

NATIONAL CREDIT UNION ADMINISTRATION

OFFICE OF THE INSPECTOR GENERAL

REPORT TO CONGRESS

April 1, 1999 - September 30, 1999

THE NCUA MISSION

**TO ENSURE THE SAFETY AND SOUNDNESS OF CREDIT UNIONS
BY PROVIDING APPROPRIATE REGULATION AND SUPERVISION,
WHILE EFFECTIVELY MANAGING THE AGENCY'S RESOURCES
AND THE SHARE INSURANCE FUND**

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THE OFFICE OF INSPECTOR GENERAL MISSION

**TO PROMOTE ECONOMY, EFFICIENCY, AND EFFECTIVENESS
IN NCUA PROGRAMS AND OPERATIONS,
AS WELL AS PREVENT AND DETECT FRAUD, WASTE, AND ABUSE**

INDEX OF REPORTING REQUIREMENTS

OFFICE OF INSPECTOR GENERAL NATIONAL CREDIT UNION ADMINISTRATION

SECTION	DATA REQUIRED	RESPONSE	PAGE REF
4(a)(2)	Review of Legislation and Regulations		16
5(a)(1)	Significant Problems, Abuses, or Deficiencies relating to the administration of programs and operations disclosed during the reporting period.		11
5(a)(3)	Recommendations with Respect to Significant Problems, Abuses, or Deficiencies.		11
5(a)(3)	Significant Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed.	None	
5(a)(4)	Summary of Matters Referred to Prosecution Authorities and Prosecutions Which Have Resulted.	None	
5(a)(5)	Summary of Each Report to the Board Detailing Cases Where Access to All Records Was Not Provided or Where Information Was Refused.	None	
5(a)(6)	List of Audit Reports Issued During the Reporting Period.		20
5(a)(7)	Summary of Particularly Significant Reports.		11
5(a)(8)	Statistical Tables on Audit Reports With Questioned Costs.		18
5(a)(9)	Statistical Tables on Audit Reports With Recommendations That Funds Be Put To Better Use.		19
5(a)(10)	Summary of Each Audit Report Issued Before the Start of the Reporting Period for Which No Management Decision Has Been Made by the End of the Reporting Period.	None	
5(a)(11)	Description and Explanation of Reasons for any Significant Revised Management Decision Made During the Reporting Period.	None	
5(a)(12)	Information Concerning Significant Management Decisions With Which the Inspector General is in Disagreement.	None	

INSPECTOR GENERAL'S MESSAGE TO THE CONGRESS

This year marks the tenth anniversary of the OIG at NCUA. It has been my pleasure to have headed this office for the past seven of these years. I have seen the OIG grow from a handful of accountants to today's diverse and multi-talented team of three auditors, including those with skills in financial, program, and EDP audits, an attorney/investigator, a second investigator, and an administrative assistant. Our workload has grown and changed also, presenting us with new challenges. We now supervise the conduct of financial audits of the agency's four funds; we conduct investigations of allegations ranging from employee misconduct to contract fraud; and we have established the OIG strategic and annual planning process to complement the agency's efforts under the Government Performance and Results Act (GPRA.) This past semiannual period has naturally focused on NCUA's Y2K efforts within the agency and in the credit union community. We are also continuing to pursue investigative work resulting from the 1997 OPM audit and in other administrative areas where the agency may experience internal control weaknesses.

In addition, we have completely revised our OIG web page to be more useful and user friendly. You will be able to find the new and improved OIG web page in the near future at www.ncua.gov/oig or by clicking on Office of Inspector General from NCUA's home page.

AUDIT HIGHLIGHTS

The OIG's audit activities during the past reporting period have concentrated on monitoring the completion of the agency's Y2K compliance efforts in the credit union community and within the agency. We have completed reports on NCUA's internal mission critical systems, and credit union progress in meeting NCUA's milestones for completion of the Y2K renovation phase. In both cases, we offered suggestions as matters for consideration by the NCUA Board and agency management. NCUA has been very responsive to our suggestions. During this period we have also reviewed the Y2K progress of high risk credit unions, Y2K liquidity contingency funding plans of natural person credit unions, and Y2K status of credit union vendors.

The NCUA OIG received a joint award for excellence from the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) at the 1999 awards program held on September 29, 1999. The award recognized the OIG's from the Federal Reserve System, the FDIC, the Department of the Treasury, and NCUA for their outstanding efforts in planning and reporting on the Joint Review of the Federal Financial Institutions Examination Council's Training Program.

In addition, the OIG's EDP auditor, Tammy Rapp, was recognized on September 28, 1999, by the National Capital Area Chapter of the Information Systems Audit and Control Association for achieving the second highest score on the 1999 Certified Information Systems Auditor (CISA) examination in Washington, DC. Ms. Rapp's successful completion of the CISA exam demonstrates her proficiency in information technology audit skills.

INVESTIGATIVE HIGHLIGHTS

The bulk of our investigative resources this period has been spent in responding to a variety of new allegations and completing investigative matters relating to the OPM audit report of 1997. We still await the completion of action by the Office of Special Counsel (OSC) on its investigations into alleged prohibited personnel practices during 1996-1997.¹ When OSC is finished, then the agency may be able to consider and take necessary corrective action and move on, and we will be able to close some open issues. With the hiring of a part-time investigator we are already engaging in more proactive reviews that have resulted in investigations, audit issues, and the use of a new tool, Management Implication Reports. We are also gratified that the agency has published an Instruction requiring reporting misconduct to the IG. I hope that the Instruction and a slightly higher profile for our investigative function will further enhance our investigative presence within the agency.

