



# CREDIT UNION COMMISSION MEETING

*Credit Union Department Building*

*914 East Anderson Lane*

*Austin, Texas*

**August 11, 2023**

**9:00 a.m.**

## **AGENDA**

This meeting of the Texas Credit Union Commission 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](http://www.cud.texas.gov) on the day of the meeting, August 11, 2023 at 9:00 a.m.

An electronic copy of the agenda is now available at [www.cud.texas.gov](http://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 Commission may discuss and/or take action regarding any item on this agenda.**

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## **Adjournment**

**Executive Session:** The Credit Union Commission 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 Commission does not finish deliberation of an item on the first day for which it was posted, the Commission 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 MEMBERS**

- ***Jim Minge, Chair***
- ***Elizabeth L. “Liz” Bayless***
- ***David Bleazard***
- ***Karyn C. Brownlee***
- ***Beckie Stockstill Cobb***
- ***David F. Shurtz***
- ***Kay Rankin-Swan***

### ***Legal Counsel***

- ***Helen Kelley, Assistant Attorney General***

### ***Staff***

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



B

## **CREDIT UNION COMMISSION MEETING MINUTES**

Draft copies of the minutes for the March 10, 2023, meeting, and the corresponding follow-up action report, are located under **Tab B**.

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

**RECOMMENDED MOTION:** I move that the minutes of the Commission's regular meeting of March 10, 2023, be approved as presented.

## **CREDIT UNION COMMISSION MEETING MINUTES**

**Credit Union Department Building  
914 East Anderson Lane, Austin, Texas  
March 10, 2023**

**A. CALL TO ORDER** -- Chair Jim Minge called the meeting to order at 9:01 a.m. in the conference room of the Credit Union Department Building, Austin, Texas, pursuant to Chapter 551 of the Texas Government Code, and declared that a quorum was present. Other members present included Liz Bayless, David Bleazard, Karyn Brownlee, Beckie Stockstill Cobb, Sherri Menket, David Shurtz and Kay Swan. The Chair introduced general counsel Nancy Elmilady, who will serve as legal counsel for the commission at the meeting. Representing the Department staff were Commissioner Michael S. Riepen, Deputy Commissioner Robert W. Etheridge, Director of Information and Technology Joel Arevalo, and Executive Assistant Isabel Velasquez. Chair Minge 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#2023001159).

**B. MINUTES OF PREVIOUS MEETINGS (November 4, 2022)** -- The Chair referred the members to the draft minutes of the previous meeting included in the agenda packet and asked for any proposed edits. Hearing none, the Chair asked for a motion to approve the minutes. Mrs. Cobb moved for approval of the minutes of November 4, 2022, as presented. Mr. Bleazard seconded the motion, and the Commission carried the motion unanimously.

**C. DEPARTMENT'S FY 2023 BUDGET AND FINANCIAL PERFORMANCE** -- Commissioner Riepen reported that in 2022 the Commission adopted a strategic plan for Fiscal Years 2023-2027. The \$5.0 million FY 2023 budget approved by the Commission in June 2022 includes the maintenance and operating and capital improvement budget in support of the Strategic Plan. At the

end of the five months total expenditures were \$354,541 or approximately 17% less than budgeted projections of \$1,691,462. Almost all expense categories performed below budgeted levels. Due to personnel vacancies, total personnel expenses accounted for about 50 percent of the budget variance. Other below budget items include travel related savings as well as several expense categories under other operating expenses.

After a brief discussion, the Commission took no action.

**D. DEPARTMENT'S FY 2024 GENERAL BUDGET ASSUMPTIONS AND PARAMETERS.** Commissioner Riepen explained that the Finance Code, Section 16.003 gives the Commission the responsibility for approving the Department's budget each year. Since the budget must be adopted at the July meeting, staff is seeking approval of guidelines for developing the FY 2024 budget. Mr. Riepen briefly highlighted the following budget items:

**#7 Merit Increases** – staff is proposing the increase of merit increase awards to 4 percent from 3 percent of total salaries for those positions due in part to higher inflation.

**#11 Out-of-State Travel** – staff is proposing lowering the annual budget from \$30,000 to \$25,000 as it is anticipated the Department will have less out of state travel. Furthermore, we are proposing having one category which includes the Commissioner and the rest of the department rather than having two separate categories.

**#12 Commission Travel** – staff is proposing budgeting less travel expense for the Commission as we are moving from four meetings to three meetings. We try to operate in a prudent fiscal manner and reduce expenses where we can, and if we need to potentially increase expenses due to higher inflation or other factors, we can do that.

After a short discussion, Ms. Merket moved that the Commission adopt the proposed budget assumptions and parameters for FY 2024 as recommended by staff. Mrs. Brownlee seconded the motion, and the motion was unanimously adopted.

**E. STATE CREDIT UNION SYSTEM** - Deputy Commissioner Etheridge briefly indicated that the financial performance of Texas charters in 2022 remained strong and our industry remains safe and sound. Most Texas charters continue to experience positive financial trends including strong earnings performance and sound asset quality ratios. The strong earnings performance coupled with a modest rise in regulated assets resulted in a significant strengthening of net worth ratios for Texas chartered credit unions in 2022. At year-end we had 170 regulated Texas credit unions, down five from the previous year. The regulated assets for those 170 credit unions was \$57 billion, reflecting an increase of just \$8 billion or 1.5 percent during the last twelve months. The unemployment rate declined to 3.9 percent at month-end December 2022, down from 5 percent twelve months earlier. Furthermore, over 650,000 new jobs were added in Texas in 2022 and the unemployment rates for three of our four metropolitan areas remain below the national average of 3.5 percent.

Commissioner Riepen noted that inflation remains stubbornly high and further interest rate increases are expected, increasing the chance of a recession. However, credit unions are in good shape financially to handle a weaker economy and potentially higher delinquency and loan losses in 2023.

After a brief discussion of some of the key financial trends, no formal action was taken by the Commission.

**F. STATE AUDITOR'S OFFICE REPORT ON THE SELF-REPORTED IMPLEMENTATION OF SUNSET ADVISORY COMMISSION MANAGEMENT ACTIONS, SAO REPORT NO. 23-017** – General Counsel Elmilady provided a summary of the objective of the State Auditor's Office project reporting on the implementation status of the management actions included in the Sunset Advisory Commission's Report to the 87<sup>th</sup> Legislature. The scope of this project included eleven entities to which the Sunset Advisory Commission directed management actions in its report to the 87<sup>th</sup> Legislature. The Department provided their self-reported implementation statuses for non-statutory recommendations (management actions) included in the Sunset Advisory Commission Report to the 87<sup>th</sup> Legislature. Furthermore, Chapter 1 of the State Auditor's Office report contains the implementation status as determined by the State Auditor's Office report which contains the implementation status as determined by the State Auditor's Office for selected management actions; and Chapter 2 contains the Department's self-reported status of the management actions are reported to the State Auditor's Office in September 2022. Ms. Elmilady highlighted pages 2, 7, 11, 19-25 and 47 where the report referenced the Department.

After a brief discussion, the Commission took no action.

**F. COMMISSION POLICY MANUAL REVIEW UPDATES, AND PROPOSED EDITS** – Chairman Minge reported that Committee Chair Bleazard would be conveying to the Commission the recommendations on the Commission policy manual. Mr. Minge thanked the two groups, especially Ms. Elmilady for the incredible amount of work and help she provided the Committee to get us to this point with policy changes.

Chair Bleazard thanked the members of the Committee who spent a substantial amount of time and effort bringing wonderful changes to the policy manual. Mr. Bleazard explained he would not be recommending at this time

adopting this document because of the substantial changes being recommended by the Committee. He reported the Committee is anticipating having another policy manual meeting before the next commission meeting and asked the Commissioner and General Counsel to coordinate the next Committee meeting. Furthermore, Mr. Bleazard thanked Mrs. Brownlee for adding a number of changes in the latter part of this document that reflects the changes from the previous Commissioner Evaluation Committee meeting.

After some discussion, the Commission took no action.

**H. DISCUSSION, CONSIDERATION, AND POTENTIAL ACTION REGARDING THE AWARD OF THE INTERNAL AUDITING SERVICES CONTRACT** – Committee Chair Swan reported that it has been an 18-month process and a couple of RFQs. She thanked the full staff and Ms. Elmilady for getting us through this process. She was happy to report that there is a recommendation on the table today. Mrs. Swan reported for full transparency to any respondents as well as the Commissioner and Deputy Commissioner having no knowledge of the proposals or the respondents. Only the Audit Evaluation Committee members had the information, only to be given the information of the respondents at our March 9<sup>th</sup> Audit Committee meeting. Chair Swan asked the Commission to take a few minutes to look through the evaluation and come up with any questions they may have.

After a short discussion, Mr. Bleazard moved to adopt the Audit Committee's recommendation of the Respondent (Weaver and Tidwell, L.L.P) to award the contract for conducting internal auditing services of the CUD as a result of the RFQ 469-23-001 solicitation, 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. Brownlee seconded the motion, and the motion was unanimously adopted.

**I. DEPARTMENT'S ANNUAL RISK ASSESSMENT REPORT FOR FY 2023 AS REQUIRED BY SECTION 2102.004, GOVERNMENT CODE –**

Commissioner Riepen reported that Section 2102.03 of the Texas Government Code requires state agencies which meet certain requirements to conduct a formal risk assessment each year and submit the assessment to the State Auditor's Office. The Department has completed the internal audit risk review and has prepared the required written assessment of the risks for submission to the State Auditor's Office.

After a brief discussion, Mrs. Bayless moved that the Commission approve the Department's Internal Risk Assessment Report FY 2023 and authorize its submission to the State Auditor's Office. Mrs. Swan seconded the motion, and the motion was unanimously adopted.

**J. RULEMAKING MATTERS**

**Adoption of Rule Review of 7 TAC, Part 6, Chapter 91, Subchapter K §§91.2000, 91.2001, 91.2002, 91.2003, 91.2004, 91.2005, and 91.206 and Subchapter O §§91.6001, 91.6002, 91.6003, 91.6004, 91.6005, 91.6006, 91.6007, 91.6008, 91.6009, 91.6010, 91.6011, 91.6012, 91.6013, 91.6014, and 91.6015 and Re-adoption of Rules.** Commissioner Riepen reported that Section 2001.039, Texas Government Code, requires that a state agency review and consider for readoption each rule not later than the fourth anniversary of the date on which the rule took effect and every four years after that date. At its February 2020 meeting, the Commission approved a plan which establishes a date for the required review for each of the affected rules. In accordance with that plan, staff has reviewed 7 TAC, Part 6, Chapter 91, Subchapter K §§91.2000, 91.2001, 91.2002, 91.2003, 91.2004, 91.2005, and 91.206 and Subchapter O §§91.6001, 91.6002, 91.6003,



**91.6004, 91.6005, 91.6006, 91.6007, 91.6008, 91.6009, 91.6010, 91.6011, 91.6012, 91.6013, 91.6014, and 91.6015.**

Notice of the review and a request for comments on the rules in these chapters were published in the December 9, 2022, issue of the *Texas Register*. No comments were received regarding the review.

After a short discussion, Mrs. Cobb moved that the Commission find that the reasons for adopting 7 TAC, Part 6, Chapter 91, Subchapter K §§91.2000, 91.2001, 91.2002, 91.2003, 91.2004, 91.2005, and 91.206 and Subchapter O §§91.6001, 91.6002, 91.6003, 91.6004, 91.6005, 91.6006, 91.6007, 91.6008, 91.6009, 91.6010, 91.6011, 91.6012, 91.6013, 91.6014, and 91.6015 continue to exist and that the Commission adopt these rules. Ms. Merket seconded the motion, and the motion carried unanimously.

**K. LITIGATION UPDATE REGARDING PENDING LITIGATION -** General Counsel Elmilady reported to the Commission that since the last meeting report, there have been no significant pleadings filed.

**L. LEGISLATIVE ISSUES -** Commissioner Riepen briefly reported that today was the last day to file bills, and it is still too early to determine what bills will get passed and in what form. There are several bills that have been introduced which will potentially affect credit unions, and other bills which will potentially impact the Department. Mr. Riepen outlined a few bills relating to home equity closings, credit scoring and lending decisions, prohibiting auto dealers from imposing restrictions on the purchase of a motor vehicle, and several others.

After some discussion, the Commission took no action.

**M. SAGE ACT! DATABASE CONVERSION PROJECT** – Director of Information and Technology Joel Arevalo reported that by way of background, the Department has a SAGE ACT! database that is not supported, which we looked at updating or migrating from about three years ago. Since we were not going in the right direction, our previous Commissioner started to develop a new database in another platform, but that project was not completed prior to his departure. We have now reached out to the Department of Information Resources (DIR) and have solicited a request for a migration of our two databases. The Department has worked with DIR and selected vendors to create a DIR Team. The proposed solution by the DIR Team is to migrate the Sage ACT! database and the Access database that was incomplete into one solution. Mr. Arevalo reported that we are currently in the process of discovery (planning phases). We will continue to work to find the most cost-effective solution for our project, with the goal of having the DIR Team perform the conversion and management of the database and provide the Department with staff training and support.

- **Commission member David Bleazard** stated that having an IT background, he fully supported the efforts by the Department to find a new database solution for our Sage ACT! database, and that he believes this will be for the betterment of the Department and the credit unions in the State of Texas. Mr. Bleazard thanked Mr. Arevalo and stated that if the Commission can assist the Department in any way on this project, please reach out to him.
- **Chair Minge** also thanked Mr. Arevalo for everything he is doing on this project.
- **Commissioner Riepen** reported that working with DIR is very beneficial as they have IT expertise and can find the best cost effective and long-term solution for the Department, while also overseeing the conversion project to ensure its' success. He thanked Mr. Arevalo and everybody else's efforts on this project and feels it will be good for the Department moving forward.

After some discussion, the Commission took no action.

**N. AGENDA ITEMS, ARRANGEMENTS, AND DATES.** Chair Minge reminded everyone that the next regular meeting of the Commission has been tentatively scheduled for Friday, July 14, 2023, at 9:00 a.m., in Austin. Mr. Minge inquired if anyone had any suggested agenda items for our July 14<sup>th</sup> meeting. Mr. Shurtz replied that he did not have any agenda items to include; however, he asked if it would be possible to change the date of the meeting. He stated he will be out of town for a few weeks in July and asked if the Commission would consider having the meeting on the first Friday of August or another alternative date. Chair Minge asked that Ms. Velasquez coordinate alternative dates that would work best for the Commission as well as for staff and get back to them.

**ADJOURNMENT** – There being no further business for the Credit Union Commission, Chair Minge adjourned the meeting at 9:54 a.m.

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Jim Minge  
Chairman

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Isabel Velasquez  
Recording Secretary

**Distribution:**

Legislative Reference Library

## FOLLOW-UP ACTION REPORT CREDIT UNION COMMISSION MEETINGS

MINUTES DATE AND REFERENCE/TOPIC	FOLLOW-UP ACTION REQUIRED	STATUS (As of 07-25-2023)
<b><u>March 10, 2023</u></b>		
7 TAC, Part 6, Chapter 91 Subchapter K (Credit Union Development Districts)	Published in <i>Texas Register</i> as readopted rules.	Published in <i>Texas Register</i> on 03/24/2023.
7 TAC, Part 6, Chapter 91 Subchapter O (Trust Powers)	Published in <i>Texas Register</i> as readopted rules.	Published in <i>Texas Register</i> on 03/24/2023.

C

## **INTERNAL AUDIT CHARTER**

### **C. (1) 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:** The Committee recommends the approval of the Internal Audit Charter.

**RECOMMENDED MOTION:** I move 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 11<sup>th</sup> day of August, 2023.

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Internal Auditor

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Presiding Officer of the Texas Credit Union Commission

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Audit Committee Chair

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Commissioner  
August, 2023

## **ANNUAL INTERNAL RISK ASSESSMENT**

### **C. (2) Discussion and Possible Recommendation for the Commission to 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:** The Committee recommends the approval of the Annual Internal Risk Assessment Report.

