An Audit Report on

The Credit Union Department: A Self-directed, Semi-independent Agency

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The Credit Union Department (Department) had effective processes to ensure the accuracy and completeness of its financial data and performance data. In addition, it had an effective process for setting its fees and penalties based on budgetary needs.

However, the Department should develop a year-end accrual process for preparing its annual financial report, verify that year-end adjusting entries are accurate, and consistently document its decisions to assess or waive penalties.

This audit was conducted in accordance with Texas Finance Code, Section 16.004.

MEDIUM

FINANCIAL DATA

The Department had adequate processes for its financial data. However, it should improve year-end reporting processes and consistently document its decisions to assess or waive penalties.

Chapter 1 | p. 4

LOW

PERFORMANCE DATA

The Department accurately calculated the selected performance measure, **Percentage of Credit Unions Receiving Regular Examinations Annually**, and performed credit union examinations at the required frequency.

Chapter 2 | p. 9

LOW

SETTING FEES AND PENALTIES

The Department had adequate processes for setting its fees and penalties and calculating cash reserves.

Chapter 3 | p. 10

For more information about this audit, contact Audit Manager Kelley Ngaide or State Auditor Lisa Collier at 512-936-9500.

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Summary of Management's Response

Auditors made recommendations to address the issues identified during this audit, provided at the end of Chapter 1 in this report. The Department agreed with the recommendations.

Ratings Definitions

Auditors used professional judgment and rated the audit findings identified in this report. The issue ratings identified for each chapter were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

PRIORITY: Issues identified present risks or effects that if not addressed could ***critically affect*** the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

HIGH: Issues identified present risks or effects that if not addressed could ***substantially affect*** the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

MEDIUM: Issues identified present risks or effects that if not addressed could ***moderately affect*** the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

LOW: The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks ***or*** effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

For more on the methodology for issue ratings, see Report Ratings in Appendix 1.

Background Information

Texas Finance Code, Section 16.004, requires the State Auditor's Office to conduct an audit of each financial regulatory agency. We conducted this audit to comply with that requirement.

The Credit Union Department (Department) is responsible for the supervision and regulation of credit unions operating in Texas. The Department regulated 175 credit unions in fiscal year 2025.

The 81st Legislature designated the Department as a self-directed, semi-independent agency (SDSI) agency in 2009. As an SDSI agency, the Department does not receive state appropriations and must set its operating fees at a level sufficient to cover its cost.

MEDIUM

Chapter 1
Financial Data

The Credit Union Department (Department) had effective accounting and reporting processes to ensure the accuracy and completeness of its financial data. However, the Department should develop a year-end accrual process for preparing its annual financial report, verify that year-end adjusting entries are accurate, and consistently document its decisions to assess or waive penalties.

The Department had adequate processes for its financial data; however, it should improve year-end reporting processes.

The Department's fiscal year 2025 annual financial report balances for operating fee and penalty revenues, payroll expenditures, and travel expenditures were supported by the Department's accounting and bank records. Specifically:

- **Operating fee and penalty revenues**[1] totaling approximately $5.6 million were accurately calculated and recorded.
- **Payroll expenditures**[2] totaling approximately $4.4 million were properly recorded and paid only to active employees.
- **Travel expenditures** totaling $417,772 were accurate, supported, and allowable per the Comptroller's Office of Public Accounts (Comptroller's Office) travel requirements.

[1] Operating fees and penalties on the Department's annual financial report were reported within the Licenses, Fees, and Permits revenue line item.

[2] Payroll expenditures were reported within two separate line items: (a) Salaries and Wages and (b) Payroll-Related Costs.

Year-End Accrual Process. The Department did not have a year-end accrual process to ensure that expenditures were accrued and recorded in the correct fiscal year. As a result, 45 travel expenditure transactions were not recorded in the correct fiscal year's annual financial report, which resulted in a $5,020 understatement for fiscal year 2025. The Comptroller's Office required agencies to make year-end adjustments as necessary to ensure the accuracy of financial reporting.

Annual Financial Report. The Department performed a year-end reconciliation of its annual financial report that was mathematically accurate and supported by underlying accounting and bank records. However, it had a minor calculation error on its annual financial report for fiscal year ending 2025, resulting in an overstatement of its fund balance by $3,171.

This happened because the Department used its own financial statement template for the annual financial report, which incorrectly calculated a total, rather than the financial statement template provided by the Comptroller's Office, which is intended to assist agencies in preparing accurate financial statements.

Year-End Adjustments. In fiscal year 2025, the Department's year-end adjustments were supported by underlying data, but they were not recorded accurately, as required by the Comptroller's Office. Although three of four year-end adjustments had recording issues, the impact on the annual financial report was minimal because the errors were corrected during subsequent year-end processing. For example, one year-end entry was recorded erroneously as a reversal. Another entry meant to fix the reversal issue was recorded to the wrong fiscal year. Although there was a secondary review of the adjustments, that review did not detect the errors. However, there was no overall impact because the Comptroller's Office fixed the largest error during its year-end processes.

