

# **NATIONAL CREDIT UNION ADMINISTRATION**

**OFFICE OF THE INSPECTOR GENERAL**

**REPORT TO CONGRESS**

**April 1, 2000 – September 30, 2000**

## **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**

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**OFFICE OF INSPECTOR GENERAL**  
**NATIONAL CREDIT UNION ADMINISTRATION**

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## **INSPECTOR GENERAL'S MESSAGE TO THE CONGRESS**

During this period, the Office of Inspector General (OIG) turned its attention to vigorously imparting to NCUA employees and management, by our actions as well as by statute, the Inspector General's (IG) jurisdiction and independence. In this regard, we emphasized our unique position—given our independence, experience, and integrity—to provide the high level of public accountability needed in an oversight body. In conducting briefings on what type of employee and civilian misconduct should be reported to the IG, we provided a tangible reminder to agency employees that an IG presence nearby is prepared to respond to misconduct. By the scope of our audits and our investigations of senior agency officials and the expertise we brought to these undertakings, we demonstrated our independence and effectiveness.

On the audit side, our auditors emphasized internal controls and information security. Auditors also began working with managers on joint consulting reviews of issues affecting agency practices and programs at the regional level.

In addition to our proactive efforts to deter misconduct and ensure Government integrity through briefings and other means, we conducted numerous investigations involving administrative misconduct, abuse of authority, and suspected violations of criminal law.

Finally, we hired a new Assistant Inspector General for Investigations who also serves as Counsel to the Inspector General. We welcome her to our staff.

### **AUDIT HIGHLIGHTS**

During the past reporting period, the OIG initiated a new product line referred to as Management Consulting Reviews (MCRs). MCRs are limited scope reviews prepared specifically for regional management. The reviews are not audits but rather, consulting reviews on topics jointly selected by NCUA regional management and the OIG. A management consulting agreement is signed by both the regional director and the Inspector General and details the specific topic and objectives agreed to, the timeframes for completion of the work, and any additional special considerations. We completed two management consulting reviews this period in Regions I and III. Feedback from each region has been extremely favorable and is helping to build stronger relationships with regional management and field staff.

Another significant product issued this period included a report on NCUA's controls over its current inventory of notebook computers, including a review of NCUA's notebook computer inventory property management system and practices.

This period also marked the three year cycle for peer reviews required by the President's Council on Integrity and Efficiency (PCIE). We completed a peer review and report of the Securities and Exchange Commission OIG. During this period, the Federal Housing Finance Board OIG conducted a peer review of the NCUA OIG and reported a favorable opinion on our audit operations.

Finally, our audit staff reviewed the security and internal controls over NCUA's significant financial accounting system. We are in the process of finalizing a report summarizing the results of that review.

### **INVESTIGATIVE HIGHLIGHTS**

During the reporting period, the Office of Investigations initiated nine (9) new investigations and closed six (6) additional matters. In an ongoing investigation involving suspected criminal activity, the United States Postal Service OIG provided invaluable and timely investigative assistance to the Office of Investigations.

The OIG also recently experienced one incident where a senior agency official refused to provide an official agency document requested by the Office of Investigations. The OIG reminded agency officials of their obligation to provide the OIG with direct access to all records and information of the agency. Consequently, the agency official's supervisor resolved the matter.

During this period the Office of Investigations presented training to NCUA supervisors on the role and responsibilities of the OIG; the issue of IG independence; what types of employee misconduct should be reported to the OIG; and how confidential information provided to the OIG is handled by our office.

In addition, OIG investigators represented the OIG and responded to employee inquiries at the NCUA Regional Conferences.

### **FUTURE PLANS**

The NCUA OIG plans to emphasize information security in accordance with requirements and obligations of OIGs under the recently passed Government Information Security Act. Our audit staff will also continue to focus on agency strategic planning and reporting activities required by the Results Act. In addition, auditors will perform more management consulting reviews at the regional office level.

On the investigative side, the OIG has several proactive investigative reviews planned and anticipates increased referrals of employee misconduct as a result of enhanced awareness training.



Frank Thomas  
Inspector General

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**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, 2000, the NCUA was supervising and insuring 6,468 Federal credit unions and insuring 4,011 state-chartered credit unions, a total of 10,479 institutions. This represents a loss of 98 Federal and 51 State chartered institutions since late 1999, for a total loss of 149 credit unions nation-wide.