**RECOMMENDED MOTION:** I move 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



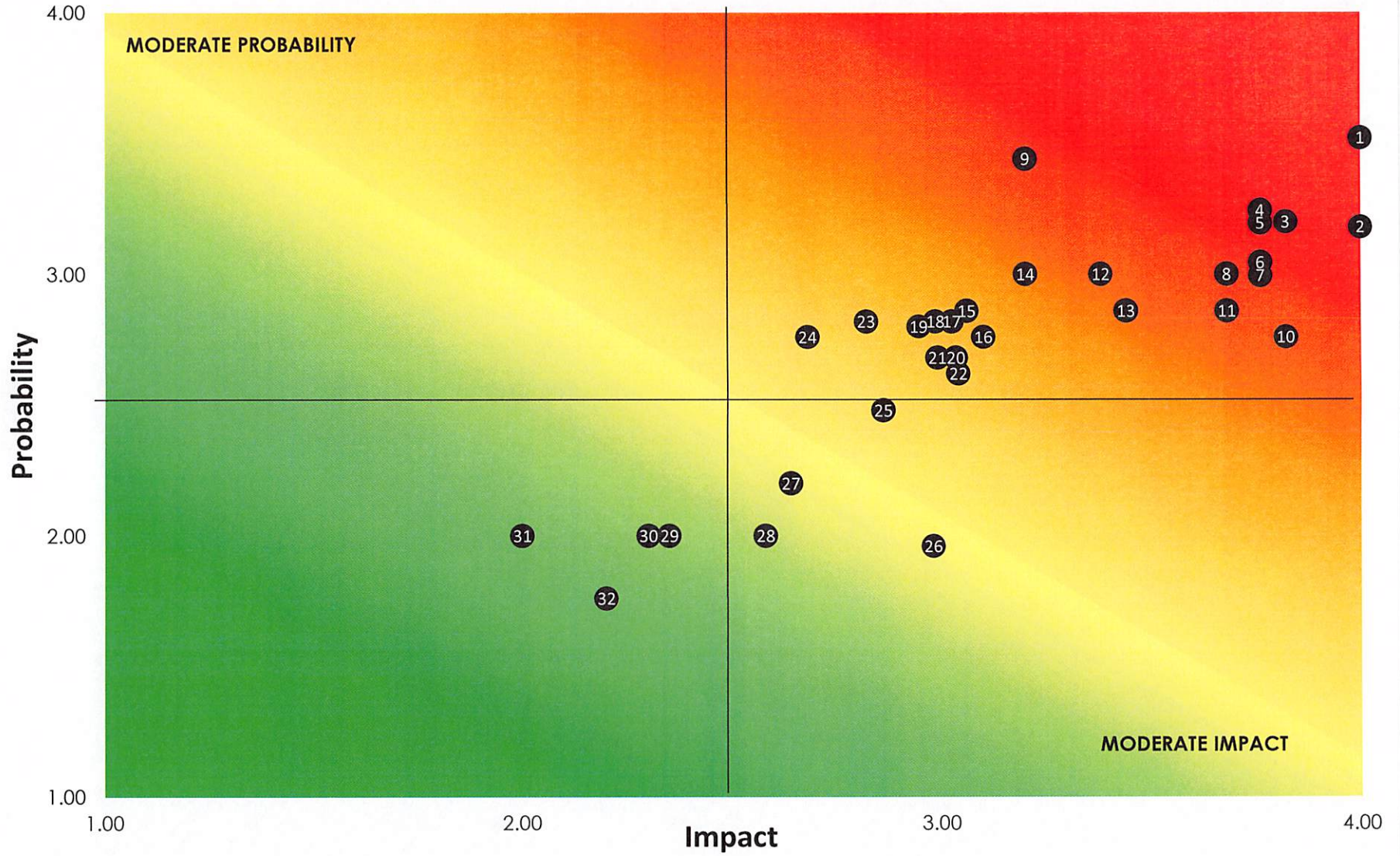
Texas Credit Union Department  
Risk Assessment Results  
Sorted High to Low  
For Fiscal Year Ending 2023

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.

		Financial Stability and Fraud		Operations and Complexity		Information Technology		Organization and Human Capital		Reputational		Probability Sub-Total	Impact Sub-Total	Overall Average
Significant Processes and Activities	Process Group	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

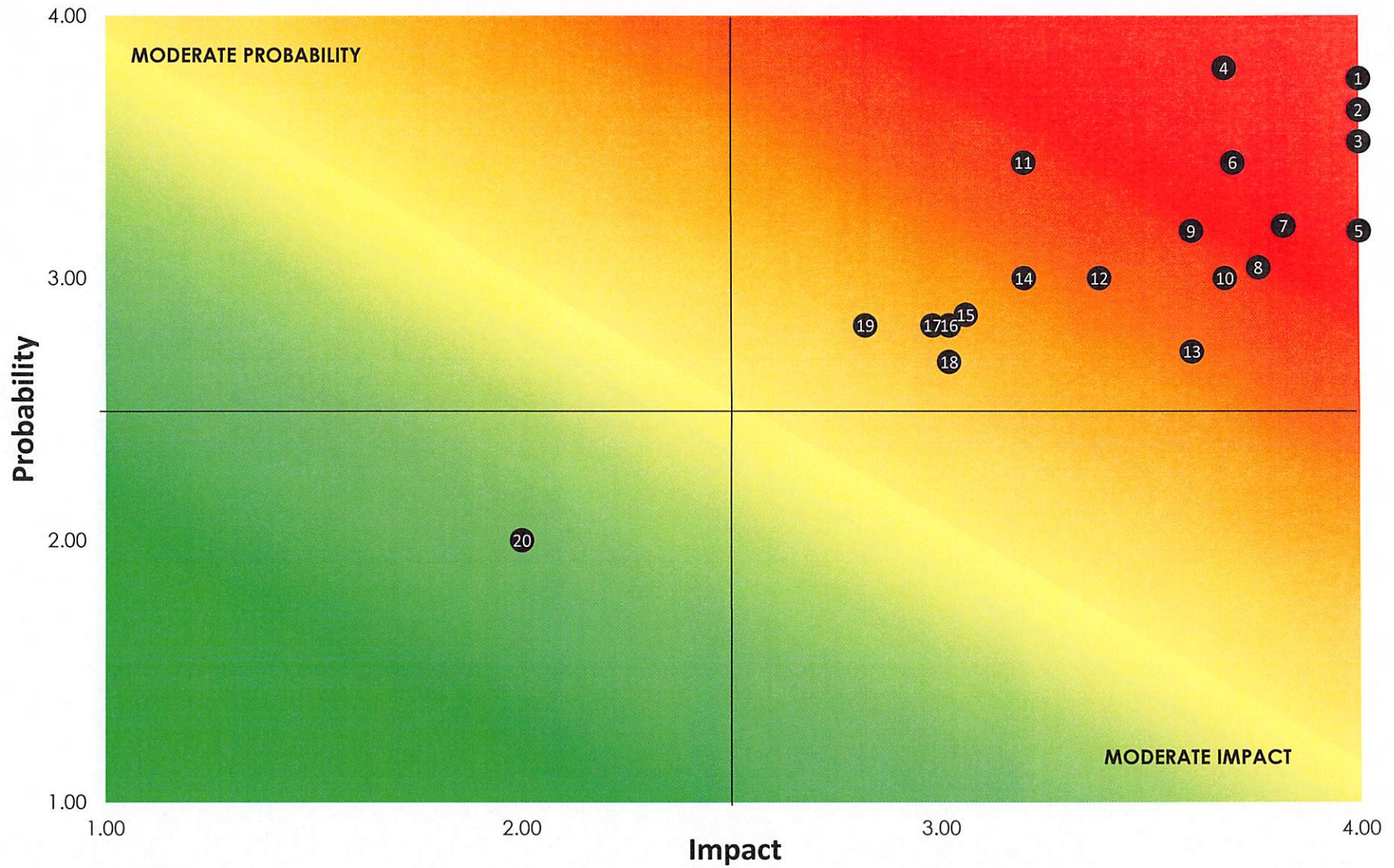


**Texas Credit Union Department**  
**Entity-Wide Process Level Activities**  
**Risk Map Legend**  
**For Fiscal Year Ending 2023**

<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

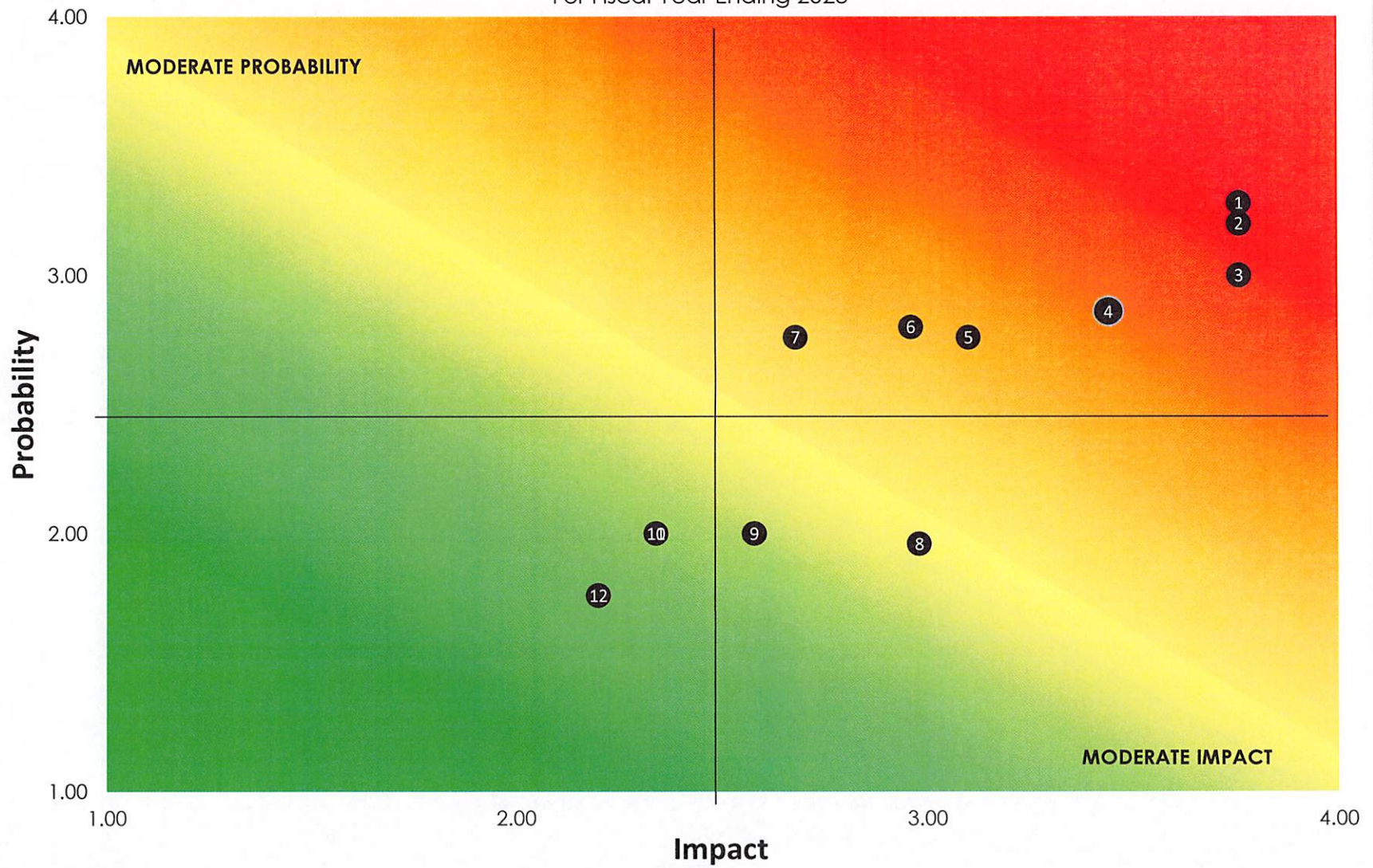


**Texas Credit Union Department**  
Agency-Wide and Operations Level Activities  
Risk Map Legend  
For Fiscal Year Ending 2023

<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
<b>2024 Planned New Internal Audits</b>				
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
<b>2024 Planned Annual Requirements</b>				
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
<b>Total 2024 Internal Audit Estimated Hours</b>				<b>300</b>

Audit Area	Risk Rating	Summary Procedures	Audit Focus	Estimated Hours
<b>2025 Planned New Internal Audits</b>				
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
<b>2025 Planned Internal Audit Follow-up</b>				
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
<b>2025 Planned Annual Requirements</b>				
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
<b>Total 2025 Internal Audit Estimated Hours</b>				<b>300</b>



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

<b>High</b>	An overall average rating of 3.25 or higher is considered High.
<b>Moderate</b>	An overall average rating from 2.7 to 3.25 is considered Moderate.
<b>Low</b>	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	
<b>SIGNIFICANT ACTIVITIES</b>														
<b>AGENCY - WIDE ACTIVITIES</b>														
<b>Governance</b>	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														
<b>General Counsel</b>	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

	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
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														
	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		
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													
	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	
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	3.76	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													
	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	
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													
	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	
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													
	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	
<b>Travel</b>	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														
<b>FINANCE ACTIVITIES</b>														
<b>Procurement</b>	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														
<b>Accounts Payable and Disbursements</b>	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													
	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	
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

	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
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

	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
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														

## **FY 2024 INTERNAL AUDIT PLAN**

### **C. (3) Discussion and Possible Recommendation for the Commission to 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:** The Committee recommends the approval of the FY 2024 Internal Audit Plan.

**RECOMMENDED MOTION:** I move 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
<b>2024 Planned New Internal Audits</b>				
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
<b>2024 Planned Annual Requirements</b>				
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
<b>Total 2024 Internal Audit Estimated Hours</b>				<b>300</b>

Audit Area	Risk Rating	Summary Procedures	Audit Focus	Estimated Hours
<b>2025 Planned New Internal Audits</b>				
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
<b>2025 Planned Internal Audit Follow-up</b>				
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
<b>2025 Planned Annual Requirements</b>				
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
<b>Total 2025 Internal Audit Estimated Hours</b>				<b>300</b>



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



## **FY 2023 ANNUAL INTERNAL AUDIT REPORT**

### **C. (4) Discussion and Possible Recommendation for the Commission to 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:** The Committee recommends the approval of the FY 2023 Annual Internal Audit Report.

**RECOMMENDED MOTION:** I move 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](http://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](http://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*.

*Elide Bailly LLP*

Elide 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.



## **Texas Credit Union Department**

### **Fiscal Year 2023 Annual Internal Audit Report**

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.

D

## **COMMITTEE REPORT**

### **D. (1) Commission Policy Manual Changes.**

**BACKGROUND:** At the June 10, 2022, Commission Meeting, the Commission Policy Manual Review Committee was created appointing its members. The purpose of the Committee is to review the Manual for changes; to implement within the Manual recommendations from other state agencies such as the Sunset Commission; and to implement other necessary changes that arise.

For this agenda item the Commission will review potential changes for possible action.

**RECOMMENDED ACTION:** Commission Member Bayless suggests the following modifications to the Policy Manual.

**RECOMMENDED MOTION:** I move that the Commission approve and adopt the proposed changes to the Commission Policy Manual as discussed at today's meeting.

**ANY ADDITIONAL MATERIAL WILL BE SUPPLIED  
AT THE MEETING**



E

**DEPARTMENT'S FY 2023 BUDGET AND FINANCIAL  
PERFORMANCE**

**E. Discussion and Consideration of the Department's FY 2023 Budget and Financial Performance.**

**BACKGROUND:** In 2022 the Commission adopted a strategic plan for Fiscal Years 2023-2027. The \$5.0 million FY 2023 Budget approved by the Commission in June 2022 includes the maintenance and operating budget and capital improvement budget in support of the Strategic Plan.

The following report highlights the Department's FY 2023 financial results for the period ending May 31, 2023. At the end of the nine months total expenditures were \$614.3 thousand or approximately 17 percent less than budgeted projections of \$3.68 million. Almost all expense categories performed below budgeted levels. Due to personnel vacancies, total personnel expenses accounted for about 50 percent of the budget variance. Other below budget items include travel related savings and Professional Services and Fees.

**RECOMMENDED ACTION:** No action is anticipated.

**Credit Union Department**  
**BY 2023 Budget Analysis**  
**For the Period Ended 5/31/23**

	BY 2023 Budget	BY 2023 YTD Budgeted	BY 2023 YTD Actual	Budget Variance	Percent of YTD Budget
<b>REVENUES:</b>					
Operating Income					
Operating Fees	\$5,057,455	\$5,057,455	\$4,523,760	(\$533,695)	89%
Out-of-State Branch Fees	\$0	\$0	\$9,500	\$9,500	100%
Examination Fees	\$0	\$0	\$0	\$0	
Application Fees	\$0	\$0	\$0	\$0	
Penalties	\$0	\$0	\$600	\$600	
Other	(\$51,250)	(\$51,250)	(\$51,250)	\$0	
<b>Operating Income Subtotal</b>	<b>\$5,006,205</b>	<b>\$5,006,205</b>	<b>\$4,482,610</b>	<b>(\$523,595)</b>	<b>90%</b>
Interest Income (Operating Acct)	\$0	\$0	\$90,565	\$90,565	
Interest Income (Contingency Acct)	\$0	\$0	\$30,803	\$30,803	
<b>TOTAL REVENUES - FUNDS</b>					
<b>AVAILABLE TO COVER</b>					
<b>EXPENDITURES</b>	<b>\$5,006,205</b>	<b>\$5,006,205</b>	<b>\$4,603,978</b>	<b>(\$402,227)</b>	<b>92%</b>
<b>EXPENDITURES:</b>					
<b>Personnel Expenses:</b>					
Salaries and Wages	\$3,025,772	\$2,241,729	\$2,002,255	\$239,474	89%
Employee Benefits	\$951,369	\$713,526	\$604,036	\$109,491	85%
<b>Total Personnel Expenses</b>	<b>\$3,977,141</b>	<b>\$2,955,255</b>	<b>\$2,606,291</b>	<b>\$348,965</b>	<b>88%</b>
Travel Expenses:					
In State					
Examinations			\$166,519		
Training/Conferences			\$26,744		
Meetings			\$1,633		
Public Forums			\$0		
Other			\$19,379		
Total In-State	\$412,381	\$309,286	\$214,274	\$95,012	69%
Out-of-State	\$30,000	\$22,500	\$1,187	\$21,313	5%
Commission	\$26,500	\$19,875	\$10,008	\$9,867	50%
<b>Total Travel Expenses</b>	<b>\$468,881</b>	<b>\$351,661</b>	<b>\$225,469</b>	<b>\$126,192</b>	<b>64%</b>
<b>Other Operating Expenses:</b>					
Communication/Utilities	\$52,475	\$39,356	\$39,481	(\$125)	100%
Professional Services/Fees	\$248,450	\$186,338	\$59,009	\$127,329	32%
Supplies/Materials	\$59,470	\$44,603	\$56,396	(\$11,793)	126%
Printing and Reproduction	\$2,755	\$2,066	\$228	\$1,838	11%
Repairs/Maintenance	\$45,165	\$33,874	\$9,867	\$24,007	29%
Rentals and Leases	\$5,500	\$4,125	\$3,102	\$1,023	75%
Other Operating	\$146,369	\$65,527	\$68,674	(\$3,147)	105%
<b>Total Other Operating Expenses</b>	<b>\$560,184</b>	<b>\$375,888</b>	<b>\$236,756</b>	<b>\$139,132</b>	<b>63%</b>
<b>TOTAL EXPENDITURES</b>	<b>\$5,006,206</b>	<b>\$3,682,805</b>	<b>\$3,068,516</b>	<b>\$614,289</b>	<b>83%</b>
<b>REMAINING FUNDS TO COVER</b>					
<b>EXPENDITURES (Actuals)</b>			<b>\$1,535,462</b>		

F



## **DEPARTMENT'S OPERATING PLAN AND FY 2024 BUDGET**

### **F. Department's Operating Plan and Budget for Fiscal Year 2024.**

**BACKGROUND:** Finance Code Section 16.003 gives the Commission the exclusive responsibility for approving the Department's budget each year. Consistent with the Budget Assumptions approved by the Commission in March, the following pages detail a proposed budget for FY 2024 of \$5,556,986 which represents a 9.88% increase from the FY 2023 budget.

