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State Auditor

An Audit Report on

Performance Measures at the Credit Union Department

October 2007

Report No. 08-003



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Overall Conclusion

The Credit Union Department (Department) reported reliable results for 75 percent (three of four) of the fiscal year 2006 key performance measures audited. A result is considered reliable if it is certified or certified with qualification.

Specifically:

- Three key performance measures—Number of Examinations Performed, Average Cost Per Regular Examination, and Percentage of Safe and Sound Credit Unions—were certified with qualification primarily because the Department's controls over data collection and reporting were not adequate to ensure continued accuracy. Specifically, the Department does not review the entry of data entered into its credit union database or the entry of data into the Automated Budget and Evaluation System of Texas (ABEST).

In addition, the Department deviated from the measure definitions contained in ABEST when it calculated Average Cost Per Regular Examination and Percentage of Safe and Sound Credit Unions. However, this deviation caused less than a 5 percent difference between the numbers reported in ABEST and the actual performance measure results.

- Factors prevented the certification of one key performance measure—Percent of Rule Changes Provided to Credit Unions within 60 Days after Adoption. The Department's source documentation for this measure was unavailable and controls were not adequate to ensure accuracy.

Table 1 on the following page summarizes the certification results from audit testing.

Background Information

Entities report results for their key measures to the Legislative Budget Board's budget and evaluation system, which is called the Automated Budget and Evaluation System of Texas, or ABEST.

The Credit Union Department (Department) is the primary regulator of all credit unions chartered in Texas.

Table 1

Credit Union Department (Agency No. 469)			
Related Objective or Strategy, Classification, and Description of Measure	Fiscal Year	Results Reported in ABEST	Certification Results
A, Output, Number of Examinations Performed	2006	197	Certified with Qualification
A, Efficiency, Average Cost Per Regular Examination	2006	\$7,880	Certified with Qualification
A, Outcome, Percentage of Safe and Sound Credit Unions	2006	98%	Certified with Qualification
B, Outcome, Percentage of Rule Changes Provided to Credit Unions within 60 Days after Adoption	2006	100%	Factors Prevent Certification
<p>A measure is Certified if reported performance is within +/-5 percent of actual performance and if controls appear adequate to ensure accuracy for collecting and reporting performance data.</p> <p>A measure is Certified With Qualification if reported performance is within +/-5 percent of actual performance but controls over data collection and reporting are not adequate to ensure continued accuracy.</p> <p>A measure is Inaccurate when reported performance is not within +/-5 percent of actual performance or there are more than two errors in the sample tested.</p> <p>Factors Prevent Certification when actual performance cannot be determined because of insufficient documentation and inadequate controls or when there is deviation from the measure definition and the auditor cannot determine the correct result.</p>			

Summary of Management's Response

The Department agreed to implement the recommendations in this report.

Summary of Information Technology Review

The information technology review component of this audit was limited to a review of general and application controls for the Department's credit union database. The Department has adequate general and application controls over this database to support performance measure data; however, the Department should strengthen controls over the entry of data into this database. Auditors' testing of the data used during this audit provided assurance that the information in this database was sufficiently valid and reliable to support the fiscal year 2006 reported performance measures.

Summary of Objectives, Scope, and Methodology

The objectives of the audit were to determine:

- The accuracy of the Department's performance measure data.
- The adequacy of related controls systems over the collection and reporting of selected performance measures.

The scope of the audit covered four key performance measure results that the Department reported for fiscal year 2006. Auditors also reviewed controls over the submission of data used in reporting the performance measures and traced performance measure information to the original source documents when possible.

The audit methodology included selecting four key performance measures, auditing reported results for accuracy and adherence to measure definitions, evaluating controls over the performance measures calculation process and related information systems, and testing of original source documentation.