FUTURE PLANS

With Y2K completed, we expect to put more emphasis on completing the strategic and annual plan goals.



Frank Thomas
Inspector General

¹ On October 19, 1999, the Special Counsel filed two complaints against NCUA employees with the Merit Systems Protection Board. We have not yet been informed of her actions with respect to other employees against whom allegations were made.

TABLE OF CONTENTS

INDEX OF REPORTING REQUIREMENTS.....	inside front cover
INSPECTOR GENERAL'S MESSAGE TO CONGRESS.....	i
NATIONAL CREDIT UNION ADMINISTRATION.....	1
NCUA Highlights.....	4
Federally Insured Credit Union Highlights.....	7
Legislative Highlights.....	9
OFFICE OF THE INSPECTOR GENERAL.....	10
AUDIT ACTIVITY.....	11
INVESTIGATION ACTIVITY.....	14
LEGISLATIVE AND REGULATORY REVIEWS.....	16
OTHER INSPECTOR GENERAL ACTIVITIES.....	17
TABLE I – REPORTS WITH QUESTIONED COSTS.....	18
TABLE II – REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE.....	19
TABLE III – SUMMARY OF OIG ACTIVITY.....	20

NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration (NCUA) was established as an independent, federal regulatory agency on March 10, 1970. The agency is responsible for chartering, examining, supervising, and insuring federal credit unions. It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. NCUA is funded entirely by credit unions; it does not receive any tax dollars. As of June 30, 1999, the NCUA was supervising and insuring 6,733 Federal credit unions and insuring 4,161 state-chartered credit unions, a total of 10,894 institutions. This represents a loss of 82 Federal and 19 State chartered institutions since the end of 1998, for a total loss of 101 credit unions nation-wide.

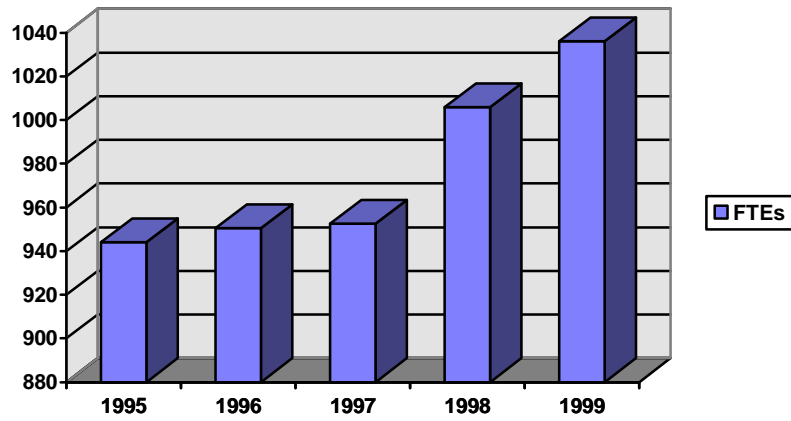
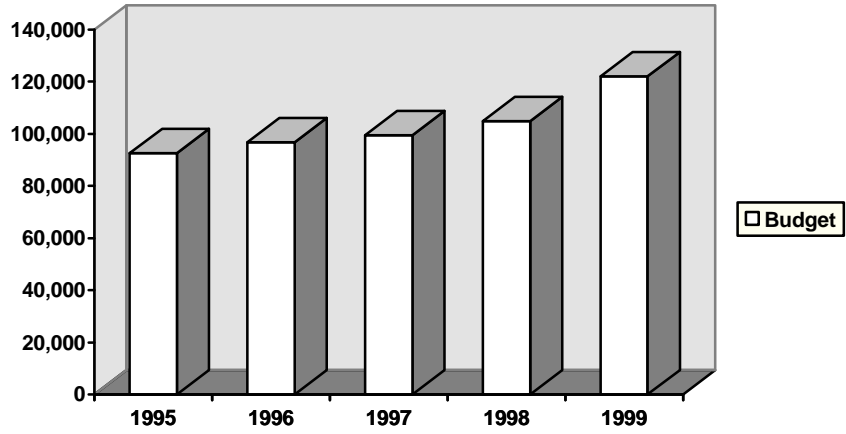
NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one term expires every two years. The Board is responsible for the management of the National Credit Union Administration, the NCUA Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Program.

The National Credit Union Administration executes its program through its central office in Alexandria, Virginia and regional offices in Albany, New York; Alexandria, Virginia; Atlanta, Georgia; Lisle, Illinois; Austin, Texas; and Concord, California. NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer to the NCUA organizational chart on page 3.