Accurate financial statements are critical for self-directed, semi-independent agencies to ensure transparency and enable stakeholders to make well-informed decisions about the agency's financial stability and operations.

The Department should consistently document its decisions to either assess or waive penalties.

The Department is authorized to either charge a penalty when a credit union pays its operating fee late or waive the penalty amount based on "good cause." While the Department had a process to track the penalty payments received, it did not consistently record the disposition of penalties. Specifically, for 8 of 10 (80 percent) credit unions that paid operating fees late, the Department did not document its determination of whether to pursue or waive $16,365 in potential penalties, as required by its rules. The lack of documentation for its decisions may hinder management oversight and increase the risk that penalties are waived inconsistently.

Recommendations

The Department should:

- Develop and implement a year-end accrual process for preparing its annual financial report.
- Update its financial statement template to align with the Comptroller's Office template to ensure that its financial statement calculations are correct.
- Strengthen its process for reviewing year-end adjustments to ensure that adjustments are accurately recorded.
- Develop and implement a process to document its decisions to either assess or waive penalties.

Management's Response

Recommendation

Develop and implement a year-end accrual process for preparing the annual financial report.

Management's Response

The Department agrees that a year-end accrual process must be developed to ensure that expenditures are accrued and reported for the correct fiscal year. We will comply with the SAO recommendation and develop a procedure for this accrual process to ensure it is utilized for the Department's financial report for fiscal year-end 2026, and for all fiscal years thereafter.

Responsible Management: Commissioner

Due: August 31, 2026

Recommendation

The Department should update its financial statement template to align with the Comptroller's Office template to ensure that the Department's financial statement calculations are correct in its Annual Financial Report.

Management's Response

The Department agrees to update its financial statement template to ensure consistency with the Comptroller's Office template. This will ensure the accuracy of annual financial statement reporting.

Responsible Management: Deputy Commissioner and Accountant

Due: August 31, 2026

Recommendation

The Department should strengthen its process for reviewing year-end adjustments to ensure that adjustments are accurately recorded.

Management's Response

The Department agrees that its year-end process for reviewing adjusting entries needs to be strengthened. Although the cited errors had minimal impact to the annual financial report, it is imperative that the year-end review process of such entries is appropriate to ensure the accuracy of fiscal year-end financial reporting. The Department will address this issue beginning with its fiscal year-end 2026 financial reporting.

Responsible Management: Deputy Commissioner and Accountant

Due: August 31, 2026

Recommendation

The Department should develop and implement a process to document its decisions to either assess or waive penalties.

Management's Response

The Department agrees that its procedures regarding how it documents its decision to either assess or waive penalties need improvement. The Department will comply with the SAO recommendation of implementing a process to clearly identify the action being taken for situations where late fees or penalties can be assessed. The Department initiated this process prior to the end of the audit.

Responsible Management: Commissioner

Due: Immediately and Ongoing

LOW

Chapter 2
Performance Data

The Department had an adequate performance measure calculation process and conducted examinations at the required frequency.

Performance Measure Results. The Department accurately calculated the selected performance measure, **Percentage of Credit Unions Receiving Regular Examinations Annually**, of 91 percent for fiscal year 2025. This measure monitors the Department's performance in meeting the examination frequency requirement (see text box for requirement).

Examination Frequency Requirement

Title 7, Texas Administrative Code, Section 97.105, requires the Department to perform an examination of each credit union at least once during each 12-month period. The rule states that intervals between examinations shall not exceed 18 months (unless authorized).

Specifically, the spreadsheet used by the Department to calculate the percentage had accurate formulas. In addition, key examination data used in the calculation was accurately entered into ACT! (the Department's examination system) and reviewed by a secondary individual to verify the accuracy of that data.

In addition, the Department had application controls in ACT! to ensure the accuracy of examination data. Department employees had appropriate access to ACT! based on their job duties.

Examination Frequency. The Department performed all 147 credit union examinations during fiscal year 2025 at the required frequency. The Department used ACT! to track examination dates.

LOW

Chapter 3
Setting Fees and Penalties

The Department had adequate processes for setting its fees and penalties, and calculating cash reserves.

Operating Fees and Penalties. The Department set its operating fees and penalties and developed a budget in accordance with Texas Finance Code, Section 16.003. In fiscal year 2025, the Department increased its operating fees by 4.87 percent to align with its budgetary needs and performed an analysis to project its revenues and expenditures.

The Department's Commission reviewed and approved the fiscal year 2025 budget, as required by Texas Finance Code, Section 16.003.

Reserve Account. The Department is required to set aside funds in a reserve account to ensure that it can sustain operations. In fiscal year 2025, the Department accurately calculated its reserve amount and effectively managed the account in accordance with its policy.