The proposed budget includes strategic initiative funding for the costs related to a conversion of the Department's existing database (\$180,500), an equity adjustment for Department staff based on House Bill #1 - General Appropriations Act (\$163,507), funding for anticipated promotions and merit increases (\$62,469), the addition of a Field Supervisor position in the second quarter of FY 2024 (\$135,373), the addition of an Assistant to the Executive Assistant during the second half of fiscal year 2024 (\$32,588), and potential increases in internal audit costs if services/audits are added or expanded (\$10,000). The budget also includes capital improvement funding of \$9,000 for the addition of two modular office cubicles and \$30,000 to maintain our internal network infrastructure.

**RECOMMENDED ACTION:** Staff recommends that the Commission approve the proposed FY 2024 Operating Plan and Budget.

**RECOMMENDED MOTION:** I move that the Commission approve the proposed FY 2024 Operating Plan and Budget, with a total budget of \$5,556,986 and 35 FTEs.

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## BUDGET ASSUMPTIONS FOR BUDGET YEAR 2024

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The following broad assumptions will establish the foundation for the development of the Department's Budget Year (BY) 2024 budget and provide a framework to staff and the Commission for setting priorities, determining service levels, and allocating limited financial resources.

1. **Balance Budget** – In accordance with Commission policy, the budget will be balanced using BY 2023 ending reserve balance funds exceeding the aggregate contingency reserves limit.
2. **Contingency Fund Reserve** – The budget will provide for the funding of the Department's Contingency Fund Reserve account, in accordance with the Commission's Reserve Policy.
3. **Contractual Obligations** – The Department intends to meet all contractual obligations. Purchase orders or contracts which were placed and committed prior to the end of Fiscal Year (FY) 2023 for which the requested services performed until after the start of FY 2024 are considered obligated funds. The budget authority for these obligated funds will automatically be carried over to BY 2024 and the BY 2024 budget will be increased by an amount exactly equal to the obligated amount.
4. **Compliance** – The budget shall provide enough funding to continue compliance with all applicable statutes, governmental requirements, administrative rules, and Department policy in regulating and supervising the safety and soundness of credit unions.
5. **Strategic Plan Initiatives** – Consistent with the FY 2023-2027 strategic plan, the budget will provide appropriate funding to implement the delineated initiatives for FY 2024.
6. **Salary and Benefits** – The expenditures for FY 2024 will be based on authorized and existing positions as of April 30, 2023 and include any scheduled salary increases/promotions based on the satisfactory performance and progression of staff. Filled positions will be budgeted at the actual salary for the individual in that position and vacant examiner positions will be budgeted at the base salary level for a Financial Examiner (FE) III position. Vacant office positions and above FEIII level examiner positions will be budgeted at the mid-point of the salary range for the positions. Employee Benefits will be automatically calculated on all salaries with the appropriate benefit rates established for state agencies. The Department will also monitor legislative initiatives which could result in required legislative pay increases for State of Texas employees.
7. **Merit Increases** – To foster, support, and reward outstanding performance and to retain key high performing staff, aggregate merit increase awards

for staff are estimated at an amount equivalent to 4.00% of the total salaries for those positions and will be awarded based on the established merit pay tiers. The corresponding increase in Employee Benefits, resulting from the proposed merit awards, will also be properly reflected in the budget.

8. **Retiree Insurance Cost** – Retiree Insurance Cost are a result of staff retiring from the Department. Changes in retiree insurance costs are anticipated to be allowable budget adjustments.
9. **Inflation Factor** – When rapid inflationary trends occur, the commission may consider an additional funding for merit increase awards (#6 above). No additional inflationary increases are anticipated, except for increases in the cost of utilities and in state staff travel. Increases in utility costs will be based on the prior year ending Consumer Price Index for the U.S. published by the U.S. Bureau of Labor Statistics. In-state travel costs will be adjusted based on the ability of examination staff to complete 25% of its work remotely.
10. **Statewide Indirect Cost** – Statewide indirect cost allocations are a result of a statewide plan established by the Comptroller of Public Accounts. Changes in indirect cost allocations are anticipated to be allowable budget adjustments.
11. **Out-of-State Travel** – Out of state travel related to examinations, conferences, training, or other authorized purposes. Includes travel for office staff to NASCUS and other relevant regulatory related meetings. The annual budget for this category is being reduced from \$30,000 to \$25,000.
12. **Commission Travel** – At the November 2022 commission meeting, it was decided that the number of commission meetings would be reduced from four to three per year. Because of the reduction in the number of meetings, the budgeted annual travel costs for these meetings of \$14,500 per year is being reduced to \$12,000 beginning with BY2024.
13. **Internal Audit Services** – As outlined in the Sunset Advisory Commission's (SAC) report on the Department and the SAC's recommendation, the budget will provide funding for annual audits (i.e. third-party internal audits) of the Department, including other related costs, such as travel, etc.
14. **Electronic Document Management System (EDMS)** – The budget shall provide for the costs associated with the further development and maintenance of our EDMS.
15. **Information Technology** – The budget shall provide enough funding for computer network upgrades and computer equipment replacement in accordance with the Department's technology needs.
16. **Improvements** – The budget shall provide enough funding for scheduled maintenance and repairs in accordance with the Replacement/Capital Improvement Plan.

17. **NASCUS Dues** – The budget shall provide enough funding to accommodate the projected increase in the professional association's dues.
18. **Accreditation Fees** – The budget shall provide enough funding to accommodate the fees associated with the Department's continued NASCUS accreditation.
19. **Overnight Travel Stipend** – The budget shall provide enough funding to pay examiners an overnight travel stipend in accordance with the qualifying conditions included in the Department's policy. The stipend will not be considered a one-time merit award and may be paid to the eligible examiners regardless of their last merit pay or promotion action.
20. **Examiners' Laptops and Support** – The budget will be adequate to provide laddered funding for the replacement of Department laptops (office and field staff) every three years. Under this assumption, up to 11 laptops will be replaced each fiscal year. The budget will also include any additional costs associated with procuring all software licensing, security and support for the new machines. The Department will exercise diligence and discretion with this assumption and whenever possible, the life of certain laptops may be extended (i.e. from 3 to 4 years, etc.).
21. **Legal Research Tools** – The budget will provide funding to provide the Department's General Counsel with the funds to obtain the necessary research tools (i.e. Westlaw subscription, etc.) to perform the duties of the position.



## **SUMMARY OF PROPOSED FY 2024 BUDGET**

Budget Needed to Continue Existing Services	\$4,933,549
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### Strategic Initiatives:

Priority #2 – Equity Adjustments – S.B.30/H.B.1	\$163,507
Priority #3 – Promotions and Merit Increases	\$62,469
Priority #4 – Examination Staff (Field Supervisor)	\$135,373
Priority #5 – Office Staff (Asst. to Exec. Assist.)	\$32,588
Priority #8 – Int. Audits – Increased Costs	\$10,000

Total Strategic Initiatives	\$403,937
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### Replacement/Capital Improvement Plan:

Priority #1 – Database Conversion	\$180,500
Priority #6 – IT Related Maintenance	\$30,000
Priority #7 – Add two modular office cubicles	\$9,000

Total Replacement Capital Improvements	<u>\$219,500</u>
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<b>Grand Total Agency Requested Budget FY24</b>	<b>\$5,556,986</b>
<b>Grand Total Agency Budget FY23</b>	<b>\$5,057,455</b>
<b>\$ Increase versus FY23 budget</b>	<b>\$499,531</b>
<b>% Increase/below FY23 budget</b>	<b>9.88%</b>

Full-Time-Equivalent Positions	<b>35</b>
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## BUDGET NEEDED TO CONTINUE EXISTING SERVICES

### FY 2024 Base Budget Reconciliation

Object of Expenses	Budget FY 2023	Adjustment	Base FY 2024
Salaries and Wages	3,025,772	<71,520> <sup>1</sup>	2,954,252
Payroll Related Costs	951,368	<47,220> <sup>2</sup>	904,148
Travel	468,881	<7,500> <sup>1a</sup>	461,381
Professional Services/Fees	248,450	<8,350> <sup>3</sup>	240,100
Supplies/Materials	59,470	<838> <sup>3a</sup>	58,632
Communication/Utilities	52,475	5,739 <sup>4</sup>	58,214
Repairs/Maintenance	45,165	<40,000> <sup>5</sup>	5,165
Rentals and Leases	5,500	<600> <sup>6</sup>	4,900
Printing and Reproduction	2,755	<1,755> <sup>7</sup>	1,000
Other/State of Texas Services	197,619	48,138 <sup>8</sup>	245,757
<b>Grand Total</b>	<b>\$5,057,455</b>	<b>&lt;\$123,906&gt;</b>	<b>\$4,933,549</b>

<sup>1</sup>Reduced FY22 baseline salary and wages costs by \$71,520 based on \$72,573 reduction in baseline salaries for staff based on current salary levels; \$10k increase in anticipated lump sum vacation pmt.; \$7,920 decrease in longevity and \$1,027 reduction in BRP.

<sup>1a</sup>Reduced \$7,500 due to reduction of \$5k in budget for out of state travel and a reduction in commission meeting travel cost due to the number of commission meetings being reduced from 4 to 3.

<sup>2</sup>Decrease in Payroll Related Costs of \$47,220 primarily attributed to decrease in baseline salaries and associated benefit costs which are tied to salary levels.

<sup>3</sup>Reduced \$8,350 due to reallocation of \$10,750 from #7243 to #7203; a \$1,500 increase in other professional services - #7253; a \$3,500 reallocation from Legal Services #7258 to #7276 to cover West Law subscription; a \$1,400 increase in IT costs for Vintage support; and a \$3k est. increase in DIR Data Services annual costs.

<sup>3a</sup>Reduced Supplies/Materials \$838 due to estimated increases in laptop costs and decreases in postage costs.

<sup>4</sup>Increase in Communications/Utilities based on CPI index add-on for Electric, telephone and water, a \$4,500 increase for COBJ #7276 for West Law Subscription, etc. and a \$800 increase in COBJ #7516 for increases in staff cell phone costs.

<sup>5</sup>Baseline reduced \$40,000 due to \$15k reduction in #7262 and \$25,000 reduction in #7266 for roof repair (did not occur).

<sup>6</sup>Reduced equipment costs \$600 in #7406 based on actual costs in FY22 and FY23. Reallocated savings to other categories.

<sup>7</sup>Reduced printing costs #7273 based on BY22 and BY23 actual costs. Reallocated savings to other categories.

<sup>8</sup>Increase of \$48,138 in this category due to \$15k reduction in #7379, decrease in #7299 of \$3,400 due to reallocation, \$10,750 in funds reallocated to #7203, increase in SWCAP (#7953) of \$6,345, increase in Trust Co. service fees of \$693 and a \$48,750 increase in annual reserve allocation costs.



## OVERVIEW OF AGENCY REQUESTED FY2024 BUDGET

### Proposed Budget with Strategic Initiatives

Object of Expenses	Base Budget	Strategic Initiatives	Budget Request
Salaries and Wages	2,954,252	316,073	\$3,270,325
Payroll Related Costs	904,148	63,874	968,021
Travel	461,381	13,991	475,372
Professional Services/Fees	240,100	190,500	430,600
Supplies /Materials	58,632	0	58,632
Communication/Utilities	58,214	0	58,214
Repairs/Maintenance	5,165	24,000	29,165
Rentals and Leases	4,900	0	4,900
Printing & Reproduction	1,000	0	1,000
Other/State of Texas Services	145,757	15,000	160,757
Contingency Reserves	100,000	0	100,000
<b>Grand Total</b>	<b>\$4,933,549</b>	<b>\$623,437</b>	<b>\$5,556,986</b>

Percentage Increase above FY 2023 Budget	9.88%
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### Potential Revenues and Proposed Expenditures

Potential Revenues	\$5,647,595 <sup>1</sup>
Proposed Expenditures	\$5,556,986
Est. FY24 Operating Fee Adjustment	\$90,609
Est. % Operating Fee Adjustment	1.60%

**Note:** As required by Commission policy, staff reviewed all fees established by Rule 97.113 and may recommend fee structure revisions to the Commission at its November 2023 meeting. Any proposed changes will ensure the funding of the full cost of operating the Department.

<sup>1</sup>Using assets as of March 31, 2023. Actual fees/revenues will be based on assets as of June 30, 2023. Fee projection adjusted for one credit union in the process of converting from a state to a federal charter, and one credit union in the process of converting from a federal to a state charter.

## REVENUE HISTORY

### Fiscal Year 2021

Total Fees Prescribed by Rule 97.113	\$5,006,667
\$ Installment Adjustment Permitted	<\$1,130,131>
% Operating Fee Installment Adjustment	22.6%
Actual Assessment Collected	\$3,876,536

### Fiscal Year 2022

Total Fees Prescribed by Rule 97.113	\$5,416,049
\$ Installment Adjustment Permitted	<\$1,083,209 >
% Operating Fee Installment Adjustment	20.0%
Actual Assessment Collected	\$4,332,840

### Fiscal Year 2023

Total Fees Prescribed by Rule 97.113	\$5,750,179
\$ Installment Adjustment Permitted	<\$1,227,434>
% Operating Fee Installment Adjustment	21.3%
Actual Assessment Collected	\$4,523,560



## PERFORMANCE/KEY MEASURES

Measure	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023 YTD - 3/23
Number of Credit Unions	181	177	175	173	169
Credit Union Total Assets (billions)	\$43.4	\$48.6	\$54.2	\$59.0	\$57.0
Percent Increase in Credit Union Total Assets	4.6%	12.0%	11.5%	8.9%	-3.4%
Average Regulated Assets per Examiner (billions)	\$2.71	\$3.04	\$3.56	\$3.85	\$3.73
Number of Examinations	151	150	144	148	82
Percent of Credit Unions Examined	83%	85%	82%	86%	49%
Percent of Credit Union Assets Examined (based on assets at last regular exam)	92%	91%	93%	90%	49%
Number of Remedial Exams	31	30	26	38	21
Percent of Credit Unions Rated 1 or 2 (CAMELS)	87%	88%	89%	86%	87%
% of Assets in 1 or 2 Rated Credit Unions (CAMELS)	97%	96%	95%	98%	98%
Percent of Well-Capitalized Credit Unions	100%	99%	99%	98%	99%
Number of Credit Unions Rated 3, 4, or 5 (CAMELS)	23	21	19	25	22
Annual Examiner Turnover	5.6%	5.6%	23.2%	17.3%	17.6%
Average Tenure of Departing Examiners (Mos.)	51	53	99	51	45
Number of Examiners Hired	1	1	3	3	5
Annual Staff Turnover	10.8%	3.5%	10.9%	14.2%	17.9%
# of Formal Training Days	292	209	290	294	133
# of Applications Processed	73	106	100	79	43
Number of Request – Interpretation/Opinion	0	3	0	1	0
Number of Public Information Requests	22	27	30	40	23
# of Written Credit Union Complaints Processed	376	344	323	344	225
Depart. Costs/\$100k Assets	\$8.99	\$8.02	\$6.50	\$6.61	TBD



# STRATEGIC INITIATIVE FUNDING REQUEST

## #2

Initiative Name: **Equity Adjustments for All Staff – Senate Bill 30 and House Bill 1**  
 Priority: **2**

<b>Equity Adjustment – SB30 and HB1</b>	
<b>Objects of Expense</b>	<b>Estimated Costs</b>
Salary & Wages (Equity Adjustments)	\$137,981
Payroll Related Costs (Equity Adjustments) *	\$25,526
<b>Total</b>	<b>\$163,507</b>

*\* Payroll related costs estimated at 18.5% of increased payroll amounts.*

**Description/Justification:** “Ensuring Texas has a safe and sound credit union system,” is an undeniable mandate. Assessing credit unions’ safety and soundness requires skilled examiners, and the ability to retain qualified examiners is essential in meeting this objective. Credit unions continue to grow rapidly in assets. The average asset size of a Texas chartered credit union has increased approximately 47.5 percent, from \$230.5 million at fiscal year-end 2018, to \$340.0 million at fiscal year-end 2022. It is essential that the Department maintain controlled examiner turnover numbers, given the increasing size, complexity, and sophistication of the institutions that we examine. Offering an attractive overall benefit package, including a competitive salary, is a key component affecting examiner retention.