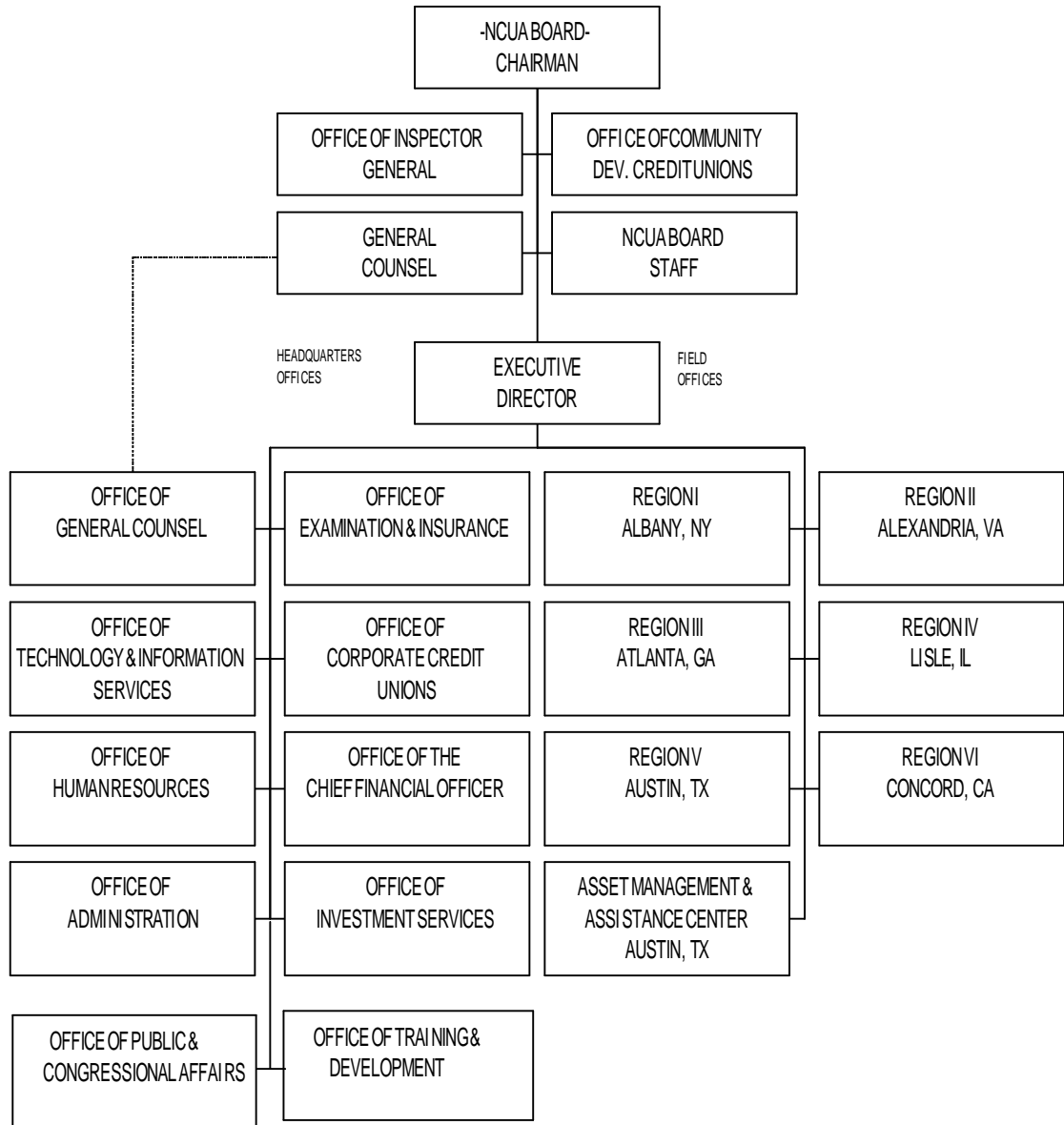
The NCUA Board adopted its 1999 budget on November 19, 1998. The final revised 1999 budget of \$122,962,349 represents an increase of \$12.8 million over the 1998 budget. The Full Time Equivalent (FTE) staffing authorization requested for 1999 is 1042.15, an increase of 29 positions over the 1998 total of 1013.15.

The significant increase in the 1999 budget is necessary to provide for expanded program goals and objectives for 1999, including employee merit increases, the Year 2000 (Y2K) issues, and an expanded corporate credit union program. The largest part of the increase is for Y2K compliance, to ensure the integrity of credit union information systems.

LOCATION	1999 FTE	1998 FTE	Difference FTE
Headquarters	228.40	214	14.40
Regional Offices	167.25	155.75	11.50
Field Examiners	640.50	636	4.50
Total Positions Authorized	1036.15	1005.75	30.40



NCUA ORGANIZATION CHART



NCUA HIGHLIGHTS

Follow-up on last Semiannual's Highlights

CONGRESS, PRESIDENT GRANT CLF CAP ADJUSTMENT

On May 21, 1999, President Clinton signed a midyear spending bill (HR 1141) that authorized the NCUA Central Liquidity Facility (CLF) to fully utilize its borrowing authority under the Federal Credit Union Act. That act effectively raised the CLF borrowing cap from \$500 million to \$20 billion.

In addition to raising the funds cap, the Federal Reserve also approved a Century Date Change Special Liquidity Facility to help depository institutions meet any increased cash demands in connection with Y2K. The facility, available between October 1, 1999 and April 7, 2000, augments other efforts to meet liquidity needs, such as the CLF increased borrowing authority. The NCUA and the Federal Reserve have met to implement the borrowing authority.

We audit the CLF each year as part of the agency's financial statement audits.

SMALL CREDIT UNION PROGRAM IMPLEMENTED

The NCUA has implemented the Board's endorsement on March 18, 1999, of a national program to promote small credit unions and to encourage the formation of new credit unions. The agency has hired six new Economic Development Specialists (EDS's) to work in the regional offices providing technical assistance to low income and small credit unions. The EDS's help credit union organizers with chartering and provide in-depth, hands-on training to credit union staff in operational and managerial matters.