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Detailed Results

Chapter 1

The Department Reported Reliable Results for Three of Four Key Performance Measures Audited

The following issues affected all four performance measures audited:

- The Credit Union Department (Department) did not review the entry of credit union information into its credit union database (see Chapter 2 for additional details). Not reviewing data entry could affect the accuracy of reported performance measure results.
- The Department had documentation of supervisory review of performance measure results for only one (25 percent) of the four quarterly files reviewed. The Department has a policy and a form for supervisory review of performance measure results prior to entering data into the Automated Budget and Evaluation System of Texas (ABEST); however, it did not always maintain this documentation.
- A single employee is responsible for both entering data and releasing of performance measure results in ABEST. This represents a weakness in the Department's segregation of duties. All systems that support performance measure data collection should have effective controls to provide reasonable assurance that the information is properly collected and accurately reported.

Key Measures

Number of Examinations Performed

This measure was certified with qualification. Because of the weaknesses in the review of data entry discussed above, controls were not adequate to

ensure continued accuracy of performance measure reporting. In addition, the Department's initial review of the reported measure did not identify an error that resulted in the Department erroneously reporting that 51 examinations had been performed for the first quarter of fiscal year 2006 instead of 50 examinations. The Department subsequently identified and corrected this error.

Average Cost Per Examination

This measure was certified with qualification. Because of the weaknesses in the review of data entry discussed above, controls were not adequate to ensure continued accuracy of performance measure reporting. In addition, the Department

Results: Certified With Qualification

A measure is certified with qualification:

- When reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy.
- When controls are strong, but source documentation is unavailable for testing.
- If agency calculation of performance deviated from the measure definition, but the deviation caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

deviated from the measure definition for the Average Cost Per Regular Examination, but this deviation caused less than a 5 percent difference between the year-to-date result reported in ABEST for fiscal year 2006 and the correct measure result. Two miscalculations resulted in this deviation:

- The Department calculated and reported its fourth quarter performance by averaging three months of actual performance, rather than following the measure definition. The Department's reported fourth quarter result for this measure was \$10,820; however, auditors' recalculated it as \$9,566, a difference of 12 percent. The measure definition methodology states that total strategy expenditures are to be divided by the number of regular examinations completed during the reporting period.
- The Department calculated and reported its year-to-date performance for fiscal year 2006 by averaging the reported performance for each of the quarters, rather than following the measure definition. The Department incorrectly reported its year-to-date performance measure result as \$7,880. Auditors' recalculation of year-to-date performance was \$7,566, a difference of 4 percent.

The Department also did not have summary documentation showing the calculations for the fourth quarter and year-to-date performance for this measure. However, auditors were able to re-create the Department's calculation using documentation the Department provided.

Percentage of Safe and Sound Credit Unions

This measure was certified with qualification. Because of the weaknesses in the review of data entry discussed above, controls were not adequate to ensure continued accuracy of performance measure reporting. In addition, the Department deviated from the measure definition for the Percentage of Safe and Sound Credit Unions, but this deviation did not affect the result it reported in ABEST. The Department calculates this measure quarterly and reported the year-to-date performance by averaging the results of each of the four quarters. The measure definition methodology states that the percentage should be calculated by dividing the number of credit unions considered safe and sound by the total number of credit unions regulated for the reporting period. The Department's summary documents also did not show the year-to-date calculation for the reported performance.

Percentage of Rule Changes Provided to Credit Unions within 60 Days after Adoption

Results: Factors Prevent Certification

A Factors Prevented Certification designation is used if documentation is unavailable and controls are not adequate to ensure accuracy. This designation also is used when there is a deviation from the measure definition and auditors cannot determine the correct performance measure result.

Factors prevented certification of this measure. The Department does not retain documentation of the dates on which it mails rules to credit unions. The measure is the number of new and amended rules that are mailed within 60 days of their final adoption by the Credit Union Commission, expressed as a percentage of the total number of rules adopted. While the Department maintains a cover letter for the mail outs, auditors were not able to verify the dates on which the Department mailed new or amended rules to credit unions. The date that is on the cover letter is an anticipated date that the rules will be mailed, and it is not necessarily the actual date of the mailing.

Recommendations

The Department should:

- Improve its written policies and procedures to ensure that data entered into ABEST is reviewed for accuracy and completeness by staff other than those responsible for the original input of data into ABEST.
- Ensure that its performance measure calculations adhere to ABEST performance measure definitions and methodology.
- Maintain documentation of the date on which it mails rules to credit unions.
- Consistently include the calculations for its quarterly and yearly reported performance measures in its summary documentation.