Appendix 1

Objectives, Scope, and Methodology

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

- Pamela A. Bradley, CPA, CFE (Project Manager)
- Lindsay Escalante, MPSA, CFE (Assistant Project Manager)
- Matthew Fox
- Rebecca Franklin, CICA, CISA, CGAP, CFE
- Marcus Kahler
- Ashley Keyfitz
- Benjamin Nathanial Keyfitz, CPA, CFE
- Alana Montoro
- Meiyi Yan
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Kelley Ngaide, CIA, CFE (Audit Manager)

Objectives

The objectives of this audit were to:

- Determine whether the Credit Union Department (Department) has processes and related controls to ensure the accuracy and completeness of financial and performance data.
- Evaluate the Department's processes for setting fees and penalties.

Scope

The scope of this performance audit included a review of financial and performance data, applicable processes, and other supporting documentation for the period from September 1, 2024, through August 31, 2025. The work includes a review of the automated systems that support those processes.

The scope also included a review of significant internal controls related to the Department's financial data, including revenue collection, payroll and travel expenditures, penalties assessed and collected, and the accuracy and completeness of related data.

Methodology

We conducted this performance audit from July 2025 through January 2026 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to Department management for consideration.

Addressing the Audit Objectives and Subobjectives

During the audit, we performed the following:

- Interviewed Department management and staff to gain an understanding of financial data, performance data, and the fee and penalty setting process.
- Identified the relevant criteria:
  - The Department's policies and procedures.
  - Texas Finance Code, Chapters 15 and 16.
  - Texas Administrative Code, Title 1, Part 10, Chapter 202; Title 7, Part 6, Chapter 97; and Title 34, Part 1, Chapter 5.
  - The *Office of the Comptroller of Public Accounts' Reporting Requirements for the Annual Financial Reports of State Agencies and Universities* and Textravel rates.
  - The Department's Strategic Plan for fiscal years 2025-2029.
- Reconciled amounts in the Department's fiscal year 2025 annual financial report to the Department's underlying accounting and bank records.
- Tested the year-end reconciliation to determine whether it was complete and mathematically accurate.

- Tested the Department's year-end financial closing processes by reviewing adjustments and analyzing expenditures (including travel expenses) to determine whether transactions were recorded correctly and supported.
- Tested a sample of 27 travel expenditures from a population of 647 to determine whether they were recorded correctly and complied with travel requirements. The sample included 25 items selected randomly to provide population coverage, as well as 2 items that were targeted based on risk, as the largest expenses in the population. The sample was not representative of the population; therefore, it would not be appropriate to project the test results to the population.
- Recalculated all operating fee and penalty revenue to ensure that revenue was accurate, recorded, and properly monitored.
- Analyzed all of the Department's payroll expenditures to assess the accuracy and completeness of the associated expenses listed in the annual financial report.
- Reviewed user access to its accounting systems: the Uniform Statewide Accounting System (USAS) and Centralized Accounting and Payroll/Personnel System (CAPPS).
- Recalculated the selected performance measure, **Percentage of Credit Unions Receiving Regular Examinations Annually**, for fiscal year 2025 to determine whether it was accurate.
- Tested a sample of 22 credit union examinations from a population of 147 to verify that examination data in ACT! was accurate. The sample was chosen using random selection to obtain coverage of the population. The sample was representative of the population; therefore, test results may be projected to the population, but the accuracy of the projection cannot be measured.
- Tested whether the Department conducted examinations for fiscal year 2025 at the required frequency.
- Reviewed user access controls and application controls over the Department's ACT! system.
- Evaluated the Department's processes for setting operating fees and penalty amounts by reviewing fee adjustments and the annual budget.
- Reviewed the Department's compliance with its cash reserves policy.

Data Reliability and Completeness

Auditors determined that all data sets obtained for the period of September 1, 2024, through August 31, 2025 (fiscal year 2025) were sufficiently reliable for the purposes of the audit by (1) observing data extractions or pulling data ourselves, (2) reviewing data queries and report parameters, (3) analyzing the key fields for reasonableness, (4) tying accounting data to the Department's annual financial report, and (5) testing user access controls over the three information systems. The following data sets were used:

- **USAS** (the State's accounting system): Revenues and expenditures.
- **CAPPS** (internal accounting system): Expenditures.
- **ACT!** (examination system): Credit union examination records (performance data).

In addition, to confirm proper period recognition of expenses, auditors also obtained USAS data for August 1, 2024, through August 31, 2024, and September 1, 2025, through September 30, 2025 (2 months outside of fiscal year 2025) and determined that the data was sufficiently reliable for the purposes of the audit by independently pulling data, reviewing report parameters, and analyzing key fields for reasonableness.

Auditors determined that the Department's operating fee tracking spreadsheets for fiscal year 2025 were sufficiently reliable for the purposes of the audit by independently verifying the number of credit unions and assets with another source of data—the National Credit Union Administration—and also matching the operating fee revenue to the Department's annual financial report.

Report Ratings

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Dustin Burrows, Speaker of the House, Joint Chair

The Honorable Joan Huffman, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable Greg Bonnen, House Appropriations Committee

The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Credit Union Department

Members of the Credit Union Commission

Mr. Robert Etheridge, Commissioner