An audit of the small credit union program and related activities is included in our five year strategic plan for 1999 - 2003.

New Highlights

OVER 99% FEDERALLY INSURED CREDIT UNIONS Y2K READY

In September 1999, the NCUA reported that 99.3% of all federally insured credit unions had finished repairing, testing and verifying their computer systems to ensure the processing of transactions on January 1, 2000. Over the past 18 months, NCUA examiners visited every federal credit union twice and some will have a third visit before the end of the millennium.

NCUA hosted its third information systems vendor conference on June 10, 1999, in Phoenix, AZ. NCUA Regional directors and staff, along with 32 state supervisors and two Federal Financial Institution Examination Council (FFIEC) representatives met with 50 representatives of information system vendors. Participants discussed business resumption contingency plans, Y2K liquidity planning, and testing.

The Inspector General is auditing the Y2K status of credit union vendors and Y2K liquidity contingency funding plans of federally insured natural person credit unions (See the Audits In Process section).

CHAIRMAN INTRODUCES LOW INCOME PROPOSAL

At a press conference on July 28, 1999, a few days before the official end of his six-year appointment, Chairman D'Amours unveiled a controversial proposal to require credit unions to demonstrate that they are fulfilling their mission to serve people of modest means. The major credit union trade associations raised an immediate outcry, claiming that the proposal would unfairly increase regulatory burden. They were joined by Senator Phil Gramm, who held hearings to speak out against the proposal. The proposal did garner some support from several parties, including consumer groups, members of Congress, credit unions, and other trade associations. At the September 16, 1999 Board meeting, the Chairman introduced the proposal formally, but it failed for lack of a second. Board Member Dennis Dollar spoke at length against the proposal; Board Member Wheat praised the idea, but said there were some flaws in the current language that needed to be fixed. Chairman D'Amours has stated that his proposal is not "CRA." It simply asks credit unions to state how they will reach out to low-income consumers within their fields of membership.

BOARD MEMBER DOLLAR PREPARES TO RELEASE "REG-FLEX"

On October 6, 1999, Board Member Dennis Dollar announced his intention to propose a plan to decrease regulatory burden on credit unions, to be unveiled by the end of the first quarter of 2000. The plan, still in the development stage, would remove certain specific regulatory requirements for credit unions that meet a safety and soundness trigger, likely a combination of capital ratios and CAMEL rating. Mr. Dollar said that his proposal was an attempt to encourage greater credit union innovation in member service initiatives and to help improve the ability of credit unions to compete.

BOARD MEMBER WHEAT URGES CLOSURE OF TECHNOLOGY GAP

Board Member Yolanda Wheat told the NAFCU Congressional Caucus on October 5, 1999, that credit unions needed to accelerate their use of the Internet to provide financial services in order to remain competitive. She also noted the troubling gap

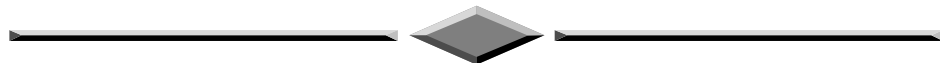
developing between households with access to computers and the Internet and those without access. She asserted that this "technology gap" also exists in the credit union community and it is part of NCUA's charge to help find ways to bridge this gap, especially where it is compounded, as in the case of credit unions with limited resources.

GAO CRITIQUES NCUA ON CYBER-BANKING EXAMS

In a study of all Federal financial regulators released July 6, 1999, the General Accounting Office criticized NCUA for failing to examine credit unions' Internet banking operations. While none of the agencies reviewed had put a great deal of resources into the area, only NCUA was scolded for having done nothing. In its defense, the agency pointed out that it has placed most of its few resources on Y2K issues in the past year. Moreover, it has hired three people to work specifically on online issues, and is beginning to write programs for monitoring credit unions' activity in this burgeoning area.

COURT UPHOLDS NCUA CONSERVATORSHIP OF POLISH SLAVIC FCU

In a controversial ruling, the United States District Court, in the Eastern District of New York, on July 9, 1999, upheld the agency's placement of the Polish Slavic Federal Credit Union, the largest ethnically based credit union in the country, into conservatorship. The credit union had argued that the NCUA's investigator was ethnically biased and challenged the agency's assertions that the credit union had currency reporting violations and was poorly managed. The credit union convinced the judge to remand the decision to the NCUA Board for review of an expanded record. On June 15, 1999, the Board reaffirmed its original decision. The Court agreed, stating that there was substantial proof from which the Board could find, "serious deficiencies in the credit union's operational structure, internal controls, asset liability management and business planning, as well as conflict of interest and Bank Secrecy Act violations."



FEDERALLY INSURED CREDIT UNION HIGHLIGHTS

Credit unions submit semiannual call reports (financial statement data) to NCUA. An NCUA staff assessment of reports from the first half of 1999 submitted by all federally insured credit unions for the period ending June 30, 1999, found key financial indicators continue to be strong in all areas.

ASSET GROWTH AND CAPITAL ACCUMULATION CONTINUE

Assets grew by 4.7%, up from \$388.7 to \$407 billion. Capital increased \$1.3 billion (2.9%) during the first half of 1999, and the capital to assets ratio declined 11.3%

LOAN GROWTH INCREASES AT A SLOWER RATE

Loans grew 3.8%, up from \$245.7 to \$255 billion. Two loan categories accounted for the increase: First mortgage real estate loans increased \$5.7 billion (9.3% increase); and used auto loans increased \$3.2 billion (6.7% increase). Federally insured credit unions granted \$13.1 billion in fixed rate first mortgage real estate loans in the first half of 1999. During this same period, \$4.4 billion fixed and adjustable rate first mortgages were granted.