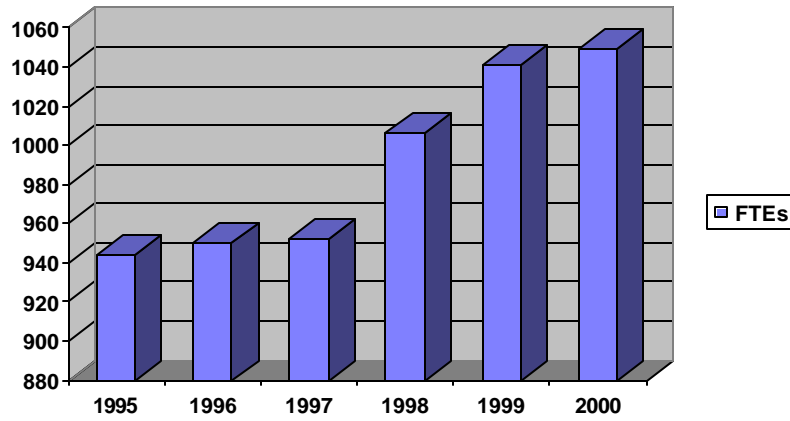
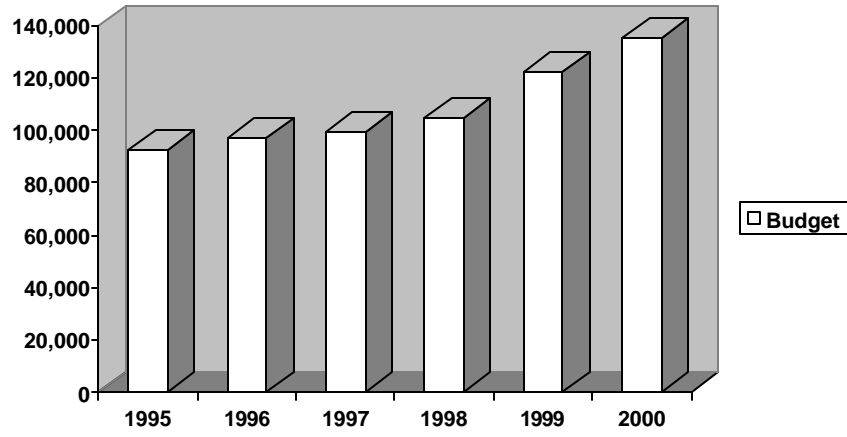
NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one term expires every two years. The Board is responsible for the management of the National Credit 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.

