

Texas Credit Union Department

Internal Audit Report over Credit Union Examinations

June 24, 2024

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Commissioners of the
Texas Credit Union Department
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This report presents the results of the internal audit procedures performed for the Texas Credit Union Department (CUD) during the period March 12, 2024, through June 24, 2024, relating to Credit Union Examination process and reports.

The objectives of this internal audit were to evaluate the design and effectiveness of CUD's Credit Union Examination Process and Reports as follows:

- A. Determine whether internal controls over examination process and reports are designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.
- B. Ensure that controls over examination process and reports are operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.
- C. Evaluate user access and ensure that access to process and modify examination records is restricted to appropriate personnel and that access is periodically reviewed.

Our procedures will include interviewing key personnel to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the process. We will evaluate the existing policies, procedures, and processes in their current state. Our coverage period will be from July 1, 2022, through January 31, 2024.

The following report summarizes the findings identified, risks to CUD, recommendations for improvement and management's responses.

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June 24, 2024

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Background

The Texas Credit Union Department (CUD) is responsible for supervising and regulating state-chartered credit unions. As part of its mission, one of the responsibilities of CUD is performing credit union examinations. The Examinations Division (Examinations) of CUD is charged with conducting examinations for Texas chartered credit unions. Examinations assists state chartered credit unions with training, resources, guidelines, and consultation to ensure that state credit unions comply with state requirements. As a Self-directed, semi-independent department, fees from assessments and state-chartered credit union fees cover CUD's operating costs.

The Examinations Division performs examinations that results in potential assessments to state-chartered credit unions. Commission Rule §97.105 specifies that the CUD must perform an annual examination of each credit union within an 18-month window unless the commission approves an extension. The examinations workbook includes documentation of the review and ensure compliance with applicable state requirements. Examiners are required to take annual training that CUD provides.

After the annual examination occurs, CUD produces an examination report. The report is given to the credit union for any responses to findings. The Deputy Executive Director delivers a management report to the Commission that includes a Chartering/Bylaw Activity Report, Examination/Supervision Activity Report, Time Management Report, and Training Report.

Audit Objective and Scope

The audit focused on CUD's examination process and reports. We reviewed the procedures in place for appropriate risk, regulatory coverage, and compliance to ensure efficient and effective processes related to the examination process and reports. Key functions and sub-processes that were reviewed include:

- Examination Process
- Examination Reports

Our procedures were designed to ensure relevant risks were covered and verified the following:

Objective A: Determine whether internal controls over examination process and reports are designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.

Planned Procedures:

- Review the policies, procedures, and guidelines governing the examination process and reports conducted by the Texas Credit Union Department (TCUD).
- Assess the roles, responsibilities, and accountability of TCUD staff involved in conducting examinations, including examiners-in-charge and examination team members.
- Evaluate the content, format, and quality of examination reports prepared by TUCD examiners.
- Evaluate the methodologies, tools, and techniques used for planning, conducting, and reporting on examinations of credit unions.
- Examine the adequacy of resources allocated for conducting examinations, including staffing, training, and technology infrastructure.

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- Conduct walkthroughs of the examination process and reports to understand how controls are implemented in practice. Document the flow of transactions, review control activities, and identify any control gaps or weaknesses that may exist.
- Review the documentation of control activities, such as checklists, approval forms, and signoffs. Assess whether they are comprehensive, up-to-date, and aligned with the organization's objectives and risks.
- Evaluate the monitoring activities performed over the examination process and reports. Review management reports, exception reports, and performance indicators to determine if they are effective in identifying control deficiencies and ensuring timely corrective actions.

Objective B: Ensure that controls over examination process and reports are operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.

Planned Procedures:

- Select a sample of examination reports and compare the information within them to the underlying data and supporting documentation. Verify that all relevant information is included, calculations are accurate, and any exceptions or discrepancies are appropriately addressed.
- Verify compliance with relevant laws, regulations, and standards governing the examination process, including the Texas Finance Code and National Credit Union Administration (NCUA) guidelines.
- Verify that the information in the checklist matches the management report.
- Verify that the information in the management report is complete and appropriately signed-off.
- Verify that exceptions or discrepancies are appropriately addressed.

Objective C: Evaluate user access and ensure that access to process and modify examination records is restricted to appropriate personnel and that access is periodically reviewed.

Planned Procedures:

- Perform system and software reviews: Review the IT systems and software used in the examination process. Assess their reliability, security, and effectiveness in generating accurate and complete reports. Test the controls within these systems to ensure they are functioning as intended.

Our procedures included interviewing key personnel within the department who have responsibilities in managing and/or monitoring the examination process and reports to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from July 1, 2022, through January 31, 2024.

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Executive Summary

Through our interviews, evaluation of internal control design and testing of processes we identified no findings.

A summary of our results, by audit objective, is provided in the table below. See the Appendix for an overview of the Assessment and Risk Ratings.