The slower rate of loan growth (5.8%) ended a 5-year trend of loan growth exceeding the rate of share growth (10.7% for 1998.) As a result, the loan to share ratio decreased to 72.3%, the lowest level since 1995.

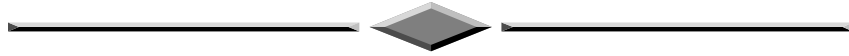
SHARES INCREASE, LED BY REGULAR SHARES

Total shares increased \$16.6 billion or 4.9% in the first half of 1999, compared to 5.7% during the same period in 1998, with most of the growth in regular shares (\$8.3 billion, 6.4% increase). Consistent with the large increases in share drafts, regular shares and money market accounts, share growth in 1998 was concentrated in shares with maturities less than one year. These shares increased \$30.4 billion (11%) and represented 93% of all share growth.

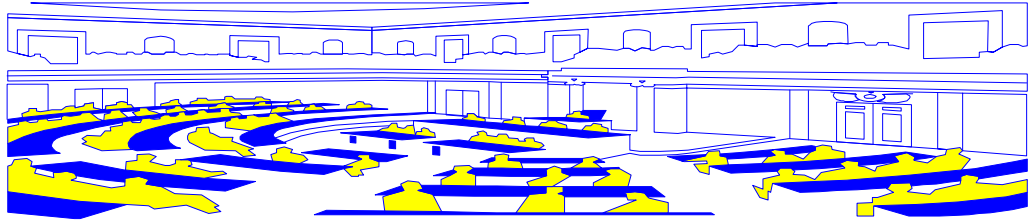
DELINQUENT LOANS DECREASE

Delinquent loans decreased 9.9% causing the delinquency ratio to decline from 0.9% at the end of 1998 to 0.8% as of June 30, 1999. This represents the lowest delinquency rate since mid 1996. Net charged off loan dollars decreased 9.3%. A decrease in charged off loan dollars, increase in recoveries, and increase in total loans produced a decline in the net charge off to average loans ratio to 0.5%

Bankruptcies declined slightly during the first half of 1999. Credit unions reported over \$600 million in outstanding loans subject to bankruptcies. Nearly 116,000 credit union members filed for bankruptcy during the first half of 1999 (0.2% of all members).



LEGISLATIVE HIGHLIGHTS

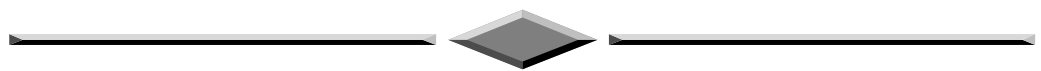


CREDIT UNION PROVISIONS IN APPROPRIATION BILLS

As we go to press, Congress is debating appropriations measures that did not get passed by the end of the federal fiscal year, September 30, 1999. Some of the bills being considered now contain provisions of interest to credit unions. In the VA-HUD appropriations act, HR 2684, the House version includes an additional \$1 million for the NCUA Community development Revolving Loan Fund.

We are also following privacy provisions in the current Financial Modernization legislation, S.900, although it contains relatively few other provisions in this law that apply to credit unions. The current version of the bill would permit almost unlimited information sharing between affiliated companies, but credit unions could be subject to the stricter limits on information sharing with third parties.

The Federalism Act, HR 2245 and S.1214, would impose significant new burdens on federal agencies when promulgating regulations or guidance and limit the ability to pre-empt State law. Financial institution regulators plan to send a letter to the Senate Banking Committee Chairman Phil Gramm opposing S.1214 as a threat to safety and soundness.

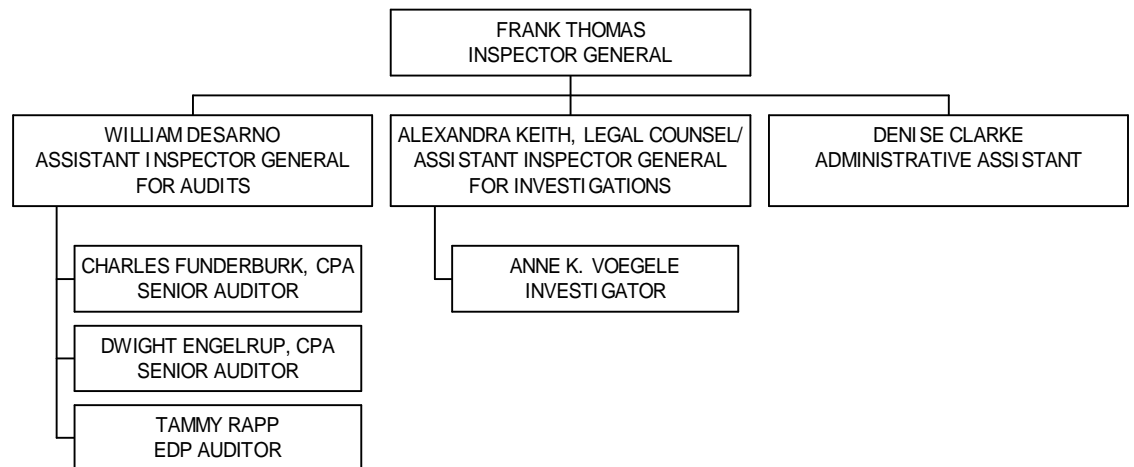


OFFICE OF INSPECTOR GENERAL

The Office of Inspector General was established at the NCUA in 1989 under the authority of the Inspector General Act of 1978, as amended in 1988. The staff consists of the Inspector General, an Assistant Inspector General for Investigations/Counsel, a part-time Investigator, an Assistant Inspector General for Audits, two Senior Auditors, an EDP Auditor and an Administrative Assistant.