The Commission approved the Department’s budget assumptions for Fiscal Year (FY) 24 which were presented to them at their March 2023 commission meeting. As part of those assumptions, the Department was proposing a 3.50 percent Merit Pool for staff increases for the upcoming FY24. Subsequently, the Texas legislature passed SB30 which provided a 5.0 percent salary increase for general state employees with a minimum of \$250 per month for certain state positions beginning July 1, 2023 and ending August 31, 2023. In addition, the bill appropriates any related employee benefit costs associated with the salary increase required by the General Appropriations Act (GAA), Article IX, Sections 17.03 and 17.06.

Further, House Bill 1, the General Appropriations Act (GAA), extends the SB 30 increase from Sept. 1, 2023, through Aug. 31, 2024 (i.e., through appropriation year [AY] 2024), and provides for an additional 5 percent increase in annual

salary with a minimum annual increase of \$3,000 for AY 2025. It also appropriates any related employee benefit costs associated with the salary increase required by GAA, Article IX, Sections 17.03 and 17.06.

The increase for agencies under appropriations is being funded from the general revenue fund, general revenue dedicated accounts and other funds. For the Department to participate in this initiative for FY24 (September 1, 2023 through August 31, 2024), the appropriation of these funds must be approved by the commission since we are an SDSI agency and are not under legislative appropriations. In consideration of this request as part of our annual budget, the original Merit Pool request of 3.50 percent has been removed from the request.



# STRATEGIC INITIATIVE FUNDING REQUEST

## #3

Initiative Name: **Promotions and Merit Increases**  
 Priority: **3**

<b>Equity Adjustment – SB30 and HB1</b>	
<b>Objects of Expense</b>	<b>Estimated Costs</b>
Salary & Wages	\$52,717
Payroll Related Costs*	\$9,753
<b>Total</b>	<b>\$62,469</b>

\* Payroll related costs estimated at 18.5% of increased payroll amounts.

**Description/Justification:** “Ensuring Texas has a safe and sound credit union system,” is an undeniable mandate. Assessing credit unions’ safety and soundness requires skilled examiners, and the ability to retain qualified examiners is essential in meeting this objective. Credit unions continue to grow rapidly in assets. The average asset size of a Texas chartered credit union has increased approximately 47.5 percent, from \$230.5 million at fiscal year-end 2018, to \$340.0 million at fiscal year-end 2022. It is essential that the Department maintain controlled examiner turnover numbers, given the increasing size, complexity, and sophistication of the institutions that we examine. Offering an attractive overall benefit package, including a competitive salary, is a key component affecting examiner retention.

Merit pay and promotions have traditionally been one of the most effective tools to motivate and retain qualified staff. Recognizing and rewarding high performance is a key priority for driving excellence in the Department. A monetary reward is the strongest incentive for staff who exhibit greater enthusiasm, commitment, and developmental skills than the other staff members around them. When budgeted, all classified staff members are eligible to participate in the Department’s merit pay program and/or be considered for a promotion. The last merit increase for the staff was budgeted for September 1, 2022.

In conjunction With S.B.30 and H.B.1, all Department staff are being recommended for 5.00 percent salary increases as authorized by those bills for each of the next two fiscal years. In addition to those significant pay raises, the Department has field examination staff and office staff who are expected to



reach certain skill, experience and tenure levels which generally result in merit increases or promotions. Thus, in consideration of those individuals, the Department is proposing to establish a pool to fund merit and promotion increases. The aggregate amount of the requested merit funding is based on the historical merit increases (\$/%) for examiners/office staff in the same position classifications who have performed with similar levels of tenure and competency. The funding of increased salaries due to promotions is based on the anticipated progression of existing employees (field and office) to new positions during FY24. All awards made from the pool will be based on performance.

Funding of this item is necessary for the Department to maintain examiner and office staff resources to ensure supervision to meet regulatory responsibilities, achieve performance measures, and preserve a safe and sound Texas credit union system. As credit unions continue to grow in sophistication and complexity, the ability to retain highly skilled and qualified examiners and office staff are essential components in meeting these objectives. It is imperative that the Department keep examiner/office staff salaries at competitive levels to maximize retention of key staff members.

In absence of a merit-based pay program, there is the risk of discouragement for the highest performing staff. The most talented staff is aware of their strengths and like to accept the challenges of performance linked pay. If all staff is awarded a uniform pay without regard to individual merit or contribution, there is a risk of the best performing staff becoming disenchanted and leaving the Department. Further, if pay levels are perceived to be below market, it is difficult to attract and retain a qualified, motivated examiner work force, which ultimately affects examination effectiveness.

#### **External/Internal Factors:**

Merit pay helps the Department differentiate between the performance of high and low performing employees and reward the higher performance accordingly. As a result, it is believed that merit pay is an opportunity to ensure that outstanding performers remain with the Department and continue to make their significant contributions.

As already noted, the complexity of work demanded from the examination staff continues to increase. Therefore, it is essential that the Department continues to be able to attract and retain a skilled examiner work force and office staff. The Department must continue to make every effort to maintain competitive pay levels with other financial institution regulators (i.e., National Credit Union Administration, Department of Banking, etc.) to sustain the retention rate and value of the Department's examination workforce, benefiting all stakeholders.

The Commission approved a 3.5 percent merit increase to the existing FY23 salary pool at its March 2023 commission meeting. However, because of the recent passage of S.B.30 and H.B.1 which provided for 5.00 percent increases for all state employees for each of the next two fiscal years, the merit and promotion funds requested are only for those employees anticipated to hit certain tenure/experience thresholds during FY24 which have typically resulted in merit/promotion pay increases applicable to their positions.

### **Federal Locality Pay:**

One of the Department's biggest challenges in retaining staff is offering competitive pay, relative to the levels paid by our federal counterpart, the National Credit Union Administration (NCUA). While our base pay levels are consistently competitive with the NCUA's, we are unable to provide locality pay as they are. The 2023 locality pay adjustments provided for NCUA examiners in Texas range from 16.32 percent to 46.06 percent, depending upon where the NCUA examiner is headquartered. Most years, our agency will lose one or more examiners to the NCUA.

With the passage of the Federal Employees Pay Comparability Act in 1990, the revised General Schedule (GS) scale established local salary schedules incorporating locality pay. The locality pay program provides for localized pay differentials (also known as comparability payments) for Federal employees paid under the GS who work in the continental United States. The processes for determining locality adjustments are highly technical. However, the basic hypotheses underlying locality pay is that the differences in the competitiveness of local labor markets affect the federal government's ability to recruit and retain federal workers.

Locality adjustments are paid within each area determined to have a Federal - non-Federal pay disparity greater than 5 percent. There currently are 54 locality pay areas, including Rest of U.S. area, Alaska, Hawaii, and other Nonforeign Areas, defined in 5 CFR Part 591. Locality pay counts toward accumulation of retirement benefits, life insurance coverage, Thrift Savings Plan investment levels, and most other benefits based on salary.

NCUA currently pays its Texas examiners a Locality Pay adjustment as shown below in Table 7. The amount of the adjustment is determined by increasing the base salary by the applicable locality rate (e.g., A Dallas Examiner IV with a base salary of \$80,000 and the locality rate of 38.25% is paid a salary of \$110,600).

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**Table 7: Federal Locality Pay in Texas – 2023**

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<b>Pay Area</b>	<b>Locality Rate</b>
Houston	46.06%
Dallas	38.25%
Austin	30.32%
Rest of United States*	16.32%

*\*Includes areas in Texas not listed.*

In keeping with the Legislature's philosophy, the Department has not paid examiners based on local labor market conditions. Despite regional differences in labor markets and costs of living, the Department pays the same wage for the same job regardless of location.

# STRATEGIC INITIATIVE FUNDING REQUEST

## #4

Initiative Name: **Add Field Supervisor Position**  
 Priority: **4**

Add Field Supervisor	
Objects of Expense	Estimated Costs
Salary and Wages	\$97,875*
Payroll Related Costs	\$23,507**
Travel Expenses	\$13,991***
<b>Total</b>	<b>\$135,373</b>

*\*Based on the approximate mid-point for a Financial Examiner VII of \$130,500 and prorated for 9 months. Depending upon the experience level of the person hired, the pay could be in the range of the mid-point for an FEVI, which is approximately \$110,000 per year.*

*\*\*Based on 18.5% payroll related costs and benefits (\$130,500 x 18.5% = \$24,142), plus an additional \$7,200 per year per employee to cover the CUD's contribution for a new employees' health insurance. Prorated for 9 months.*

*\*\*\*Travel expenses based on average per employee of \$18,654. Average computed by using BY23 baseline budget for in-state travel of \$373,082 divided by 20 (projected employees utilizing in-state travel). Prorated for 9 months.*

*Note: The above figures assume an external applicant is hired for the position and are prorated (9 months) as if the position is filled effective Nov. 1, 2023. **If filled internally, the additional costs to the Department will be significantly reduced as a significant portion of the new Field Supervisor's salary, payroll and travel costs are already included in FY24 budgetary figures.***

**Description/Justification:** The addition of this position will increase the Department's number of Full-Time Equivalent (FTE) employees by one, as well as the number of FTE examiners (when fully staffed). The funding of this initiative would allow the Department to add a third Field Supervisor position to alleviate some of the workload currently assumed by the two existing Field Supervisors for the Department. Further, since the zone for this proposed position would be in the Central Texas area, this initiative would enhance our continuity/succession planning and could provide backup for the Austin Office during times of need (i.e., staff shortages, high workload, etc.).

Strong and effective supervision is critical to ensure a sound credit union system. Successful supervision gives credit union management a valuable secondary perspective and bolsters the work of credit unions' risk management staff and structures. Supervision also acts as an essential discipline on the industry by setting risk management standards and providing a source of challenge against any relaxation of controls or build-up of risk in individual credit unions.

Funding of this initiative is imperative for the Department to continue to progress the level of supervision to meet growing regulatory responsibilities, to improve examiner's work/life balance and provide additional support,



mentoring and expertise to Lead Examiners. Credit unions continue to grow in both size and complexity due to technological, economic, and other competitive pressures. This has increased the intricacies of the Field Supervisor's responsibilities. When factoring in examination staff turnover, it further increases the difficulties of the supervisory role. The growth in complexity and sophistication of the industry requires not only trained and knowledgeable examiners to properly assess industry activities, but well trained and knowledgeable supervisors to support their examination teams. The Department has done its best under current budgetary and manpower constraints; however, additional resources are necessary to keep pace with industry activities.

At a minimum, to ensure that supervision remains credible and effective, the Department needs to add a Field Supervisor position and begin transitioning to the addition of a third zone, comprised of a team of four to five examiners, overseeing approximately 40 credit unions. It is anticipated the additional zone would initially (i.e., 12 months) be comprised of a small team of two to three examiners responsible for the supervision of 18 to 30 credit unions under their authority. As time progresses in the new zone, it is expected that additional staffing will become necessary. Further, it is estimated that zone staffing could be accomplished by utilizing existing staff for half of the positions and new hires would be needed for the other half.

Credit unions continue to become larger and more significant players in the economic development of Texas, and without the additional examination resources the Department will be unable to effectively perform its duties and responsibilities with the professionalism and expertise credit unions deserve. Ultimately, this could hinder the Department's ability to ensure a competitive charter and protect Texas citizens from fraud, unethical conduct, and other nonconformities from normal standards in connection with financial transactions.

# STRATEGIC INITIATIVE FUNDING REQUEST

## #5

Initiative Name: **Add Executive Assistant I Position**  
 Priority: **5**

### Add Executive Assistant I - March 1, 2024

Objects of Expense	Estimated Costs
Salary and Wages	\$27,500
Payroll Related Costs (Equity Adjustments) *	\$5,088
<b>Total</b>	<b>\$32,588</b>

\* Payroll related costs estimated at 18.5% of increased payroll amounts.

**Description/Justification:** During FY23, the Department's long-term Executive Assistant (EA) to the Commissioner retired effective December 31, 2022. Subsequently, and after a 90-day required waiting period, the former EA was rehired to fill her previous role. Currently, there is no other EA (or other employee) which can assume the EA's duties when she is out on leave. Thus, the Department has no redundancies in place for the responsibilities associated with this Department critical position. In conjunction with the BY2024 budget, the Department is recommending a lower-level EA position (EAI) be created which provides backup for the current EAs responsibilities as well as additional support for key office functions. The position will provide our agency with additional/backup internal expertise for:

- Assisting the Commissioner or Deputy Commissioner in major project organization, including compiling and analyzing data, making calculations, and preparing, maintaining, tracking, and disseminating reports.
- Coordinating and preparing correspondence, reports, studies, forms and documents for the Commissioner or Deputy Commissioner, and for posting on the website as needed.
- Maintains electronic calendar for the Commissioner or Deputy Commissioner which include department-wide scheduling. Schedules appointments, coordinates meetings and conferences, develops trip itineraries for commission members and other department staff, etc.
- Completing monthly reports (i.e., performance measures, etc.) and distributing them to key staff and commission. Assists in preparing documents in proper format for posting to the website.

- Records and prepares minutes from meetings, as necessary, including Credit Union Commission, Commission Committees, and other meetings.
- Generates and distributes job assignments as needed and follows-up on projects assigned to staff members for timely submission.
- Coordinates or serves as backup coordinator of Credit Union Commission meetings, including compilation and distribution of information, materials, and reports for the Credit Union Commission. Maintains contact with Credit Union Commission members.
- Performs daily operations including directing daily mail and other assignments to proper personnel. Oversees completion of daily correspondence reports, answers inquiries by telephone, mail, Internet E-mail, etc.; and greets visitors as needed. Schedules conference calls and meetings for executives. Develops, coordinates, and maintains recordkeeping and filing systems for executive documents and information.
- Oversees and manages the day-to-day activities of staff members as directed by the Commissioner of Deputy Commissioner.

The funding of this strategic initiative is to provide redundancy and succession planning for one of the key positions in the Department's office. This initiative is structured such that the position will be filled in the middle of FY24. If approved, the costs for this strategic initiative will be recurring each year and included in the Department's annual budget assumptions.



# STRATEGIC INITIATIVE FUNDING REQUEST

## #8

Initiative Name: **Annual Internal - Audit Increased Costs**  
Priority: **8**

Annual Internal Audits	
Objects of Expense	Estimated Costs
Anticipated Increase in Annual Audit Costs	\$10,000
<b>Total</b>	<b>\$10,000</b>

**Description/Justification:** As outlined in the Sunset Review Commission's report on the Department in recommendation 2.3, the Department was encouraged to establish an independent audit program. Said program was approved in conjunction with the BY22 and BY23 budgets and the Department recently selected and contracted with a vendor to perform this function. Based on initial conversations with the vendor, it is anticipated the cost of this program could experience some increases in BY2024. Thus, it is recommended the budget for the annual audit costs be increased from \$50,000 to \$60,000 beginning with the BY24 budget.

Further, this process required the Commission to establish a standing Audit Committee. It is anticipated that annual travel costs for the Audit Committee will remain the same, at \$12,000 per budget year, as already budgeted.

Both the estimated annual costs of the internal audit program and associated travel are included in the annual budget assumptions approved by the commission; most recently at its March 2023 meeting.

The Commission is asked to approve the estimated cost increase for the internal audit program. The funding of this increase will provide ongoing annual costs necessary to complete these audits each fiscal year. If approved, the originally approved and increased costs for this initiative will be recurring each year and included with the Department's annual budget assumptions.



# REPLACEMENT/CAPITAL IMPROVEMENT PLAN FY 2024-2026

**FY2024**

**Proposed Capital Improvements:**

**Estimated Cost**

<i>Priority #1: Database Conversion</i>	\$180,500
<i>Priority #6: IT Maintenance Related Costs</i>	\$30,000
<i>Priority #7: Add two modular office cubicles</i>	<u>\$9,000</u>

Total Funds Requested for Capital Expenditures	\$219,500
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**Database Conversion – Priority #1**

Database Conversion	
Objects of Expense	Estimated Costs
Sage/Act Conversion to a hosted solution	\$177,500*
Power Apps licensing (this is an ongoing annual cost)	\$3,000
Total	\$180,500

\*Based on an estimate of \$161,275 obtained from the Department's Director of Information Technology from the Department of Information Resources. The estimate was increased by 10 percent as a safeguard to cover project overages, additions, etc.

Funding of this capital improvement is necessary to replace the existing Department database and build a hosted solution to manage and report the Department's internal organizational processes. This is imperative as the existing version of the SAGE Act! is no longer supported by Windows. Further, a database solution is needed that more closely aligns to the Department's organizational needs and provides a more seamless view of the end-to-end organizational process performance and eliminates some of the current manual processes used to fill in the information gaps.

The Department currently has several internal organizational processes for monitoring, tracking, and reporting on the Department's compliance to and performance of business measures and functions. The desired solution will address Department needs by providing a database solution to manage all credit union information, manage and track performance of organizational processes, collaborate with internal and external staff, build, and publish custom reports, and integrate with the external SharePoint document management system.

Through the Texas Department of Information Resources (DIR), the Department will choose an independent, third-party Vendor to provide the described services, and to develop and deliver a solution which automates the tracking and reporting of internal organizational processes. The proposed hosted solution will be non-proprietary and scalable, in that it will be able to be enhanced as the Department and its regulated credit unions grow. The Department is seeking the development of a solution which best fits its business model and processes.