Management's Response

Issue 1:

The Credit Union Department (Department) did not review the entry of credit union information into its credit union database (see Chapter 2 for additional details). Not reviewing data entry could affect the accuracy of reported performance measure results.

Response:

Data entered into the credit union database is reviewed for accuracy and completeness by the supervisors of the employees who originally enter the data. The Deputy Commissioner reviews the entries on a daily basis and requests changes if necessary. In addition, at the end of the month the Deputy Commissioner reviews the list of examinations for accuracy. An additional check of the information is done by the Executive Assistant who prepares the monthly management report and must reconcile the information in the database for her reports. Her printouts and totals are retained for the fiscal year.

Issue 2:

The Department had documentation of supervisory review of performance measure results for only one (25 percent) of the four quarterly files reviewed. The Department has a policy and a form for supervisory review of performance measure results prior to entering data into the Automated Budget and Evaluation System (ABEST); however, it did not always maintain this documentation.

Response:

Although the documentation of the review is missing, the results were reviewed prior to being entered into ABEST. In addition, the supervisor reviews a copy of the ABEST report before it is released, and the Commissioner, Deputy Commissioner and Assistant Commissioner review the reports monthly and again quarterly after they are entered into ABEST.

Issue 3:

A single employee is responsible for both entering data and releasing of performance measure results in ABEST. This represents a weakness in segregation of duties. All systems that support performance measure data collection should have effective controls to provide reasonable assurance that the information is properly collected and accurately reported.

Response:

Although the Department recognizes this potential weakness in segregation of duties, further separation would be difficult in an agency this size. Two employees are already involved in entering and reviewing the data and with the various supervisory reviews, we believe we have mitigated the risk and are comfortable that the integrity of the data is sufficiently maintained without unduly straining resources.

Recommendation 1:

Improve its written policies and procedures to ensure that data entered into ABEST is reviewed for accuracy and completeness by staff other than those responsible for the original input of data into ABEST.

Response:

The recommendation of the State Auditor's Office will be implemented. The Department will more clearly document its practice of having the data reviewed for accuracy and completeness by staff other than those responsible for the original input of data into ABEST. The Accountant has prepared a one-page checklist for the Assistant Commissioner to initial and date each step of reviewing the data before and after it is put into ABEST. Use of the checklist will begin with the next performance measure report. The Assistant Commissioner and the Accountant are responsible for maintaining the ABEST review documentation.

Recommendation 2:

Ensure that its performance measure calculations adhere to ABEST performance measure definitions and methodology.

Response:

The recommendation of the State Auditor's Office will be implemented. The Department has begun calculating performance measures to adhere to ABEST definitions and methodology based on instructions given by the State Auditor's Office. The Assistant Commissioner and Accountant are responsible for the accuracy of the calculations.

Recommendation 3:

Maintain documentation of the date on which it mails rules to credit unions.

Response:

The recommendation of the State Auditor's Office will be implemented. Currently, the Department maintains a log of mailing dates and retains copies of the cover letter transmittals. To satisfy the recommendation, however, the Department will add the step of date stamping and initialing the retained cover letter and attaching a list of, or otherwise document, the credit unions that were mailed the rules. The Executive Assistant will begin date stamping and having another employee initial the cover letter in December 2007 with the next rule mailing.

Recommendation 4:

Consistently include the calculations for its quarterly and yearly reported performance measures in its summary documentation.

Response:

The recommendation of the State Auditor's Office will be implemented. The Department agrees that these calculations should be included in its summary documentation. The Department notes that although some of the documents for the fourth quarter are missing, the calculations are generally kept. The Assistant Commissioner and Accountant are responsible for ensuring the files are complete and properly maintained.

The Department Has Adequate Information Technology Controls

The Department has adequate general and application controls over its credit union database to support performance measure data. In addition, auditors' testing of the data used during this audit provided assurance that the data in this database is sufficiently valid and reliable to support the fiscal year 2006 reported performance measures.

However, a weakness in the Department's input controls increases the risk that data could be entered incorrectly into the credit union database. Specifically, the Department does not perform a review of credit union information that is entered into the credit union database.