The Inspector General reports to, and is under the general supervision of, the NCUA Board. The Inspector General is responsible for:

1. Conducting, supervising, and coordinating audits and investigations of all NCUA programs and operations;
2. Reviewing policies and procedures to ensure efficient and economic operations as well as preventing and detecting fraud, waste, and abuse;
3. Reviewing existing and proposed legislation and regulations to evaluate their impact on the economic and efficient administration of agency programs; and
4. Keeping the NCUA and Congress apprised of significant findings and recommendations.



AUDIT ACTIVITY

AUDIT REPORTS ISSUED

Y2K Internal Systems Review, Report No. 993, dated May 19, 1999

We evaluated NCUA's efforts regarding Year 2000 (Y2K) readiness for the internal NCUA mission critical information systems. Our review objective was to provide the NCUA Board and management with an independent analysis of the Y2K testing compliance for each of the mission critical systems identified by NCUA and to provide recommendations for correction of noted deficiencies.

We noted that NCUA has completed testing for each of its mission critical systems and the testing was performed in accordance with federal standards and industry practices. Testing documentation was found to be adequate to support the work performed. The review did not disclose any additional testing needed for the NCUA seven mission critical systems and two additional systems.

The report noted that NCUA is currently in the process of finalizing contingency plans to be implemented in the event of a disruption due to Y2K problems. NCUA has taken precautions and actions to mitigate the risk of Y2K related failures on its internal mission critical systems. However, because of the unprecedented nature of the Year 2000 issue, its effects and successes of related remediation efforts will not be fully determinable until the year 2000 and thereafter.

The OIG offered nine suggestions as matters for consideration by the NCUA Board and agency management to improve Y2K internal systems readiness. Suggested actions were grouped into three categories: (1) NCUA should continue efforts to finalize and implement its Y2K contingency plans, (2) NCUA should implement steps to improve Y2K management and control within the Project Office function, and (3) NCUA should determine the appropriate level of additional testing that needs to be performed to ensure systems remain Year 2000 compliant if subsequent changes are made to the information system environment.

Y2K Credit Union Progress In Meeting Renovation Milestone, Report No. 997, dated June 15, 1999

The NCUA, in addressing potential Y2K problems in federally insured credit unions information systems, adopted milestone dates for credit unions to accomplish specific Y2K tasks. The purpose of the milestone dates was to ensure credit union information systems were ready to function in a timely manner. The OIG evaluated federally insured credit unions' progress in meeting the renovation phase milestone

date established by NCUA. Our specific review objectives were to evaluate the progress of credit unions in meeting the January 31, 1999 Y2K milestone for completion of the renovation phase; and to determine if the December 31, 1998 quarterly reports filed by the credit unions with NCUA were reporting accurate results of the renovation phase.

We observed that NCUA had reported that most federally insured credit union mission critical systems were renovated by the NCUA milestone of January 31, 1999. However, our review found that many of those credit unions not fully renovated by the milestone date were not covered by waivers or administrative actions. NCUA has since made significant progress to address this situation.

We also found that there were some inaccuracies reported in the quarterly Y2K status reports prepared by credit unions and submitted to NCUA. The inaccuracies resulted in at least one region initially under reporting credit unions fully renovated for the period ended December 31, 1998. The agency has increased efforts to ensure the accuracy of the quarterly credit union status reports.

We reviewed documentation for 33 credit unions not fully renovated or with waivers in Regions II and III for the milestone date. We found that as of March 31, 1999, of the sample credit unions, the agency reported 28 were fully renovated, two had applied for waivers, and the remaining three credit union reports contained renovation reporting errors.

Credit unions without Y2K compliant information systems are required to prepare and submit quarterly status reports to NCUA. We reviewed the December 31, 1998 credit union prepared Y2K quarterly reports for our sample. We found that there were errors in a significant number of the submitted reports. Over 50 percent of the reports we reviewed contained some inaccurate information. Eighteen incorrectly reported the percentage of critical systems which were fully renovated.

Our review of sample documentation indicated that, overall, examiners addressed problems noted in credit unions and identified plans to resolve the problems. The dates of contact in some instances were early in the Y2K process when milestone dates had not expired and therefore the comments and plans to resolve the problems were brief and general in nature. We noted that Documents of Resolution were prepared when deemed necessary along with plans for future follow-up by the examiner. Our review focused on documentation available at the regional office and did not include follow-up with the examiner to determine if follow-up plans identified were actually carried out.

The OIG offered two suggestions as matters for consideration by the NCUA Board and agency management to improve credit unions efforts in meeting the Y2K renovation milestone.