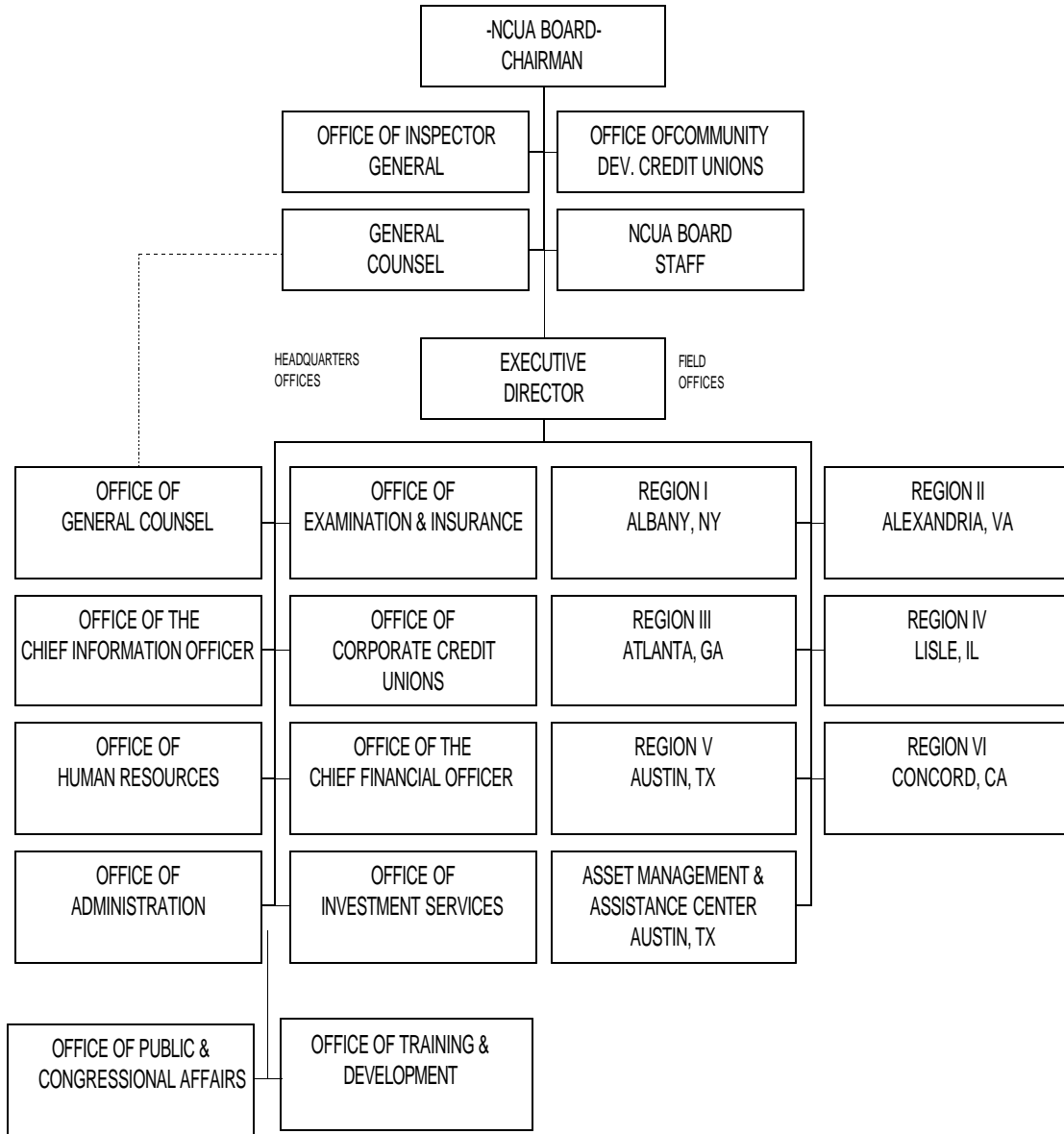
The NCUA Board adopted its 2000 budget on November 18, 1999. The final revised 2000 budget of \$134,942,546 represents an increase of \$12.9 million over the 1999 budget. The Full Time Equivalent (FTE) staffing authorization for 2000 is 1049.07, an increase of 7.92 positions over the 1999 total of 1041.15.

The significant increase in the 2000 budget is necessary in order to provide the resources required to hire and retain competent staff, and to meet the agency's goals and objectives as documented in the 2000 Annual Performance Plan.

<b>LOCATION</b>	<b>2000 FTE</b>	<b>1999 FTE</b>	<b>Difference FTE</b>
<b>Headquarters</b>	<b>236.40</b>	<b>228.40</b>	<b>8</b>
<b>Regional Offices</b>	<b>173.27</b>	<b>167.25</b>	<b>2.92</b>
<b>Field Examiners</b>	<b>639.50</b>	<b>640.50</b>	<b>-3</b>
<b>Total Positions Authorized</b>	<b>1049.07</b>	<b>1041.15</b>	<b>7.92</b>



**NCUA ORGANIZATION CHART**





**NCUA HIGHLIGHTS**

**CHAIRMAN D'AMOURS HIGHLIGHTS COMMITMENT TO ADDRESS CREDIT UNION ISSUES ON CAPITOL HILL**

Chairman Norman D'Amours stated he would work to enhance federal charters and "rectify some serious flaws" in the Credit Union Membership Access Act at the 2000 NAFCU Congressional Caucus on September 11, 2000. Chairman D'Amours emphasized the value of the federal charter, noting that the safety and soundness record of the federal credit union system—unlike that of state credit unions or banks—is flawless. Chairman D'Amours advocated amending the Federal Credit Union Act in an effort to correct the limitations placed on member business lending. The Chairman also expressed interest in allowing credit unions to add lower-income areas as members regardless of their charter status and make it easier for credit unions to voluntarily merge regardless of Selective Employee Group size, if it is beneficial to members.

**BOARD MEMBER DOLLAR ENCOURAGES EMBRACING INNOVATION, REG-FLEX**

In a September 11, 2000, presentation, NCUA Board Member Dennis Dollar challenged credit unions to evolve with the changing marketplace, using the moment to discuss his proposal, "Reg-Flex." Mr. Dollar stated the primary goals of Reg-Flex as removing "unnecessary regulatory hurdles" and confining regulation to areas and groups where there is a compelling safety and soundness need. Mr. Dollar stated further that the ability to evolve free of over-reaching regulations would enable credit unions to be more innovative "while still adhering to the foundation of the credit union tradition."