### **IT Maintenance Budget**

The funding of this capital improvement is necessary to maintain the Department's network protection functionality and protection protocols. Funds are allocated \$15,000 to maintain and update software and \$15,000 to maintain and update hardware/equipment. This amount is presumed to be part of our ongoing IT costs which occur annually to invest in the necessary infrastructure for security, hardware, software, etc. The costs for this strategic initiative are recurring each year and were approved in conjunction with the approval of the FY23 Budget and the Department's annual budget assumptions. However, it was inadvertently left out of the FY24 budget assumptions due to an oversight. Some of the proposed Capital Improvements under this initiative for FY24 may include:

#### **Hardware:**

- Workgroup VMware switches ESXi Hosts and NAS Storage<sup>1</sup>
- Server Data Storage – Replacement for QNAP TS-853U-RP<sup>2</sup>
- Misc. Consumables for Examiners<sup>6</sup>

#### **Software and Support Services:**

- |  |                 |
|--|-----------------|
| • Dallas laptop Computers Refresh set-up & Software Support <sup>3</sup> | <i>Software</i> |
| • Disaster Recovery Service <sup>4</sup>                                 | <i>Service</i>  |
| • Blanket Vintage Contract <sup>5</sup>                                  | <i>Service</i>  |

<sup>1</sup> This is necessary to refresh network and switch storage hardware (the switch has its own storage) that has exceeded its useful life. This is a one-time hardware cost.

<sup>2</sup> This is necessary to replace the Department's server storage array. This is a one-time hardware cost, necessary to replace older technology that has exceeded its useful life.

<sup>3</sup> Funding of this capital improvement is necessary to maintain the Department's computer infrastructure up to date and preserve the overall security of the internal network, additional cost for software and workstation support.

<sup>4</sup> This capital improvement initiative is necessary to provide BDR Data Replication (disaster Recovery) of the internal network of computers and software programs through the current vendor (Vintage) at a hot site (secondary location).

<sup>5</sup> Each year, the Department incurs various costs for engaging Vintage IT Services for assistance with various computer/network related matters. Vintage is our managed service provider for IT and Cloud services. While we contract for basic IT support and services, we do encounter situations where non-contracted services are necessary. Those non-contracted services are \$125 per hour during normal business hours and \$165 per hour on nights and weekends. The inclusion of the requested amount within the budget will provide for additional support should the need arise.

<sup>6</sup> This is for miscellaneous equipment such as portable, screens, printers and scanners for examiners, office supplies. These items are frequently replaced for examiners due to wear and tear.

If approved, the IT Maintenance Budget will be recurring each year and included as part of the Department's annual budget.

### **Add Two Modular Cubicles – Priority #6**

Add Two Modular Cubicles	
Objects of Expense	Estimated Costs
Two Modular Cubicles	\$6,000*
Miscellaneous Costs (equipment, furniture, etc.)	\$3,000
<b>Total</b>	<b>\$9,000</b>

\*Based on an estimate received by the Staff Services Officer. The estimate was increased by 20 percent and rounded up to the nearest \$1k increment.

The funding of this capital improvement is to add two additional workspaces in the Department's main office. This capital improvement would provide additional workspace for field staff employees when they are working in the office and provide the Department with the ability to increase its office staffing as the complexity of operations increases. If approved, the cost of the cubicles and installation would be a one-time expenditure, with some additional recurring costs anticipated for phone service and computer equipment, and various pieces of office equipment/furniture (i.e., chairs, ergonomic keyboards, etc.). The additional costs for recurring items (i.e., computer replacement, monthly phone service, etc.) will be included in the budget assumptions for future years.

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### **FY2025**

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#### **Proposed Capital Improvements:**

Roof Repairs  
General Building Upgrades or Maintenance

#### **Estimated Cost**

\$25,000  
\$40,000

#### **Roof Repairs**

The Department's roofing is a low slope with a built-up roof. It has deteriorated and was scheduled for replacement in FY2022. Prior to the replacement, an assessment of the roof was conducted by Wiss, Janney, Elstner Associations Inc. (WJE) with a report provided to the Department on April 1, 2022. The report stated that overall, the roof membrane appears to be in good and serviceable condition but identified 16 areas where repairs are warranted.

With the FY23 budget, it was anticipated that repair of the roof would be recommended by the TFC over replacement. Further, it was anticipated that repairs would cost significantly less than the estimated replacement cost originally projected by the TFC. An informal estimate provided by TFC during the Department's budgetary process indicated repair costs of approximately \$15,000. Since no formal projection for repairing the roof had been provided at the time of resenment of the FY23 budget, the Department is allocated \$25,000 for the repair(s) in FY2023.

During FY23, no repairs were completed on the roof due to other Department priorities/challenges (i.e., departure of commissioner, etc.) which occurred. We are recommending the funding of this initiative be moved to FY25.

### **General Building Upgrades**

At the present time, there are no specific upgrades identified for this proposed capital improvement. However, it is anticipated that over the course FY24 and FY25, building upgrade items will be identified that will be necessary beginning in FY26. Those items may include, but not be limited to: Painting, Carpeting, Landscaping, HVAC, Replacement of Structural Materials, Parking Lot Painting and Repair, New Plumbing Fixtures, etc.

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### **FY2026**

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#### **Proposed Capital Improvements:**

General Building Upgrades or Maintenance

#### **Estimated Cost**

\$20,000

### **General Building Upgrades**

At the present time, there are no specific upgrades identified for this proposed capital improvement. However, it is anticipated that over the course FY24, building upgrade items will be identified that will be necessary beginning in FY25 and FY26. Those items may include, but not be limited to: Painting, Carpeting, Landscaping, HVAC, Replacement of Structural Materials, Parking Lot Painting and Repair, New Plumbing Fixtures, etc.





Credit Union Department  
State of Texas

FY 2024 Annual Operating Plan & Budget

Approved by the Credit Union Commission  
On: \_\_\_\_\_

### **INTRODUCTION**

In accordance with Chapter 16 of the Finance Code, the Department has crafted the following *FY 2024 Annual Operating Plan and Budget*. This document aligns the goals and measures developed for the Department's *Strategic Plan for Fiscal Years 2023-2027* with the Department's proposed budget. It aims to improve the links between the Department's resource needs, effectiveness, and outcomes.

### **THE DEPARTMENT TODAY**

The Department is a self-directed and semi-independent agency that is responsible for ensuring a safe and sound credit union system for all Texans. This is accomplished through the effective chartering, regulation, and supervision of Texas-chartered credit unions. The operations of the Department are funded primarily by semiannual assessments levied on credit unions. The Department receives no state monies from the General Revenue Fund.

As of December 31, 2022, the Department was responsible for regulating and supervising 171 credit unions. Based on the year-end call reports, Texas-chartered credit unions held \$57.0 billion in assets or approximately 40 percent of total aggregate credit union assets in Texas.

### **GOALS AND OUTCOMES**

The Credit Union Commission has established four strategic goals to guide the operations of the Department and to contribute to the achievement of its mission and performance goals. The Commission's goals are:

1. to ensure a safe and sound state credit union industry;
2. to provide a flexible regulatory framework that enables credit unions to provide a full competitive array of financial services;
3. to safeguard the interest of credit union members; and
4. to develop a professional and motivated staff that provides quality service to the citizens of Texas and supports achievement of the Department's statutory mission.

The Department works to meet these goals by, among other things, detecting violations and potential problems or issues in the Texas credit union system and ensuring that the violations are addressed; crafting rules that strengthen corporate governance and operations; ensuring credit union members are treated fairly; and making sure that the Department's human capital strategies, information technology initiatives, and resources are appropriately aligned to achieve the Department's mission, goals, and outcomes.



## **FY 2024 Annual Operating Plan & Budget**

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Like other regulatory agencies, the Department has found it challenging to develop measures that accurately depict the outcomes of the agency's activities. In many instances, the effects of the agency's efforts can only be indirectly assessed. The Department intends to continue refining its work in this area as it gains more experience in integrating its budget and performance functions. As part of this effort, the Department will continue to assess alternatives for measuring outcomes that help the public gauge the Department's progress in achieving its mission, as well as assisting staff in meeting their objectives.

### **Strategic Goal 1: To Ensure a Safe and Sound Credit Union Industry**

Strategic Objective 1.1: The Department anticipates, understands, addresses, and communicates risk to credit unions. The Department seeks to fulfill this objective by:

1. establishing the appropriate regulatory framework;
2. being a prudent steward of Department resources;
3. ensuring risk-based supervision is properly implemented and focused on material risks to the industry and individual credit unions;
4. identifying emerging risk areas related to industry and individual credit unions;
5. complying with the examination requirements of [7 TAC Section 97.105](#);
6. resolving problem credit unions in a timely fashion, effectively, and when possible, without loss to the share insurance provider; and
7. taking prompt and effective enforcement actions when warranted.

Strategic Objective 1.2: The Department cooperates with other regulatory authorities on common interests. The Department seeks to fulfill this objective by:

1. working effectively with the NCUA, private share insurance providers, and other state regulators to identify and address risks and emerging issues; and
2. implementing and developing new coordination and collaboration agreements with NCUA, private share insurance providers, and other applicable state regulators regarding supervisory activities performed in credit unions and information exchange.

Strategic Objective 1.3: Supervisory methods and analytical tools keep pace with industry changes and appropriately support the broader mission of the Department. The Department seeks to fulfill this objective by:

1. utilizing analytical tools and reports to effectively use the data collected from credit unions to foster informed decision making for supervisory operations and policy;
2. deploying supervisory technology solutions to enhance data quality and provide user-friendly examiner access to key credit union and industry information; and
3. Providing transparency through the Department's reporting.

## FY 2024 Annual Operating Plan & Budget

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### Key Performance Measures

- Percentage of credit unions receiving regular examination annually
  - Target for FY 2024: **75%**
- Percentage of applications approved or denied within 60 days
  - Target for FY 2024: **100%**
- Number of state-chartered credit unions
- Number of regular examinations performed
- Percentage of credit unions with composite CAMEL ratings of 1 or 2
  - Target for FY 2024: **85%**
- Percentage of assets held in credit unions with CAMEL ratings of 1 or 2
  - Target for FY 2024: **95%**

### Internal Measures

- Number of follow-up contacts made
- Number of enforcement actions issued
- Percentage of credit unions that are “Well Capitalized” as defined by federal statute
  - Target for FY 2024: **95%**
- Percentage of reports mailed to credit unions within 25 days
  - Target for FY 2024: **98%**
- Percentage of total available work time utilized to conduct both regular and remedial examination work
  - Target for FY 2024: **65%**
- Average Cost per Credit Union Examination
- Assets Examined per Examiner Day
  - Target for FY 2024: **\$16.8 million\***
- Average time to complete analysis of quarterly financial data
  - Target for FY 2024: **within 40 days after the submittal deadline for the most recent 5300 Call Report**

\*Same as FY23 target which was based on FYE22 results. Will be amended for FY24, based upon 95% of actual level realized for FYE23.

**Strategic Goal 2: To Provide a Flexible Legal and Regulatory Framework that Enables Credit Unions to Provide a Competitive Array of Financial Services**

**Strategic Objective 2.1: Each Commission rule is current, clearly written, and necessary for an effective supervisory process. The Department seeks to fulfill this objective by:**

1. drafting, amending, and implementing rules to fulfill Legislative directives and to ensure relevance to current conditions;



## **FY 2024 Annual Operating Plan & Budget**

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2. conducting the mandatory rule review in accordance with Commission's approved plan; and
3. implementing rulemaking through successful collaboration and consultation with interested parties.

Strategic Objective 2.2: The Department supports credit union efforts to remain competitive, consistent with safety and soundness. The Department seeks to fulfill this objective by:

1. supporting the continued recognition of the attributes of the state credit union charter through appropriate opinions and rules;
2. developing and modernizing attributes of the credit union charter and the role and status of the industry;
3. enhancing communication with NCUA and other state regulators to facilitate better coordination on issues affecting credit unions; and
4. communicating attributes of the state charter within and outside the Department.

Strategic Objective 2.3: Application procedures are efficient and consistent with safety and soundness. The Department seeks to fulfill this objective by:

1. providing a standardized application package;
2. establishing policies and procedures that provide clear and comprehensive guidance;
3. implementing and maintaining processes for prompt screening of applications; and
4. enhancing existing technology solutions that support effective application operations.

### **Key Performance Measures**

- Percentage of rule changes provided to credit unions within 60 days after adoption
  - Target FY 2024: **100%**

### **Internal Measures**

- Number of new rules adopted
- Number of rules amended
- Number of rules re-adopted without change
- Number of applications processed
- Number of requests for interpretations/opinions of Act and Rules
- Number of contested cases referred to SOAH
- Number of Public Information Act requests processed
- Number of public forums in which Department participates
- Total Assets in state-chartered credit unions

## **FY 2024 Annual Operating Plan & Budget**

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- Percentage increase in total aggregate credit union assets
- Percentage of interpretations/opinions issued within 30 days
  - Target FY 2024: **100%**

### **Strategic Goal 3: Safeguard the Interest of Credit Union Members**

Strategic Objective 3.1: All credit union members have reasonable access to credit union services and are treated fairly and lawfully. The Department seeks to fulfill this objective by:

1. reinforcing the importance of fair and honest treatment of credit union members through appropriate supervisory and enforcement action;
2. expanding the agency's role in resolving and/or mediating member complaints handled by the Department;
3. strengthening role in addressing member privacy, information security, and identity theft; and
4. enhancing the Department's consumer compliance examination program.

Strategic Objective 3.2: Credit unions are involved in providing financial services in underserved communities within this State. The Department seeks to fulfill this objective by:

1. supporting the efforts of credit unions to expand their fields of membership to included underserved and low income communities;
2. facilitating the process for credit unions to obtain a low-income designation from NCUA; and
3. participating in financial literacy efforts by the industry and other agencies.

#### **Key Performance Measure**

- Percentage of credit unions providing services to low income or underserved populations

#### **Internal Measures**

- Number of complaints processed
- Percentage of complaints responded to within **40 days\***
  - Target FY 2024: **95%**

\*Due to increasing level of complexity in dealing with member complaints, we are recommending this performance measure be increased from 30 to 40 days.

**Strategic Goal 4: Develop a Professional and Motivated Staff that Provides Quality Service and Supports Achievement of the Department's Statutory Mission.**



Strategic Objective 4.1: The Department maintains a competent, highly motivated, and diverse workforce in a fair and inclusive work environment. The Department seeks to fulfill this objective by:

1. maintaining a comprehensive Equal Employment and Workforce Diversity Plan;
2. executing an aggressive recruiting and comprehensive training strategy for new entry-level examiners;
3. developing proactive initiatives focused on the retention of employees, including mentoring, employee feedback, incentives, and recognition programs;
4. creating a leadership development program to support and enhance management succession; and
5. implementing an external hiring strategy to augment specialized skills to enhance the Department's supervision of complex credit unions.

Strategic Objective 4.2: The Department is an efficient, effective, and ethical organization. The Department seeks to fulfill this objective by:

1. ensuring compliance with laws, rules, and stewardship of its resources through program evaluations and a quality management framework;
2. ensuring compliance with the rules, policies and procedures for ethical conduct by its employees;
3. ensuring reliable, secure, modern information technology systems are in place in support of an environment that meets the Department's mission, goals, and objectives; and
4. leveraging technology, with particular focus on information management initiatives, such as records and knowledge management.

### **Internal Measures**

- Percentage of exam related travel cost reduced by remote work
  - Target FY 2024: **20%**

Strategic Objective 4.3: The Department's resource decisions and operations reflect sound financial, security, and risk management principles. The Department seeks to fulfill this objective by:

1. implementing security controls to mitigate risk and to protect confidential information;
2. improving contingency planning for business continuity, including information technology recovery, compliance with Homeland Security requirements, and crisis management strategies; and
3. achieving reliable, accurate and timely financial resources management information.

## FY 2024 Annual Operating Plan & Budget

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### Internal Measures

- Annual examiner turnover rate
  - Target FY 2024: **16%**
- Average regulated assets per examiner (billions)
  - Target FY 2024: **\$3.0 billion\***
- Number of days of formal training attended by staff
- Number of purchases made from HUB vendors
- Percentage of purchases made from HUB vendors
  - Target FY 2024: **Professional Services - 23.7%; Other Services - 26.0%; and Commodities - 21.1%**
- Percentage of credit unions indicating quality service annually
  - Target FY 2024: **90%**
- Staffing level
  - Target FY 2024: **95%**
- Number of jobs fairs attended
  - Target FY 2024: **2**
- Turnover ratio (excluding retirements)
  - Target FY 2024: **Less than 15%**
- Accreditation by NASCUS Maintained in Good Standing
  - Target FY 2024: **Yes**
- Total Department costs relative to every \$100,000 in assets regulated
  - Target FY 2024: **\$6.94\*\***

\*Same as FY23 which was based on regulated assets as of March 31, 2023, divided by 19 examiners (fully staffed). As of May 31, 2023, this YTD figure is \$3.7 billion based on staffing (short 2 examiners) and regulated assets; an increase of approximately 79 percent from the FYE17 figure of \$2.08 billion. Once the two open field examiner positions are filled, this will reduce the existing level to the target level of \$3.0 billion, which supports the proposed FY24 target.

\*\*Target based on FY22 cost of \$6.61/\$100k of regulated assets times 105% during the fiscal year. The high level of remote work has resulted in restricted travel and greatly reduced costs. It is anticipated more exams will be conducted on-site moving forward and examiner travel costs will increase. The FY23 costs have not yet been computed as we have not reached the FYE.