AUDITS IN PROCESS

Progress of High Risk Credit Unions

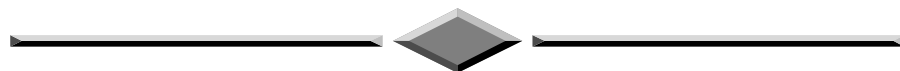
This is our fourth Year 2000 review and focuses on NCUA's follow-up of high risk credit unions. Our review objectives were to evaluate whether credit unions rated "unsatisfactory" (credit unions under administrative actions) and those rated "needs improvement" (examiner rated high risk - not progressing satisfactorily) are receiving appropriate and timely follow-up; and to determine if high risk credit unions have adequate Y2K business resumption contingency plans. In addition, we reviewed a small sample of credit unions rated satisfactory (low and medium risk rated credit unions) to determine if the rating appeared justified based upon NCUA's criteria. We are in the process of briefing NCUA management on the draft report and expect to issue the final shortly.

Review of Y2K Liquidity Contingency Funding Plans

We are in the process of issuing the fifth report in the OIG series of reports addressing the Y2K computer problem as it relates to the NCUA and federally insured credit unions. This report addresses steps that NCUA has taken to address emergency Y2K liquidity issues and includes our review of a sample of natural person credit union liquidity contingency funding plans. Our specific review objectives were: (a) to determine if NCUA has taken a proactive role to address emergency liquidity issues and to minimize disruption at the credit unions it oversees; and (b) to determine if natural person credit unions have adequate plans to address Y2K liquidity issues. The draft report is currently being reviewed for discussion with agency management.

Y2K Credit Union Vendor Status

We have completed review fieldwork of credit union computer system vendors' status and of the actions NCUA is taking to ensure that vendors are making satisfactory progress in providing renovated systems to its credit union clients.



INVESTIGATION ACTIVITY

Investigative matters pursued by this office are generally initiated as a result of allegations, or because of potential findings of fraud, waste, abuse, corruption, or mismanagement. Investigations may involve possible violations of regulations regarding employee responsibilities and conduct, Federal criminal law, and other statutes and regulations pertaining to the activities of NCUA employees. Investigative findings may lead to criminal prosecution, civil prosecution, or administrative action.



The OIG also receives complaints from credit union members that involve NCUA employee program responsibilities. These complaints are usually examined to determine whether there is any allegation of NCUA employee misconduct. If not, the complaint is referred to the appropriate regional office or closed if contact with the regional office indicates that the complaint has been appropriately handled.

Investigative Contacts	
Contacts/inquiries/investigations carried forward from previous reporting period	6
Contacts initiated during report period	17
<i>Total contacts during reporting period</i>	23
<u>Less:</u>	
Contacts closed for lack of verifiable evidence or referred to another office	11
Reports issued and matters closed	2
<i>Pending contacts</i>	10

OFFICE OF INVESTIGATIONS ACTIVITIES

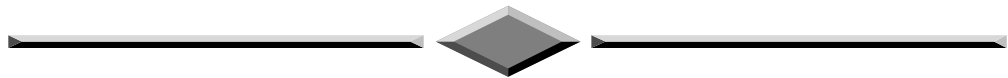
During the reporting period, the Office of Investigations worked on 23 complaints, issued one report without recommendations, and closed another OPM related report that had been issued last year, after the NCUA Board ruled on the outstanding recommendations. During the period, this office hired Anne Voegele, a skilled and experienced law enforcement officer as a part-time investigator to enhance our investigative function. Ms. Voegele most recently served with the Department of the Treasury OIG. She is currently working on proactive reviews of agency functions, as well as performing criminal and administrative investigative work. We have already issued two Management Implication Reports (MIR's) alerting NCUA offices to specific problems we have noted during the course of such reviews, and providing recommendations for solutions.

NCUA EXAMINER DID NOT RETALIATE AGAINST A CREDIT UNION

We issued a report of an investigation of an allegation of retaliation by a credit union examiner. A credit union alleged that the NCUA examiner improperly abused his authority and attempted to punish the institution by imposing harsh and unnecessary provisions in a Letter of Understanding and Agreement. The OIG found no evidence to substantiate the allegation.

AGENCY ISSUES INSTRUCTION ON REPORTING TO IG

On June 29, 1999, NCUA issued Instruction 1910.7, "Required Reporting and Guidance for NCUA Officers and Employees." The Instruction directs NCUA employees to report all known or suspected violations of law, rules or regulations, and instances of fraud, waste, and abuse to the OIG. It assures them that the identity of employee complainants will be held in confidence pursuant to the IG Act. It also advises employees when and where to report immediate threats to health and safety, and other channels for reporting specific types of complaints. Prior to this Instruction, there was no specific agency requirement to report to the IG.

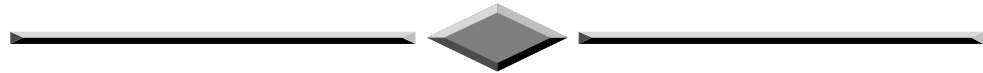


LEGISLATIVE AND REGULATORY REVIEWS

Pursuant to its charge under the IG Act, we continually review proposed legislation and regulations, as well as proposed agency instructions and other policy guidance, in order to make recommendations concerning economy and efficiency in the administration of NCUA programs and operations and the prevention and detection of fraud, waste and abuse.

During the reporting period, the OIG reviewed 22 items, including amendments to the IG Act, 16 proposed regulations, proposed procurement and EEO Instructions, an OMB Bulletin, and a draft GAO report on OIG semiannual reports.