**NCUA BOARD RECOMMENDS REVISIONS TO CHARTERING MANUAL TO REQUIRE COMMUNITY ACTION PLANS (CAP)**

NCUA's Board proposed amendments to and received comments regarding its chartering and field of membership manual to update chartering policies and further streamline the select group application process. Included in this action is a proposal that the chartering manual be revised to require that any type of application related to expanding, converting, or chartering a community credit union include not only the required business and marketing plan, but also a CAP that would be periodically updated by the board of directors of the credit union and reviewed periodically by NCUA. The CAP should detail how community chartered credit unions intend to service their entire membership.

**FINAL PROMPT CORRECTIVE ACTION RISK-BASED NET WORTH REQUIREMENT SET**

On July 13, 2000, the NCUA Board adopted a final rule establishing the risk-based net worth requirement for credit unions that meet the definition of “complex,” completing the final component of a system of prompt corrective action required by the *Credit Union Membership Access Act*.

Applicable to all federally insured credit unions, the final rule implements a three-step process based on eight “risk portfolios” representing risks ranging from negligible to above average.

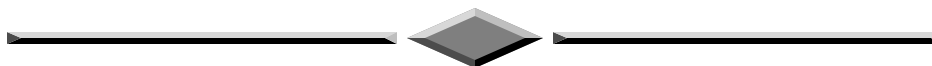
Effective January 1, 2001, the final rule will first apply to quarterly filers when filing *Call Reports* in the first quarter of 2001 and will first apply to semiannual filers when filing the mid-year 2001 *Call Report*.

**BOARD AMENDS CONSUMER INFORMATION PRIVACY RULE**

Chairman Norman D’Amours announced June 6, 2000, that the NCUA Board unanimously voted to revise the final consumer privacy rule that was adopted at the May 8, 2000, Board meeting. The change to Part 716 amends the requirement for a privacy and opt-out notice where there is a joint relationship on a loan. The amendment requires a credit union to provide a separate initial notice and a separate opt-out notice to each borrower and guarantor only if the credit union actually shares their nonpublic personal information with nonaffiliated third parties outside of one of the permissible exceptions. This amendment does not affect the right of borrowers and guarantors to receive notices if they are otherwise entitled to receive them as members of the credit union.

**FUTURE EXAMINATION PROCESS COMMITTEE (FEP-C) PROPOSAL OUTLINES A MORE RISK-BASED EXAMINATION PROGRAM**

The FEP-C reviewed NCUA’s current examination program and made recommendations to make the examination a more risk-focused, forward-thinking process. NCUA will continue to assess the credit union’s overall condition, determining the risk profile, ensuring correction of significant deficiencies, and monitoring ongoing activities. However, the examination program will be more risk-focused. That is, the program will involve allocating time within each examination based on the highest risk areas rather than spending minimal time in numerous areas that do not exhibit risk characteristics. This ensures that supervisory attention remains properly focused on institutions exhibiting weaknesses or adverse trends.



**FEDERALLY INSURED CREDIT UNION HIGHLIGHTS**

**C**redit unions submit semiannual call reports (financial statement data) to NCUA. An NCUA staff assessment of the June 30, 2000 semi-annual call reports submitted by all federally insured credit unions, found that key financial indicators continue to be strong in all areas for the first six months of 2000.

**ASSET GROWTH AND CAPITAL ACCUMULATION CONTINUE**

Federally insured credit unions continued to increase assets and capital. Assets increased by \$15.4 billion, or 3.7%, up from \$411 to \$427 billion. Equity increased \$.6 billion, or 4.6% to \$47.3 billion, and the capital to assets ratio increased to 11.7%. Net Income increased 16.6%, up from \$3.7 to \$4.3 billion. Membership in the nation's 10,479 credit unions increased 1.8% from 75.4 to 76.7 million members.

**LOANS CONTINUE TO INCREASE**

Loans increased \$15.9 billion, or 5.9%, up from \$272 to \$287 billion. Used auto loans increased \$3.9 billion to \$58.4 billion, or a 7.1% increase. New auto loans increased \$4.2 billion to \$56.6 billion, or a 7.8% increase. First mortgage real estate loans, which increased \$3.7 billion to \$74.6 billion, a 5.2% increase, represent the largest amount in credit union lending.

Delinquent loans declined to a historic level of .7% to \$1.9 billion. The loan-to-asset ratio increased from 66.0% to 67.3%. Shares grew at a much slower rate, causing the loan to share ratio to increase to 77.6%.