OVERALL ASSESSMENT		Strong
SCOPE AREA	RESULT	RATING
Objective A: Determine whether internal controls over examination process and reports are designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.	We identified 33 controls to be in place in the process. We did not identify any findings in the design testing performed.	Strong
Objective B: Ensure that controls over examination process and reports are operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.	Controls appear to be in place and operating effectively.	Strong
Objective C: Evaluate user access and ensure that access to process and modify examination records is restricted to appropriate personnel and that access is periodically reviewed.	Access to examination records is appropriately restricted for the individuals identified.	Strong

Conclusion

Based on our evaluation, the examinations process has procedures and controls in place to conduct effective management of these processes at Texas Credit Union Department. We recommend continued diligence in maintaining internal controls over the processes to ensure effective operations.

**Detailed Procedures Performed, Findings,
Recommendations and Management
Response**

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Detailed Procedures Performed, Findings, Recommendations and Management Response

Our procedures included interviewing key personnel to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period is from July 1, 2022, through January 31, 2024.

Objective A: Design of Internal Controls

Determine whether internal controls over examination process and reports are designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.

Procedures Performed: We conducted interviews with key personnel within the departments of the Department that have responsibilities in managing examination processes to gain an understanding of the current procedures in place, examined existing documentation, and evaluated the internal controls. We evaluated the existing policies, procedures, and processes in their current state. We documented our understanding of the processes and identified internal controls over the following sub processes:

- Examination Process
- Examination Reports

We evaluated the controls identified against expected controls to determine whether the identified processes and internal controls were sufficiently designed to mitigate the critical risks associated with the examination sub-processes. We identified any unacceptable risk exposures due to gaps in the existing control structure as well as opportunities to strengthen the effectiveness and efficiency of the existing procedures.

Results: We identified 33 controls in place over the significant activities within the Examination processes. We also identified no findings where improvements in the process can be made.

Process Area	Control Coverage	Findings
Examination Process	14	-
Examination Reporting	19	-
Total:	33	-

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Objective B: Control Testing

Ensure that controls over examination process and reports are operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.

Examination Process

Procedures Performed: We obtained a listing of all credit union examination reports completed during the scope period of July 1, 2022, through January 31, 2024. We selected 25 out of the 232 examination reports and verified that the credit union examinations compliance with relevant laws, regulations, and standards governing the examination process, including the Texas Finance Code and National Credit Union Administration (NCUA) guidelines.

Results: No findings identified.

Examination Reporting

Procedures Performed: We obtained a listing of all credit union examination reports completed during the scope period of July 1, 2022, through January 31, 2024. We selected 25 out of the 232 examination reports and verified that the credit union examination checklists match the management report, the information in the management report is complete and appropriately signed-off, and discrepancies are adequately addressed.

Results: No findings identified.

Objective C: System Access

Evaluate user access and ensure that access to process and modify examination records is restricted to appropriate personnel and that access is periodically reviewed.

Procedure Performed: We evaluated user access to the examination records processes to determine whether access was appropriate based on users' positions and job duties and that access is periodically reviewed.

Results: We verified that CUD employee access is appropriate.

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The appendix defines the approach and classifications utilized by Internal Audit to assess the residual risk of the area under review, the priority of the findings identified, and the overall assessment of the procedures performed.

Report Ratings

The report rating encompasses the entire scope of the engagement and expresses the aggregate impact of the exceptions identified during our test work on one or more of the following objectives:

- Operating or program objectives and goals conform with those of CUD
- CUD objectives and goals are being met
- The activity under review is functioning in a manner which ensures:
 - Reliability and integrity of financial and operational information
 - Effectiveness and efficiency of operations and programs
 - Safeguarding of assets
 - Compliance with laws, regulations, policies, procedures and contracts

The following ratings are used to articulate the overall magnitude of the impact on the established criteria:

Strong

The area under review meets the expected level. No high risk rated findings and only a few moderate or low findings were identified.

Satisfactory

The area under review does not consistently meet the expected level. Several findings were identified and require routine efforts to correct, but do not significantly impair the control environment.

Unsatisfactory

The area under review is weak and frequently falls below expected levels. Numerous findings were identified that require substantial effort to correct.

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Risk Ratings

Residual risk is the risk derived from the environment after considering the mitigating effect of internal controls. The area under audit has been assessed from a residual risk level utilizing the following risk management classification system.

High

High risk findings have qualitative factors that include, but are not limited to:

- Events that threaten CUD's achievement of strategic objectives or continued existence
- Impact of the finding could be felt outside of CUD or beyond a single function or department
- Potential material impact to operations or CUD's finances
- Remediation requires significant involvement from CUD management

Moderate

Moderate risk findings have qualitative factors that include, but are not limited to:

- Events that could threaten financial or operational objectives of CUD
- Impact could be felt outside of CUD or across more than one function of the agency
- Noticeable and possibly material impact to the operations or finances of CUD
- Remediation efforts that will require the direct involvement of functional leader(s)
- May require senior CUD management to be updated

Low

Low risk findings have qualitative factors that include, but are not limited to:

- Events that do not directly threaten the CUD's strategic priorities
- Impact is limited to a single function within CUD
- Minimal financial or operational impact to CUD
- Require functional leader(s) to be kept updated, or have other controls that help to mitigate the related risk