## DEPARTMENT BUDGET – FY 2024

REVENUE:		
Operating Fees		\$5,556,986 <sup>1</sup>
Examination Fees		
Application Fees		
Penalties		
Refund/Reimbursement of Expenditures		
Other		
TOTAL REVENUE		\$5,556,986
EXPENDITURES:		
Personnel Expenses		
Salaries and Wages	\$3,270,325	
Payroll Related Costs	968,021	
Total Personnel Expenses		\$4,238,346
Travel Expenses		
In State	\$426,372	
Out-of-State	25,000	
Commission	24,000	
Total Travel Expenses		\$475,372
Other Operating Expenses		
Professional Services/Fees	\$430,600	
Materials and Supplies	58,632	
Communications/Utilities	58,214	
Repairs/Maintenance	29,165	
Rentals and Leases	4,900	
Printing and Reproduction	1,000	
Other Expenditures	160,757	
Contingency Reserve Funding (FY22)	100,000	
Total Other Operating Expenses		\$843,268
TOTAL EXPENDITURES		\$5,556,986
CONTINGENCY RESERVE AFTER FY23 FUNDING		\$998,750
FULL-TIME-EQUIVALENT POSITIONS (FTEs)		35.0

<sup>1</sup> Budgeted operating fees will be set to cover the actual budget approved by the Commission. Any funds more than the prescribed Contingency Fund Reserve aggregate limit as of August 31, 2023, will also be used to reduce the operating fees for Texas credit unions during the fiscal year.

	CUMULATIVE RESOURCES					
Budget Year	2018	2019	2020	2021	2022	2023*
Authorized FTE	29.5	29.5	30.0	30.0	31.0	33.0
Actual FTE	28.5	29.0	29.0	27.0	27.5	30.5
Budgeted Dollars	\$4,063,453	\$4,260,909	\$4,445,694	\$4,307,682	\$4,894,832	\$5,057,455
Actual Dollars Spent	\$3,874,028	\$3,903,856	\$3,898,009	\$3,524,092	\$3,895,886	TBD

\*As of May 31, 2023.

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## **RULEMAKING MATTERS**

Three items are being presented to the Commission for its information, consideration, and/or possible action. Specifically, the Commission will discuss, consider and possibly take action on:

- (1) Adoption of the Rule Review of 7 TAC, Part 6, **Chapter 91**, Subchapter **C** (Members), Subchapter **P** (Other Forms of Equity Capital), and Subchapter **Q** (Access to Confidential Information) and Re-adoption of Rules.

**RECOMMENDED ACTION:** The Department requests that the Commission take action as indicated in the documents contained in **TAB G**.

## **PROCEDURES FOR ADOPTING A PROPOSED RULE**

1. A proposed rule is prepared by Credit Union Department staff and presented to legal counsel (Attorney General) for review.
2. The proposed rule is presented to the commission for consideration.
3. The commission reviews, amends, adopts, refers back to staff, or tables the proposed rule.
4. The proposed rule is adjusted by staff (if required), furnished to legal counsel, and transmitted to the **Texas Register** for publication as a "proposed" rule.
5. A 30-day comment period follows initial publication which also is made in the Department's monthly newsletter or by a special mailing to credit unions.
6. The commission may reconsider the rule any time after the 30-day comment period. Any comments received are considered and the rule is available for adoption as "final" if no substantive changes are made. Any substantive change will result in the rule reverting to step four.
7. The rule is adopted as "final" and transmitted to the ***Texas Register*** for publication as a final rule. The rule becomes effective 20 days following filing for publication.
8. The rule is published or announced through the Department's newsletter.

## **EMERGENCY RULES**

Rules, which are approved by the commission for emergency adoption, are transmitted to the ***Texas Register*** for filing. These rules become effective immediately upon filing unless another effective date is specified. They can be effective only for 120 days with a renewal provision for an additional 60 days a maximum of 180 days. "Day one" is the day of filing or the date specified as the effective date. While these emergency rules are in effect, regular rules should be initiated using the normal procedure described above. The Department rarely adopts emergency rules.

## **PROCEDURES FOR REQUIRED RULE REVIEW**

*Section 2001.39, Government Code, requires that a state agency review and consider for re-adoption each rule not later than the fourth anniversary of the date on which the rule took effect and every four years after that date. To comply with this requirement, the Commission follows the procedure below:*

1. Every four years, the Commission adopts and publishes a Rule Review Plan, which establishes a date for the required review of each existing rule.
2. At least sixty days prior to a particular rule's scheduled review date, the Department publishes notice in the Newsletter reminding interested persons of the review and encouraging comments on the rules up for review.
3. Staff reviews each rule to determine whether it is obsolete, whether the rule reflects current legal and policy considerations, and whether the rule's structure as well as the specific language used is both clear and understandable.
4. If in reviewing existing rules, staff believes certain amendments may be appropriate, it provides an informal comment phase on any potential substantive amendments to all interested persons via its RuleRemarks blog on the Department's webpage.
5. After consideration of the informal comments, proposed amendments are prepared by staff and presented to the Rules Committee for review.
6. At a public meeting, the Rules Committee accepts public testimony on each rule subject to review and considers staff recommended changes. The Committee reviews each rule and then amends the staff proposal and refers it to the Commission, refers the proposal back to staff, or refers the proposal, as recommended by staff, to the Commission.
7. The Committee's recommendation is presented to the Commission for consideration.
8. The Commission reviews, amends, approves the proposal for publications, refers it back to the Committee, or tables the proposed amendment.
9. If the Commission approves the proposal for publication, it is transmitted to the *Texas Register* for publication as a "proposed" rule amendment.
10. A 30-day comment period follows initial publication which also is announced in the Department's monthly newsletter.
11. The commission may reconsider the rule any time after the 30-day comment period. Any comments received are considered and the rule is available for adoption as "final" if no substantive changes are made. Any substantive change will result in re-publication of the proposal.



12. The rule as amended is adopted and transmitted to the *Texas Register* for publication as a final rule. The rule becomes effective 20 days following filing for publication.
13. The amended rule is announced through the Department's newsletter and copies are made available to credit unions.

## **MANDATORY RULE REVIEW**

**G. (1) Adoption of the Rule Review of 7 TAC, Part 6, Chapter 91, Subchapter C (Members); P (Other Forms of Equity Capital); and Subchapter Q (Access to Confidential Information) and Re-adoption of Rules.**

**BACKGROUND:** Section 2001.039, Government Code, requires that a state agency review and consider for readoption each rule not later than the fourth anniversary of the date on which the rule took effect and every four years after that date. As provided in the noted section, the reviews must include, at a minimum, an assessment by the agency as to whether the reason for adopting the rule continues to exist. At its February 2020 meeting, the Commission approved a plan which establishes a date for the required review for each of the affected rules. In accordance with that plan, staff has reviewed 7 TAC, Part 6, Chapter 91, Subchapter C (Members), Subchapter; P (Other Forms of Equity Capital); and Subchapter Q (Access to Confidential Information) and Re-adoption of Rules.

Notice of the review and a request for comments on the rules in this chapter was published in the March 10, 2023, issue of the *Texas Register*. No comments were received regarding the review. The Department believes that the reasons for adopting the noted rules continue to exist.

**RECOMMENDED ACTION:** The Department requests that the Commission approve and adopt the rule review as the reasons for these rules continue to exist.

**RECOMMENDED MOTION:** I move that the Commission find that the reasons for adopting 7 TAC, Part 6, Chapter 91, Subchapter C (Members), Subchapter; P (Other Forms of Equity Capital); and Subchapter Q (Access to Confidential Information) continue to exist and readopt these rules.

The Credit Union Commission (Commission) has completed its review of Chapter 91 Subchapter C (relating to Members); Subchapter P (relating to Other Forms of Equity Capital); and Subchapter Q (relating to Access to Confidential Information).

The rules were reviewed as a result of the Department's general rule review under Texas Government Code Section 2001.039.

Notice of the review of 7 TAC, Part 6, Chapter 91, Subchapters A, P and Q were published in the *Texas Register* as required on March 10, 2023 (48 TexReg 1453). The Department received no formal comment on the notice of intention to review.

The Department hereby certifies that the adoption has been reviewed by legal counsel and found to be within the agency's legal authority to readopt.

## Subchapter C. Members

### §91.301. Field of Membership.

(a) General. Membership in a credit union shall be limited to one or more groups, each of which (the Group) has its own community of interest as outlined under Texas Finance Code Section 122.051. The commissioner may impose a geographical limitation on any Group if the commissioner reasonably determines that the applicant credit union does not have the ability to serve a larger group or there are other operational or management concerns.

(b) Other persons eligible for membership. A number of persons by virtue of their close relationship to a Group may be included in the field of membership at the option of the applicant credit union. These include:

- (1) members of the family or household of a member of the Group;
- (2) volunteers performing services for or on behalf of the Group;
- (3) organizations owned or controlled by a member or members of the Group, and any employees and members of those organizations;
- (4) spouses of persons who died while in the Group;
- (5) employees of the credit union; and
- (6) subsidiaries of the credit union and their employees; and businesses and other organizations whose employees or members are within the Group.

(c) Multiple-groups.

(1) The commissioner may approve a credit union's original articles of incorporation and bylaws or a request for approval of an amendment to a credit union's bylaws to serve one or more communities of interest or a combination of types of communities of interest.

(2) In addition to general requirements, special requirements pertaining to multiple-Group applications may be required before the commissioner will grant such a certificate or approve such an amendment.

(A) Each Group to be included in the proposed field of membership of the credit union must have its own community of interest.

(B) Each associational or occupational Group must individually request inclusion in the proposed credit union's field of membership.

(d) Overlap protection.

(1) The commissioner will only consider the financial effect of an overlap proposed by an application to expand a credit union's field of membership or when a charter application proposes an overlap for a Group of 3,000 members or more.

(2) The commissioner will weigh the information in support of the application and any information provided by a protesting or affected credit union. If the applicant has the financial capacity to serve the financial needs of the proposed members, demonstrates economic feasibility, complies with the requirements of this rule, and no protestant reasonably establishes a basis for denying the request, it shall be approved.

(3) If a finding is made that overlap protection is warranted, the commissioner shall reject the application or require the applicant to limit or eliminate the overlap by adding exclusionary language to the text of the amendment, e.g., "excluding persons eligible for primary membership in any occupation or association based credit union that has an office within a specified proximity of the applicant credit union at the time membership is sought." Exclusionary clauses are rarely appropriate for inclusion on a geographic community of interest.



(4) Generally, if the overlapped credit union does not submit a notice of protest form, and the department determines that there is no safety and soundness problem, an overlap will be permitted. If, however, a notice of protest is filed, the commissioner will consider the following in performing an overlap analysis:

- (A) whether the overlap is incidental in nature, i.e., the group(s) in question is so small as to have no material effect on the overlapped credit union;
- (B) whether there is limited participation by members of the group(s) in the overlapped credit union after the expiration of a reasonable period of time;
- (C) whether the overlapped credit union provides requested service;
- (D) the financial effect on the overlapped credit union;
- (E) the desires of the group(s); and
- (F) the best interests of the affected group(s) and the credit union members involved.

(5) Where a sponsor organization expands its operations internally, by acquisition or otherwise, the credit union may serve these new entrants to its field of membership if they are part of the community of interest described in the credit union's bylaws. Where acquisitions are made which add a new subsidiary or affiliate, the group cannot be served until the entity is included in the field of membership through the application process.

(6) Credit unions affected by the organizational restructuring or merger of a group within its field of membership must apply for a modification of their fields of membership to reflect the group to be served.

(e) Underserved communities.

(1) All credit unions may include underserved areas or areas designated as a credit union development district in accordance with Subchapter K (related to Credit Union Development Districts) in their fields of membership, without regard to location. More than one credit union can serve the same underserved community.

(2) A credit union desiring to add an underserved community must document that the area meets the applicable definition in §91.101 (relating to Definitions and Interpretations). In addition, the credit union must develop a business plan specifying how it will serve the community. The business plan, at a minimum, must identify the credit and depository needs of the community and detail how the credit union plans to serve those needs. The credit union will be expected to regularly review the business plan to determine if the community is being adequately served. The commissioner may require periodic service status reports from a credit union pertaining to the underserved area to ensure that the needs of the area are being met, as well as requiring such reports before allowing a credit union to add an additional underserved area.

(f) Parity with Federal Credit Unions.

Credit unions will be allowed to have, at a minimum, at least as much flexibility as federal credit unions have in field of membership regulation. If a credit union proposes a type of Group that the National Credit Union Administration has previously determined meets the Federal requirements, the commissioner shall approve the application unless the commissioner finds that the credit union has not demonstrated sufficient managerial and financial capacity to safely and soundly serve such expanded membership.

(g) Application.

In order to request the approval of the commissioner to add a Group to its bylaws, a credit union must submit a written application to the Department. The applicant credit union shall have the burden to show to the Department such facts and data that support the requirements and considerations in this rule. In reviewing such application, the commissioner shall consider:

- (1) Whether the Group has adequate unifying characteristics or a mutual interest such that the safety and soundness of the credit union is maintained;
- (2) The ability of credit unions to maintain parity and to compete fairly with their counterparts;
- (3) Service by the credit union that is responsive to the convenience and needs of prospective members;
- (4) Protection for the interest of current and future members of the credit union; and
- (5) The encouragement of economic progress in this State by allowing opportunity to expand services and facilities.

## **Subchapter P. Other Forms of Equity Capital**

### **§91.7000. Certificates of Indebtedness.**

- (a) General. No credit union may issue certificates of indebtedness pursuant to this section or amend the terms of such certificates unless it has obtained a written letter from the commissioner stating that the commissioner does not object ("non-objection letter"). All requirements of the provisions of this section must be met before a non-objection letter will be issued.
- (b) Form of application; supporting information. Applications must be in the form prescribed by the commissioner and shall include all information and exhibits required by the application instructions.
- (c) Requirements as to certificates. Certificates of Indebtedness issued pursuant to this section shall meet all of the following requirements:
  - (1) Form of certificate. Each certificate evidencing subordinated debt issued by a credit union pursuant to this section shall:
    - (A) Bear on its face, in bold-face type, the following legends:
      - (i) "This certificate is not a share account or deposit and it is not insured by the United States or any other insuring organization or fund"; and
      - (ii) "This certificate is not eligible for purchase by any credit union or a credit union service organization thereof without the prior written approval of the Credit Union Commissioner of the State of Texas."
    - (B) Clearly state that the certificate –
      - (i) Is subordinated to all other claims of the credit union's creditors;
      - (ii) Is totally unsecured; and
      - (iii) May not be used as collateral for any loan by the issuing credit union.
    - (C) Shall include within its terms the right of the issuing credit union to prepay the obligation, which shall, at a minimum, include the right to prepay any amount without premium or penalty any time during the fifteen months prior to the maturity date;
    - (D) Shall contain the following statement:  
 "Notwithstanding anything to the contrary in this certificate (or in any related documents); (i) if the NCUA or other insuring organization shall be appointed liquidating agent for the issuer of this certificate ("the issuer") and in its capacity as such shall cause the issuer to merge with or into another credit union, or in such capacity shall sell or otherwise convey part or all of the assets

of the issuer to another credit union or shall arrange for the assumption of less than all of the liabilities of the issuer by one or more credit unions, the NCUA or other insuring organization shall have no obligation, either in its capacity as liquidating agent or in its corporate capacity, to contract for or to otherwise arrange for the assumption of the obligations represented by this certificate in whole or in part by any credit union or credit unions which results from any such merger or which has purchased or otherwise acquired from the NCUA or other insuring organization as liquidating agent for the issuer, any of the assets of the issuer, or which, pursuant to any arrangement with the NCUA or insuring organization, has assumed less than all of the liabilities of the issuer. To the extent that obligations represented by this certificate have not been assumed in full by a credit union with or into which the issuer may have been merged, as described in this paragraph (A), and/or by one or more credit unions which have succeeded to all or a portion of the assets of the issuer, or which have assumed a portion but not all of the liabilities of the issuer as a result of one or more transactions entered into by the NCUA or other insuring organization as liquidating agent for the issuer, then the holder of this certificate shall be entitled to payments on this obligation in accordance with the procedures and priorities set forth in any applicable law. (ii) In the event that the obligation represented by this certificate is assumed in full by another credit union, which shall succeed by merger or otherwise to substantially all of the assets and the business of the issuer, or which shall by arrangement with the NCUA or insuring organization assume all or a portion of the liabilities of the issuer, and payment or provision for shall have been made in respect of all matured installments of interests upon the certificates together with all matured installments of principal on such certificates which shall have become due otherwise than by acceleration, than any default caused by the appointment of a liquidating agent for the issuer shall be deemed to have been cured, and any declaration consequent upon such default declaring the principal and interest on the certificate to be immediately due and payable shall be deemed to have been rescinded. (iii) This certificate is not eligible to be purchased or held by any credit union or credit union service organization thereof. The issuer of this certificate may not recognize on its transfer books any transfer made to a credit union or any credit union service organization thereof and will not be obligated to make any payments of principal or interest on this certificate if the owner of this certificate is a credit union or any credit union service organization thereof."

(2) Limitations as to term and prepayment.

(A) No certificate of indebtedness issued by a credit union pursuant to this section shall have an original period to maturity of less than seven years. During the first six years that such a certificate is outstanding, the total of all required sinking fund payments, other required prepayments, and required reserve allocations with respect to the portion of such six years as have elapsed shall at no time exceed the original principal amount or original redemption price, thereof multiplied by a fraction, the numerator of which is the number of years that have elapsed since the issuance of the certificate and the denominator of which is the number of years covered by the original period to maturity.

(B) No voluntary prepayment of principal shall be made and no payment of principal shall be accelerated without the approval of the commissioner if the credit union's net worth ratio is below 6% or, if after giving effect to such payment, the credit union's net worth ratio would fall below 6%.