We joined with the IG community to comment on HR 1827, the Government Waste Corrections Act of 1999. This legislation would provide agency heads the authority to conduct “recovery audits” to identify and recover overpayments made by the government. The IG community obtained significant changes to the original language, which now requires consultation and coordination with agency IG’s.



OTHER OIG ACTIVITIES

STAFF TRAINING AND DEVELOPMENT

The Inspector General (IG) continued to participate in the Financial Institutions Regulatory Committee of the Executive Council on Integrity and Efficiency (ECIE). The Committee provides a forum for Inspectors General of the NCUA, the Federal Reserve System, the Department of the Treasury, the FDIC, the Federal Housing Finance Board, the Securities and Exchange Commission, and the Farm Credit Administration to: discuss matters of mutual interest; coordinate relevant audits, investigations, legislative, and regulatory matters; and seek uniform approaches to handling similar issues. The IG attended the annual PCIE/ECIE Conference on April 29-30, and a seminar on Defending Cyberspace on September 14, 1999, along with the audit staff and the OIG investigator.

The Assistant IG for Audits, William DeSarno, attended the IIA Audit Directors Roundtable on April 22; and a Cost-Benefit Analysis course on June 21-23. Senior auditors Dwight Engelrup and Charles Funderburk also attended the Cost-Benefit Analysis course, in addition to a course on GPRA Performance Measures. EDP auditor, Tammy Rapp, successfully completed a training seminar on Auditing SAP R/3.

The Assistant IG for Investigations, Alexandra Keith, attended Certified Fraud Examiner sponsored training in Finding and Investigating Fraud and the Annual Office of Government Ethics conference. Ms. Keith is also a Vice Chairman of the Council of Counsels to Inspectors General (CCIG) and the custodian of the CCIG Library.

OIG TRAINS AUDITORS FOR INVESTIGATIVE WORK

The four OIG auditors underwent their second quarter of internal investigative training from the AIGI and our new investigator this September. They studied the difference between criminal, civil, and administrative violations. They also discussed investigative interviewing techniques in detail. The training is expected to enhance the auditors' ability to assist the Office of Investigations.

TABLE I

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS				
		Number of Reports	Questioned Costs	Unsup- ported Costs
A.	For which no management decision had been made by the start of the reporting period.	0	\$0	\$0
B.	Which were issued during the reporting period.	0	0	0
	Subtotals (A + B)	0	0	0
C.	For which management decision was made during the reporting period.	0	0	0
	(i) Dollar value of disallowed costs	0	0	0
	(ii) Dollar value of costs not disallowed	0	0	0
D.	For which no management decision has been made by the end of the reporting period.	0	0	0
E.	Reports for which no management decision was made within six months of issuance.	0	0	0

Questioned costs are those costs the OIG has questioned because of alleged violations of laws, regulations, contracts, or other agreements; findings which at the time of the audit are not supported by adequate documentation; or the expenditure for the intended purpose is unnecessary or unreasonable.

Unsupported costs (included in "Questioned Costs") are those costs the OIG has questioned because of the lack of adequate documentation at the time of the audit.

TABLE II

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE			
		Number of Reports	Dollar Value
A.	For which no management decision had been made by the start of the reporting period.	0	\$0
B.	Which were issued during the reporting period.	0	0
	Subtotals (A + B)	0	0
C.	For which management decision was made during the reporting period.	0	0
	(i) Dollar value of recommendations agreed to by management.	N/A	0
	(ii) Dollar value of recommendations not agreed to by management.	N/A	0
D.	For which no management decision was made by the end of the reporting period.	0	0
E.	For which no management decision was made within six months of issuance.	0	0

Recommendations that "Funds to be Put to Better Use" are those OIG recommendations that funds could be used more efficiently if management took actions to reduce outlays, de-obligate funds from programs/operations, avoid unnecessary expenditures noted in pre-award reviews of contracts, or any other specifically identified savings.

TABLE III

<p align="center">SUMMARY OF OIG ACTIVITY APRIL 1, 1999 THROUGH SEPTEMBER 30, 1999 (THREE PARTS)</p>		
PART I – AUDIT REPORTS ISSUED		
Report Number	Title	Date Issued
993	Y2K Internal Systems Review	5/19/99
997	Y2K Credit Union Progress In Meeting Renovation Milestone	6/15/99
PART II – AUDITS IN PROCESS (as of September 30, 1999)		
	Y2K Progress of High Risk Credit Unions	
	Y2K Review of Liquidity Contingency Funding Plans	
	Y2K Credit Union Vendor Status	
PART III – REVIEWS OF STATUTES & REGULATIONS		
Statutes	Title	
S. 870	Inspector General Act Amendments of 1999	
HR 1827	Government Waste Corrections Act of 1999	
Regulations	Title	
12 CFR 701	Charitable Contributions	
12 CFR 741.4	Insurance Premiums	
12 CFR 701.14(d)	Change in Officials	
12 CFR 701,713, 714	Fidelity Bond	
12 CFR 701,722, 723, 741	Member Business Loan Rule	
12 CFR 701.34	Secondary Capital Accounts	
12 CFR 703, 712	CUSO Rule	
12 CFR 714	Leasing	
12 CFR 745	Share Insurance	
12 CFR 701	Overdraft Accounts	
12 CFR 724, 745	Puerto Rico IRA's	
12 CFR 721	Insurance and Group Purchasing	
12 CFR 712	CUSO Real Estate Brokerage Services	

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