Title 1, Texas Administrative Code, Chapter 202:

- financial stability and fraud risk
- operations and complexity risk
- information technology risk
- organization and human capital risk
- reputational risk

Taking into consideration the input from the CUD management, all significant activities are assigned a risk rating for probability and impact related to each risk category. The overall risk rating (High, Moderate or Low) is assigned to each significant activity based on the activity's average risk rating.

The internal audit plan is developed by considering risk ratings for each significant activity and prioritizing "High" risk activities. The risk assessment is updated on an annual basis.

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The 2023 Internal Audit Risk Assessment resulted in 11 Significant Activities rated as "High" risk. Ten of the eleven Significant Activities are not included in the Fiscal Year 2024 Internal Audit Plan. Those activities are as follows:

1. Information Security
2. Information Technology Services
3. Payroll
4. Budget Planning
5. Disaster Recovery/Business Continuity
6. Financial Close
7. Enforcement Administration
8. Travel
9. Governance
10. General Counsel

VI. External Audit Services Procured in FY 2023

Other than the contract with Weaver to provide outsourced internal audit services, CUD did not procure any external audit services during the fiscal year 2023.

VII. Reporting Suspected Fraud, Waste and Abuse

CUD has provided instructions on reporting suspected fraud, waste, and abuse to the State Auditor's Office (SAO) on the agency's website. The instructions include the SAO Hotline phone number and a link to the SAO Fraud Reporting page. Additionally, CUD has developed a Fraud Prevention Policy which includes information for reporting suspected fraud, waste, and abuse to the SAO.

G

NEXT MEETING AND ADJOURNMENT

G. Discussion of and Vote to Establish Date for Next Committee Meeting.

BACKGROUND: If necessary, the next regular meeting of the Committee will be scheduled at this meeting.

ADJOURNMENT

FUTURE COMMITTEE MEETING DATES

Thursday, November 2, 2023

All regular scheduled meetings will begin at 10:00 a.m. unless notified differently.

If anyone has conflicts with the proposed date, please contact Isabel Velasquez at (512) 837-9236.