(b) Offering circular. The credit union shall submit the proposed offering circular to the Department. The offering circular must state the following in bold print:

**"These certificates have not been approved by the Texas Credit Union Department nor has the Texas Credit Union Department approved this offering circular."**

(c) Supervisory objection. Generally, the commissioner will not issue a non-objection

letter where:

(1) The proposed issue fails to transfer risk away from the National Credit Union Share Insurance Fund or other insuring organization and onto the certificate holders.

(2) Information submitted in connection with the application or otherwise available to the Department indicates that the credit union will not be able to service the proposed debt. Evaluation of the issuer's ability to service debt should be prospective, based upon the issuer's business plan.

(3) The ratio of subordinated debt included as equity capital to the credit union's net worth requirements exceeds one-third, after giving effect to the proposed issue.

(4) The proposed deployment of the proceeds of the proposed issue is contrary to the credit union's business plan, is unrealistic in its assumptions, or is inconsistent with the principles of safety and soundness.

(5) The credit union has failed to comply with the terms and conditions imposed upon previous subordinated debt issuances, or has failed to comply with any outstanding enforcement action, written agreement or any other significant supervisory requirement.

(d) Additional requirements. The commissioner may impose on the credit union such requirements or conditions with regard to certificates or the offering or issuance thereof as the commissioner may deem necessary or desirable for the protection of purchasers, the credit union, the National Credit Union Share Insurance Fund, or other insuring organization, as the case may be.

(e) Limitation on offering period. Following the date of the issuance of a non-objection letter, the credit union shall have an offering period of not more than one year in which to complete the sale of the certificates of indebtedness issued pursuant to this section. The commissioner may in his discretion extend such offering period if a written request showing good cause for such extension is filed with the Department not later than 30 days before the expiration of such offering period or any previous extension thereof.

(f) Policies and Procedures. Before any offers or sales of the certificates are made on the premises of the credit union or its credit union service organization, the credit union shall submit

to the Department a set of policies and procedures for such sale of certificates that is satisfactory to the Department.

(g) Records. A credit union shall establish and maintain certificate of indebtedness documentation practices and records that demonstrate the credit union appropriately administers and monitors certificate of indebtedness-related activities. The credit union's records should adequately evidence ownership, balances, and all transactions involving each certificate. The credit union may maintain records on certificate of indebtedness activities in any format that is consistent with standard business practices.

(h) Disclosures.

(1) In connection with the purchase of a certificate of indebtedness by a person from the issuing credit union or its credit union service organization, the credit union and/or the credit union service organization must disclose to the person that:

(A) The certificate of indebtedness is not a share or deposit;

(B) The certificate of indebtedness is not insured by the National Credit Union Share Insurance Fund or any other insuring organization;

(C) There is investment risk associated with the certificate of indebtedness, including the possible loss of value; and



(D) The credit union may not condition an extension of credit on a person's purchase of a certificate of indebtedness.

(2) The disclosures required by paragraph (1) above must be provided orally and in writing before the completion of the sale of a certificate of indebtedness. If the sale of a certificate of indebtedness is conducted by telephone, the credit union may provide the written disclosure required by paragraph (1) by mail within three business days beginning the first business day after the sale, solicitation, or offer.

(3) A credit union may provide the written disclosures required by paragraph (1) through electronic media instead of on paper, if the person affirmatively consents to receiving the disclosures electronically and if the disclosures are provided in a format that the person may retain or obtain later, for example, by printing or storing electronically (such as by downloading).

(4) The disclosures provided shall be conspicuous and designed to call attention to the nature and significance of the information provided.

(i) Sales Activities. A credit union must, to the extent practicable:

(1) Keep the area where the credit union conducts transactions involving certificate of indebtedness physically segregated from areas where shares and deposits are routinely accepted from members;

(2) Identify the area where certificate of indebtedness activities occur; and

(3) Clearly delineate and distinguish those areas from the areas where the credit union's share- and deposit-taking activities occur.

(j) Referrals. Any person who accepts deposits from members in an area where such transactions are routinely conducted in a credit union may refer a member who seeks to purchase a certificate of indebtedness to a qualified person who sells that product only if the person making the referral receives no additional compensation for making the referral.

(k) Reports. Within 30 days after completion of the sale of the subordinated debt issued pursuant to this section, the credit union shall transmit a written report to the Department stating the number of purchases, the total dollar amount of certificates sold, and the amount of net proceeds received by the credit union. The credit union's report shall clearly state the amount of subordinated debt, net of all expenses that the credit union intends to have counted as equity capital. In addition, the credit union, shall submit to the Department, certification of compliance with all applicable laws and regulations in connection with the offering, issuance, and sale of the certificates. Equity capital. When a certificate of indebtedness has a remaining maturity of 5 years, the amount of the certificates that may be considered equity capital shall be reduced by a minimum of 20% of the original amount of the certificate per year. The equity capital shall be reduced by a constant monthly amortization to ensure the recognition of subordinated debt is fully amortized when the certificate matures or is prepaid.

(l) Prohibited practices.

(1) A credit union may not engage in any practice or use any advertisement at any office of, or on behalf of, a credit union that could mislead any person or otherwise cause a reasonable person to reach an erroneous belief with respect to:

(A) the fact that a certificate of indebtedness a credit union sells or offers for sale is not insured by the National Credit Union Share Insurance Fund or other insuring organization;

(B) the fact that there is an investment risk, including the potential that principal may be lost and that the certificate may decline in value; or

(C) the fact that the approval of an extension of credit to a person by the credit union or credit union service organization may not be conditioned on the purchase of a certificate of indebtedness from the credit union or credit union service organization.

(2) No credit union shall directly or indirectly:

(A) employ any device, scheme or artifice to defraud,

(B) make any untrue statement of a material fact or omit to state a material fact necessary in order to make statements made, in light of the circumstances under which they were made, not misleading, or

(C) engage in any act, practice, or course of business which operates as a fraud or deceit upon any person, in connection with the purchase or sale of any certificate of indebtedness.

## **Subchapter Q. Access to Confidential Information**

### **§91.8000. Discovery of Confidential Information.**

- (a) Policy. The legislature has determined that certain information is confidential and, with limited exceptions, should not be disclosed. See Texas Finance Code, §126.002. Non-disclosure under this section protects the stability of credit unions by preventing disclosures that could adversely impact the institutions. Inappropriate disclosures can result in substantial harm to credit unions and to those persons and entities (including other financial institutions) that have relationships with them. For example, the department may criticize a credit union in an examination report for a financial weakness that does not currently threaten the solvency of the credit union. If improperly disclosed, the criticism can lead to adverse impacts such as the possibility of a "run," short-term liquidity problems, or volatility in costs of funds, which in turn can exacerbate the problem and cause the failure of the credit union. These failures lead to reduced access to credit and greater risk to depositors. Further, since specific loans may be criticized in an examination report, confidentiality of the information protects the financial privacy of borrowers. Finally, protecting confidential information from disclosure facilitates the free exchange of information between the credit union and the regulator, encourages candor, and promotes regulatory responsiveness and effectiveness. Information that does not fall within the meaning of confidential information as defined in this section may be confidential under other definitions and controlled by other laws, and is not subject to this section.
- (b) Disclosure prohibited. Pursuant to Finance Code §126.002, the department has an absolute privilege against disclosure of its confidential information. Discovery of confidential information from a person subject to §126.002 must comply with subsection (c) of this section. Only a person to whom confidential information has been released pursuant to §126.002 or this rule may disclose that information to another, and only in accordance with that section and this rule.
- (c) Discovery of confidential information. A credit union, governmental agency, credit union service organization, service provider, or insuring organization that receives a subpoena or other form of discovery for the release of information that is confidential under §126.002 of the Act shall promptly:
- (1) notify the department of the request;
  - (2) provide the department with a copy of the discovery documentation and, if

requested by the department, a copy of the requested information; and

(3) move for a protective order, or its equivalent under applicable rules of procedure. In addition, prior to the release of confidential information, such credit union, governmental agency, credit union service organization, service provider, or insuring organization must obtain a ruling on its motion in accordance with this section. Confidential information may be released only pursuant to a protective order, or its equivalent, in a form consistent with that set out in this section and only if a court with jurisdiction has found that:

(A) the party seeking the information has a substantial need for the information;

(B) the information is directly relevant to the legal dispute in issue; and

(C) the party seeking the information is unable without undue hardship to obtain its substantial equivalent by other means.

(d) Discretionary filings by department. On receipt of notice under subsection (c) of this section, the department may take action as may be appropriate to protect confidential information. The department has standing to intervene in a suit or administrative hearing for the purpose of filing a motion for protective order and in camera inspection in accordance with this section.

(e) Motion for protective order, or equivalent, and in camera inspection. The movant shall ask the court to enter an order in accordance with this section regarding the release of confidential information. If necessary to resolve a dispute regarding the confidential status or direct relevance of any information sought to be released, the party seeking the order shall move for an in camera inspection of the pertinent information. Until subject to a protective order, or its equivalent, confidential information may not be released, and, if necessary, the party seeking an order shall request the court officer to deny discovery of such confidential information.

(f) Protective order or equivalent. An order obtained pursuant to the terms of this section must:

(1) specifically bind each party to the litigation, including one who becomes a party to the suit after the order is entered, each attorney of record, and each person who becomes privy to the confidential information as a result of its disclosure under the terms of the order;

(2) describe in general terms the confidential information to be produced;

(3) state substantially the following in the body of the order:

(A) absent court order to the contrary, only the court reporter and attorneys of record in the cause may copy confidential information produced under the order in whole or part;

(B) the attorneys of record are custodians responsible for all originals and copies of confidential information produced under the order and must insure that disclosure is limited to those persons specified in the order;

(C) confidential information subject to the order and all information derived there from may be used only for the purposes of the trial, appeal, or other proceedings in the case in which it is produced; confidential information to be filed or included in a filing in the case must be filed with the clerk separately in a sealed envelope bearing suitable identification, and is available only to the court and to those persons authorized by the order to receive confidential information, and all originals and copies made of such documents and records must be kept under seal and disclosed only in accordance with the term of the protective order;

(D) confidential information produced under the order may be disclosed only to the following persons and only after counsel has explained the terms of the order to the

person who will receive the information and provided that person with a copy of the order;

(i) to a party and to an officer, employee, or representative of a party, to a party's attorneys (including other members and associates of the respective law firms and contract attorneys in connection with work on the case) and, to the extent an attorney of record in good faith determines disclosure is necessary or appropriate for the conduct of the litigation, legal assistants, office clerks and secretaries working under the attorney's supervision;

(ii) to a witness or potential witness in the case;

(iii) to an outside expert retained for consultation or for

testimony, provided the expert agrees to be bound by the terms of the order and the party employing the expert agrees to be responsible for the compliance by its expert with this confidentiality obligation; and

(iv) to the court or to an appellate officer or body with jurisdiction of an appeal in the case;

(E) at the request of the department or a party, only the court, the parties and their attorneys, and other persons the court reasonably determines should be present may attend the live testimony of a witness or discussions or oral arguments before the court that may include confidential information or relate to such confidential information. The parties shall request the court to instruct all persons present at such testimony, discussions, or arguments that release of confidential information is strictly forbidden;

(F) a transcript, including a deposition transcript, that may include confidential information subject to non-disclosure is subject to the order. The party requesting the testimony of a current or former department officer, employee, or agent shall, at its expense, furnish the department a copy of the transcript of the testimony once it has been transcribed.

(G) Upon ultimate conclusion of the case by final judgment and the expiration of time to appeal, or by settlement or otherwise, counsel for each party shall return all copies of every document subject to the order for which the counsel is custodian to the party that produced the confidential information; and

(H) Production of documents subject to the order does not waive a claim of privilege or right to withhold the documents from a person not subject to the order.

(4) Paragraph (3)(A), (B) and (E) - (H) of this subsection are subject to modification by the court for good cause before the conclusion of the proceeding, after giving the department notice and an opportunity to appear.



H

## **STATUS OF THE STATE CREDIT UNION SYSTEM**

### **H. Status of the State Credit Union System.**

**BACKGROUND:** The Texas economic performance and outlook continues to be strong. The unemployment rate for Texas as of May 31, 2023 was 4.1 percent, which was slightly above the 3.8 percent level from a year ago, but below the 5.00 level at year-end 2021. Further, three of the four metropolitan areas in Texas remain relatively closely consistent with the national unemployment average of 3.7 percent.

Year-to-date 2023, the job growth in Texas has outpaced every state in the nation, both in number and percentage of jobs added, at 529,800 new jobs and 4.0 percent respectively. In addition, the total number of Texas jobs increased to 13.92 million, representing the 20<sup>th</sup> consecutive month of highest job count in Texas. Including the self-employed, the number of Texans employed is 14.39 million. Further, the 687k job openings reported by Texas employers reflects even more opportunities for the Texas economy.

Overall, the financial performance of Texas chartered credit unions has been exceptional for each of the last two calendar years. Further, first quarter results for 2023 reflect a continuation of strong operating performance trends, with sound capital strength and favorable loan quality trends reported. Net worth ratios for Texas charters continue to strengthen and loan delinquency and loss trends are at some of the lowest levels in over seven years. A summary of some key financial performance trends for Texas state-chartered credit unions is depicted as follows:

Key Ratio	2017	2018	2019	2020	2021	2022	Mar. 23
Net Worth/Total Assets	10.30	10.82	11.10	10.36	10.43	10.90	10.93
Delinquent Loans/Total Loans	0.89	0.75	0.71	0.75	0.52	0.61	0.46
Net Charge-Offs/Average Loans	0.75	0.68	0.69	0.57	0.36	0.37	0.42
Return on Average Assets	0.71	0.88	0.88	0.70	1.08	0.96	0.75

While there had been a slight dilution of capital ratios during 2020 and 2021 tied to stimulus deposits and flight to safety, deposit and asset growth were more controlled during 2022, which resulted in a strengthening of net worth positions for Texas charters. While the outlook for the Texas industry appears positive based on current

financial performance trends, it will remain imperative for credit unions and their management teams to adapt to the ever-changing economic trends (i.e., inflation, etc.), and political implications (i.e., local, national, and worldwide) to safeguard the financial interests of millions of Texans.

**INDUSTRY STATUS:** As of **March 31, 2023**, there were **169** state-chartered credit unions in Texas reporting, down six charters from the previous twelve months. Assets in these credit unions totaled **\$57.69 billion**, a slight decline of **\$0.26 billion** since **March 31, 2022**, for an annualized growth rate of negative **0.4 percent**. The negative asset growth was a result of a large Texas chartered credit union converting to a federal charter in late 2022. Excluding that conversion, assets for Texas credit unions grew approximately \$3.5 billion, or 6.5 percent. The aggregate net worth ratio is **10.93 percent**, up significantly from the **10.39 percent** level of twelve months ago.

Loans for Texas chartered credit unions totaled **\$41.95 billion** as of **March 31, 2023**. This is an increase of **\$3.61 billion** since **March 31, 2022**, for an annualized growth rate of **9.4 percent**.

Shares for Texas chartered credit unions totaled **\$52.05 billion** as of **March 31, 2023**. This is an increase of **\$1.42 billion**, or **2.8 percent** since **March 31, 2022**.

Texas chartered credit unions average loan delinquency ratio was **0.46 percent** as of **March 31, 2023**, slightly above the ratio of **0.44 percent** from twelve months ago.

As of **March 31, 2023**, **19** state-chartered credit unions reported year to date net losses of **\$3.17 million**, while the remaining **150** credit unions reported aggregate net income of **\$110.63 million**. A breakdown of the number of credit unions with positive earnings performance, by asset category, is as follows:

Assets Size	# of CUs	# Profitable	% Profitable (03-31-2023)	% Profitable (03-31-2022)	% Profitable (06-30-2021)
\$1 Billion and above	18	17	94%	94%	100%
\$500 to \$999.9 Million	15	14	93%	100%	94%
\$250 to \$499.9 Million	13	13	100%	100%	100%
\$100 to \$249.9 Million	25	24	96%	92%	92%
\$50 to \$99.9 Million	19	16	84%	91%	95%
\$10 to \$49.9 Million	46	38	83%	83%	79%
Under \$10 Million	32	24	75%	57%	69%
<b>Totals</b>	<b>169</b>	<b>150</b>	<b>89%</b>	<b>84%</b>	<b>86%</b>



**PROBLEM INSTITUTIONS:** While overall the industry is doing well, some institutions face challenges. As of **March 31, 2023**, there were **22** credit unions assigned a composite CAMELS rating of 3 or higher which is the same number from one year ago, as of **March 31, 2022**. These institutions represent **13.0 percent** of charters or **2.20 percent** of assets under supervision. Credit unions in this category are monitored through a combination of off-site monitoring, regular on-site or remote contacts, and ongoing reviews for compliance with outstanding Documents of Resolution and other supervisory agreements or orders.

**ENFORCEMENT ISSUES:** As of **March 31, 2023**, the Department had the following administrative sanctions outstanding:

Dividend Restrictions	<b>0</b>
LUAs	<b>0</b>
Determination Letters	<b>0</b>
Conservatorships	<b>0</b>
Cease and Desist	<b>3</b>

#### **CHARTERING ACTIVITY**

New Charters*	<b>0</b>
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\*Since last commission meeting

**RECOMMENDED ACTION:** No formal action is anticipated.



I

## **RESOLUTIONS OF APPRECIATION**

### **I. Resolutions of Appreciation for Outgoing Commission Members Sherri Merket and Yusuf Farran.**

**BACKGROUND:** In accordance with Section VII of the Commission's Policies Manual, the Commission shall adopt a resolution of appreciation to recognize the service of members upon the completion of their term of office. Accordingly, Staff has drafted the attached resolutions for your consideration.