The Department also informed auditors about other application control weaknesses in its credit union database. The Department corrected these weaknesses during the audit, and auditors verified the corrections had been made.

Recommendations

The Department should:

- Improve its written policies and procedures to ensure that data entered into the credit union database is reviewed for accuracy and completeness by individuals other than those responsible for the original input of data into the credit union database.
- Implement a control within the credit union database that will allow for the review and approval of data entry.

Management's Response

Issue:

The Department does not perform a review of credit union information that is entered into the credit union database.

Response:

Although it disagrees with the finding, the Department understands that it must document more clearly its practice of having the data reviewed for accuracy and completeness by staff other than those responsible for the original input of data into the credit union database. Currently, data entered into the credit union database is reviewed for accuracy and completeness by the supervisors of the employees who originally enter the data. The Deputy Commissioner reviews the entries on a daily basis and requests changes if

necessary. In addition, at the end of the month the Deputy Commissioner reviews the list of examinations for accuracy. An additional check of the information is done by the Executive Assistant who prepares the monthly management report and must reconcile the information in the database for her reports. Her printouts and totals are retained for the fiscal year.

Recommendation 1:

Improve its written policies and procedures to ensure that data entered into the credit union database is reviewed for accuracy and completeness by individuals other than those responsible for the original input of data into the credit union database.

Recommendation 2:

Implement a control within the credit union database that will allow for the review and approval of data entry.

Response:

The recommendations of the State Auditor's Office will be implemented. To ensure the review process is fully documented, the Department will spell out each step in its written policies and will create and maintain a sheet with spaces for initials and dates.

Appendix

Appendix

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the Credit Union Department (Department) is accurately reporting its performance measures to the Automated Budget and Evaluation System of Texas (ABEST).
- Determine whether the Department has adequate controls in place over the collection, calculation, and reporting of its performance measures.

Scope

The scope of the audit covered four key performance measure results that the Department reported for fiscal year 2006. Auditors also reviewed controls over the submission of data used in reporting the performance measures and traced performance measure information to the original source documents when possible.

Methodology

The audit methodology included selecting measures to audit, auditing results for accuracy and adherence to the measure definitions, evaluating controls over the performance measure certification process and related information systems, and testing samples of source documentation when possible.

Information collected and reviewed included the following:

- Auditors selected four key measures reported in ABEST to audit.
- The Department completed questionnaires and interviews related to its performance measurement processes to help identify preliminary control information.

Procedures and tests conducted included the following:

- Tested calculations for accuracy and to ensure that they were consistent with the methodology agreed on by the Department and the Legislative Budget Board.
- Analyzed the flow of data to evaluate the existence of proper controls.

- Tested a sample of source documents to verify the accuracy of reported performance.
- Performed a high-level review of all information systems that support performance measures data.
- Classified the performance measures results in one of four categories: (1) certified, (2) certified with qualification, (3) inaccurate, or (4) factors prevent certification.

Criteria used included the following:

- *Guide to Performance Measure Management*, 2006 Edition.
- ABEST performance measure definitions.
- Department policies and procedures.

Project Information

Audit fieldwork was conducted from August 2007 through September 2007. This audit was conducted in accordance with generally accepted government auditing standards.

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

- Michael A. Simon, MBA, CGAP (Project Manager)
- John Boyd
- Barbette J. Mays
- Walton Persons, CPA (Quality Control Reviewer)
- J. Scott Killingsworth, CIA, CGFM (Quality Control Reviewer)
- Kelly Furgeson Linder, MSCRP, CGAP (Audit Manager)

Copies of this report have been distributed to the following:

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The Honorable Tom Craddick, Speaker of the House, Joint Chair
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The Honorable Thomas "Tommy" Williams, Member, Texas Senate
The Honorable Warren Chisum, House Appropriations Committee
The Honorable Jim Keffer, House Ways and Means Committee

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Mr. Thomas F. Butler
Mr. Manuel "Manny" Cavazos
Ms. Mary Ann Grant
Mr. Dale E. Kimble
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Ms. Barbara K. Sheffield
Mr. Henry "Pete" Snow

Credit Union Department

Mr. Harold E. Feeney, Commissioner



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