**RECOMMENDED ACTION:** I move that we approve the Resolutions of Appreciation for Outgoing Commission Members Sherri Merket and Yusuf Farran as presented and that a copy of the appropriate resolutions be given to them as a token of our appreciation.



## RESOLUTION

The Credit Union Commission, State of Texas, hereby publicly proclaims its appreciation for devoted service performed in the interest of Texas credit unions and the people of Texas by

### **Sherri B. Merket**

**WHEREAS**, on April 13, 2011, Governor Greg Abbott appointed Sherri B. Merket of Midland, Texas to the Credit Union Commission; and

**WHEREAS**, Sherri B. Merket served as a Public Member of the Commission with honor and distinction through April 4, 2023; and

**WHEREAS**, as a Commission Member, she dedicated her time and energies working to assure that the Commission and the Credit Union Department fulfilled their responsibilities while remaining sensitive to the needs of Texas credit unions and their members; and

**WHEREAS**, Sherri B. Merket has been diligent in her duty as a member of the Commission providing worthy leadership and guidance to the Credit Union Department.

**NOW THEREFORE, BE IT RESOLVED**, that the Credit Union Commission expresses its sincere appreciation for the leadership that Sherri B. Merket provided during her tenure as a Commission member; and

**BE IT FURTHER RESOLVED**, that this Resolution be conveyed to Sherri B. Merket as a token of the Commission's gratitude and entered in the minutes of the Commission's meeting.

**READ, ADOPTED, AND APPROVED**, unanimously by the Credit Union Commission, State of Texas, this eleventh day of August 2023.



## RESOLUTION

The Credit Union Commission, State of Texas, hereby publicly proclaims its appreciation for devoted service performed in the interest of Texas credit unions and the people of Texas by

### **Yusuf E. Farran**

**WHEREAS**, on July 16, 2015, Governor Greg Abbott appointed Yusuf E. Farran of El Paso, Texas to the Credit Union Commission; and

**WHEREAS**, Yusuf E. Farran served as a Public Member of the Commission through February 1, 2023; and

**WHEREAS**, as a Commission Member, he dedicated his time and energies working to assure that the Commission and the Credit Union Department fulfilled their responsibilities while remaining sensitive to the needs of Texas credit unions and their members; and

**NOW THEREFORE, BE IT RESOLVED**, that the Credit Union Commission expresses its sincere appreciation for the leadership that Yusuf E. Farran provided during his tenure as a Commission member; and

**BE IT FURTHER RESOLVED**, that this Resolution be conveyed to Yusuf E. Farran as a token of the Commission's gratitude and entered in the minutes of the Commission's meeting.

**READ, ADOPTED, AND APPROVED**, unanimously by the Credit Union Commission, State of Texas, this eleventh day of August 2023.

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Jim Minge, Chairman



J

## **VICE CHAIR APPOINTMENT**

### **J. Discussion and Consideration of the Chair's Designation of a Vice Chair.**

**BACKGROUND:** As required by Commission Policy, the Chair must designate a Vice Chair. The Vice Chair serves at the will of the Chair and performs the duties of the presiding officer in the event of an absence or disability.

#### **➤ Vice Chair**

K

## ***LITIGATION UPDATE***

### **K. Pending Litigation.**

***Credit Union Department v. Ken Paxton, Attorney General of Texas, Cause No. D-1-GN-21-007168.***

The Credit Union Department is seeking protection from a letter advice ruling by the Attorney General related to an information request under the Public Information Act (PIA).

We anticipate resolution by the end of the year.

**RECOMMENDED ACTION:** No formal action of the Commission is anticipated.

***Amplify Credit Union (Amplify) v. Texas Credit Union Department (Department); SOAH docket 469-23-07265.***

Amplify is pursuing administrative appeal of two denials of geographic membership expansion requests by the Department.

A final SOAH hearing set for November 14, 2023.

**RECOMMENDED ACTION:** No formal action of the Commission is anticipated at this time.

***Cooperative Teachers Credit Union (CTCU) v. Texas Credit Union Department, (Department), SOAH docket 469-23-07487.***

CTCU is pursuing administrative appeal of a modified application approval related to a request to expand its geographic field of membership and the Findings of Fact and Conclusions of Law in the order,

A final SOAH hearing set for February 21, 2024.

**RECOMMENDED ACTION:** No formal action of the Commission is anticipated at this time.



L

### **FUTURE COMMISSION MEETINGS**

**L. Next Commission Meeting** – The next regular meeting of the Commission has been tentatively scheduled for November 3, 2023.

### **ADJOURNMENT**

# **FUTURE CREDIT UNION COMMISSION MEETING DATES**

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**Friday, November 3, 2023**

**Friday, March 8, 2024**

**Friday, July 14, 2024**

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**All regular scheduled meetings will begin at 9:00 a.m. unless notified differently.**

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

*CREDIT UNION DEPARTMENT*

*INDUSTRY STATUS*

*AND*

*DEPARTMENTAL OPERATION*



# TEXAS CREDIT UNION DEPARTMENT

## Average Salary and Tenure by Race and Sex

Race	Sex	Annual Salary	Tenure	
<b>ASIAN</b>				
	Summary for F (1 detail record)	\$ 42,000	0.44	Avg
	Summary for M (1 detail record)	\$ 115,302	23.30	Avg
	Summary for 'Race' = ASIAN (2 detail records)	\$ 78,651	11.87	Avg

<b>BLACK</b>				
	Summary for F (5 detail records)	\$ 96,578	9.07	Avg
	Summary for M (2 detail records)	\$ 72,896	4.74	Avg
	Summary for 'Race' = BLACK (7 detail records)	\$ 89,812	7.83	Avg

<b>HISPA</b>				
	Summary for F (5 detail records)	\$ 73,021	12.67	Avg
	Summary for M (3 detail records)	\$ 73,942	2.65	Avg
	Summary for 'Race' = HISPA (8 detail records)	\$ 73,366	8.91	Avg

<b>WHITE</b>				
	Summary for F (1 detail record)	\$ 45,600	0.54	Avg
	Summary for M (13 detail records)	\$ 94,474	11.04	Avg
	Summary for 'Race' = WHITE (14 detail records)	\$ 90,983	10.29	Avg

<b>TOTALS</b>				
	31	\$ 85,377	9.48	Avg

# TEXAS CREDIT UNION DEPARTMENT

## Average Salary and Tenure by Race and Sex (ADMIN)

Race	Sex	Annual Salary	Tenure	
<b>ASIAN</b>				
	Summary for F (1 detail record)	\$ 42,000	0.44	Avg
	Summary for 'Race' = ASIAN (1 detail record)	\$ 42,000	0.44	Avg
<b>HISPA</b>				
	Summary for F (2 detail records)	\$ 74,581	23.56	Avg
	Summary for M (2 detail records)	\$ 84,447	3.67	Avg
	Summary for 'Race' = HISPA (4 detail records)	\$ 79,514	13.61	Avg
<b>WHITE</b>				
	Summary for F (1 detail record)	\$ 45,600	0.54	Avg
	Summary for M (5 detail records)	\$ 133,064	13.80	Avg
	Summary for 'Race' = WHITE (6 detail records)	\$ 118,487	11.59	Avg
<b>TOTALS</b>				
	11	\$ 97,362	11.31	Avg

# TEXAS CREDIT UNION DEPARTMENT

## Average Salary and Tenure by Race and Sex (FIELD STAFF)

Race	Sex	Annual Salary	Tenure	
<b>ASIAN</b>				
	Summary for M (1 detail record)	\$ 115,302	23.30	Avg
	Summary for 'Race' = ASIAN (1 detail record)	\$ 115,302	23.30	Avg
<b>BLACK</b>				
	Summary for F (5 detail records)	\$ 96,578	9.07	Avg
	Summary for M (2 detail records)	\$ 72,896	4.74	Avg
	Summary for 'Race' = BLACK (7 detail records)	\$ 89,812	7.83	Avg
<b>HISPA</b>				
	Summary for F (3 detail records)	\$ 71,981	5.41	Avg
	Summary for M (1 detail record)	\$ 52,932	0.61	Avg
	Summary for 'Race' = HISPA (4 detail records)	\$ 67,219	4.21	Avg
<b>WHITE</b>				
	Summary for M (8 detail records)	\$ 70,355	9.32	Avg
	Summary for 'Race' = WHITE (8 detail records)	\$ 70,355	9.32	Avg
<b>TOTALS</b>				
	20	\$ 78,785	8.48	Avg

# Credit Union Department

## Executive Summary

As of 05/31/23

\* Information from call report cycle

ACTIVITY	YTD 2021	YTD 2022	2023 FISCAL YEAR				
			1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	YTD
MOVEMENT PROFILE							
Number of CUs	175	174	172	170	169		
Total Assets (Millions)	*54,218	*59,167	*59,838	*56,993	*57,694		
APPLICATIONS (Received)							
Charters	0	0	0	0	0		0
Foreign Branches	2	0	0	0	0		0
Conversions	0	2	0	0	0		0
Mergers	3	8	0	1	1		2
Bylaws	97	59	22	13	8		43
Articles of Incorporation	1	4	3	0	1		4
Total	103	73	25	14	10	0	49
EXAMINATION ACTIVITIES							
Regular	80	98	28	23	15		66
Joint	64	50	9	11	18		38
Remedial	26	38	11	5	11		27
Total	170	186	48	39	44	0	131
ENFORCEMENT ACTIONS (In Force)							
Determination Letters	0	1	1	1	0		
LUAs	0	0	0	0	0		
Cease & Desist Orders	3	3	4	3	3		
Dividend Restrictions	0	0	0	0	0		
Conservatorships	1	1	1	0	0		
Liquidations	1	1	1	1	1		
Total	5	6	7	5	4	0	
PERSONNEL STAFFING							
Field Examiners	17	17	17	16	19		
Total Personnel	28	27	27	28	31		
FINANCIAL OPERATIONS (In Thousands)							
Budgeted Expenditures	4,256	4,902	1,279	1,228	1,228	0	3,735
Actual Expenditures	3,588	3,942	1,077	988	1,054	0	3,119
Gifts and Bequests	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Actual Revenue	3,982	16,145	2,905	39	1,642		4,586

Note: FY23 budget expenditures for quarters 1-4 was reduced due to transfer of \$51,250 requested by Sunset to Contingency Fund



**Credit Union Department**  
**Application Activities - Detail**

ACTIVITY	4th Qtr 2021	4th Qtr 2022	2023 FISCAL YEAR				
			1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	
CHARTERS							
Pending at Beginning of Period	0	0	0	0	0	0	
Add: New Applications Filed	0	0	0	0	0	0	
Less: Approved	0	0	0	0	0	0	
Denied/Withdrawn	0	0	0	0	0	0	
Pending at End of Period	0	0	0	0	0	0	
FOREIGN BRANCH OFFICES							
Pending at Beginning of Period	0	2	1	1	1	0	
Add: New Applications Filed	1	0	0	0	0	0	
Less: Approved	0	0	0	0	0	0	
Denied/Withdrawn	0	1	0	0	0	0	
Pending at End of Period	1	1	1	1	1	0	
CONVERSIONS							
Pending at Beginning of Period	0	2	2	0	0	0	
Add: Applications Filed	0	0	0	0	0	0	
Less: Approved	0	0	2	0	0	0	
Denied/Withdrawn	0	0	0	0	0	0	
Pending at End of Period	0	2	0	0	0	0	
MERGERS							
Pending at Beginning of Period	2	5	5	1	2	0	
Add: Applications Filed	1	2	0	1	1	0	
Less: Approved	0	2	4	0	0	0	
Denied/Withdrawn	0	0	0	0	1	0	
Pending at End of Period	3	5	1	2	2	0	
BYLAWS							
Pending at Beginning of Period	6	10	1	15	21	0	
Add: Applications Filed	21	7	22	13	8	0	
Less: Approved	14	16	8	7	13	0	
Denied/Withdrawn	1	0	0	0	2	0	
Pending at End of Period	12	1	15	21	14	0	
ARTICLES OF INCORPORATION							
Pending at Beginning of Period	0	2	2	0	0	0	
Add: Applications Filed	0	0	0	0	0	0	
Less: Approved	0	0	2	0	0	0	
Denied/Withdrawn	0	0	0	0	0	0	
Pending at End of Period	0	2	0	0	0	0	

Credit Union Department  
Movement Profile - Condition Summary

CAMEL RATING	4th Qtr 2021	4th Qtr 2022	2023 FISCAL YEAR				
			*1st Qtr	*2nd Qtr	*3rd Qtr	*4th Qtr	
1	44	37	40	37	37		
2	111	111	108	109	110		
3	17	19	19	19	19		
4	1	4	3	3	2		
5	2	2	2	1	1		
<b>Total</b>	175	173	172	169	169	#VALUE!	

\*\* T&FS Employees Credit Union Merged on 2/7/2023

\* Information from exam master list

\*\*\* Witco Houston Credit Union Liquidated on 1/2/2023

Texas Credit Union Department  
Enforcement Actions - Detail

TYPE OF ACTION	In Force 8/31/2021	Issued	Activity Terminated	In Force 8/31/2022	Issued	Activity Terminated	In Force 05/31/2023
Determination Letters	0	2	0	1	0	**1	0
LUAs	0	0	0	0	0	0	0
Cease & Desist Orders	3	1	3	3	0	0	3
Dividend Restrictions	0	0	0	0	0	0	0
Conservatorships	1	0	1	1	0	*1	0
Liquidations	1	0	1	1	0	0	1
<b>Total</b>	5	3	5	6	0	0	4

\* Edinburg Teachers Credit Union

\*\* Alamo City Credit Union

Texas Credit Union Department  
Examination Activities  
Analysis of Current Year

TYPE OF EXAM	Budgeted Number	Actual Number	% Budget	% of Total	% Mailed Within 25 Days
Regular	60	15	75%	9%	100%
Joint	38	18	138%	10%	100%
Remedial	21	11	157%	6%	100%
<b>Total</b>	119	44	110%	28%	100%

**Credit Union Department**  
**Movement Profile - Consumer Complaints**

CONSUMER COMPLAINTS	YTD 2021	YTD 2022	2023 FISCAL YEAR				
			1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	YTD
Received	320	355	87	107	95		289
Closed	323	343	91	85	113		289
Avg. Days to Process	15.25	17.75	19.79	23.5	30.1		24.46
% Resolved in 30 Days	99%	98%	97%	96%	96%		96%

**Texas Credit Union Department**  
**Consumer Complaint - Detail**

TYPES OF COMPLAINTS	YTD 2021	YTD 2022	2023 FISCAL YEAR				
			1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	YTD
LOAN ISSUES							
Collections/Loans	15	17	2		1		3
Denial	0	2					0
Loan Issues	1	23	8	16	17		41
Credit Report Issues	54	68	17	14	23		54
Insurance - CPI, GAAP, Property, etc	6	2	2	1			3
ACCOUNT ISSUES							
Discrimination	3	7	1		3		4
Electronic Funds Transfer	22	7					0
Holds on Checks	14	6	2	7	1		10
Estate/Probate	0	4					0
Fraud/Unauthorized	54	61	19	20	25		64
Fees	22	27	3	8	9		20
Billing Disputes	31	40	7	4	15		26
Other	26	24	12	5	15		32
OTHER PRODUCTS/SERVICES							
Account/Loan Balance	10	14	4				4
Account Closed/Frozen	20	12	6	5	2		13
Customer Service	38	21	5	3			8
Deceptive Advertisement	0	1	2	2	2		6
Vehicle Title	7	6	1				1
Website Issues	0	1					0
TOTAL	323	343	91	85	113	0	289



Credit Union Department  
Merger/Conversion Finalized

ACTIVITY	YTD 2021	YTD 2022	2023 FISCAL YEAR				
			1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	YTD
MERGERS							
Number:							
State-to-State	0	3	2				2
Federal-to-State	2	3	2				2
State-to-Federal	2	0					0
Total	4	6	4	0	0	0	4
Assets:							
State-to-State	-	217,230,754	35,995,817				35,995,817
Federal-to-State	136,790,044	585,792,596	130,060,407				130,060,407
State-to-Federal	-	-					0
Total	136,790,044	803,023,350	166,056,224	0	0	0	166,056,224
CONVERSIONS							
Number:							
Federal-to-State	0	1	1	0	0	0	1
State-to-Federal	0	1	0	0	0	0	0
State-to-Mutual Bank	0	0	0	0	0	0	0
Assets:							0
Federal-to-State	-	1,010,685,008	1,099,577,978				1,099,577,978
State-to-Federal		3,541,622,858					0
State-to-Mutual Bank							0
Total	-	4,552,307,866	1,099,577,978	0	0	0	1,099,577,978



**Credit Union Department**  
**Web Site Statistics**  
**Report Range: 09/01/2022 thru 05/31/2023**

	<b>Number</b>
<b>Total Visits:</b>	
Number of Visits	7,014
Visitors	5,566
Page Views	25.07k
Number of Repeat Visitors	788
Average Pages per Visit	3.57
Average Visit Duration	1m 38s
New Visitors	5,288
 <b>Most Requested Pages:</b>	
Home	6,460
Frequently Asked Questions	3,876
Texas Rules for Credit Unions	1,981
File a Complaint Against a Credit Union	1,150
Job Postings	740
 <b>Most Downloaded Files:</b>	
Texas Administrative Code - Title 7, Part 6	244
Research a Credit Union	94
Finance Code - Official Texas Legislature	91
Texas Administrative Code - Title 7, Part 6	84
Texas.Gov	24