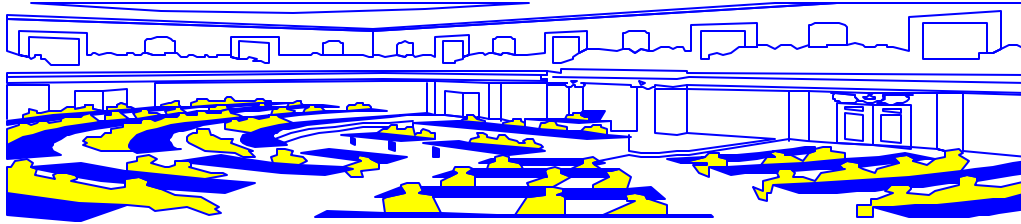
**SAVINGS INCREASE AT SLOWER RATE**

While lending outpaced savings in the first six months of 2000, savings grew by 3.8%, increasing from \$356.9 to \$370.6 billion. Share drafts led savings growth by increasing 11.2%, up from \$44.8 to \$49.8 billion. Regular shares in credit unions grew 2.7%, moving up from \$134.0 to \$137.7 billion. Share certificates gained 3.3%, increasing from \$89.7 to \$92.7 billion. This slower paced savings compared to loan growth boosted the loan-to-share ratio from 76.1 to 77.6 percent. This increase in the loan-to-share ratio coupled with the increase in the loan-to-asset ratio underscores a significant reduction in credit union liquidity as funds are increasingly utilized to meet strong loan demand.

**ELECTRONIC FINANCIAL SERVICES**

The number of federally insured credit unions reporting web sites has increased significantly over the past year. As of June 30, 2000, 3,307 federally insured credit unions reported informational websites and 1,354 federally insured credit unions reported they have interactive web sites.

**LEGISLATIVE HIGHLIGHTS**



**CENTRAL LIQUIDITY FUND BORROWING CAP RAISED**

The final version of the VA-HUD and Independent Agencies Appropriations bill for fiscal year 2001 will include a borrowing ceiling of \$1.5 billion for the Central Liquidity Facility for new loans to credit unions. Although NCUA and the credit union trades were hoping for a higher limit, the \$1.5 billion figure is viewed as an improvement over the \$600 million that has been imposed every year except fiscal year 2000.

**MEMBER BUSINESS LOANS**

In June 2000, Rep. Ed Royce (R-CA) introduced the Faith-Based Lending Protection Act. This bill would exempt credit unions serving non-profit religious organizations from the 12.25% of assets cap on member business loans.

**LEGISLATION RAISING TRANSACTION THRESHOLDS FOR FILING AND PAYMENT OF FEES TO THE FTC STALLED IN SENATE**

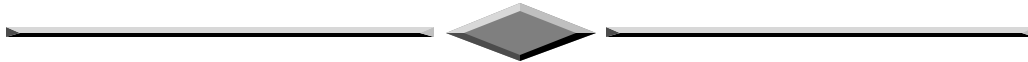
Legislation that would raise the transaction thresholds for filing and payment of fees to the Federal Trade Commission (FTC) for certain mergers has stalled in the Senate. (Several recent credit union mergers may have been subject to the notification and fee provisions of antitrust law.) NCUA, in conjunction with the credit union trade associations, has been seeking an amendment to exempt credit unions from these filing and fee requirements.

**GOVERNMENT INFORMATION SECURITY ACT PASSED IN HOUSE AND SENATE, AWAITING SIGNATURE**

The Senate Governmental Affairs Committee on October 12, announced the final Senate passage of the Government Information Security Act, designed to improve federal agencies' security management practices. The bill now goes to the White House for the President's signature. The legislation requires, among other things, agency Chief Information Officers to develop and implement security programs, which must undergo annual evaluations by the agency's IG and be subject to the approval of the Office of Management and Budget. Specifically, agencies are required under the bill to "identify and afford security protection commensurate with the risk and magnitude of the harm resulting from the loss, misuse, or unauthorized access to or modification of information collected or maintained by or on behalf of an agency."

**MISCELLANEOUS LEGISLATIVE UPDATE**

Although credit unions remain hopeful that bankruptcy reform will pass, the odds decrease with each day. Credit unions are also monitoring tax legislation that would increase permissible IRA contributions. Finally, House Banking Committee Ranking Member John LaFalce has pledged to introduce a bill to roll back restrictions imposed by the Credit Union Membership Access Act.

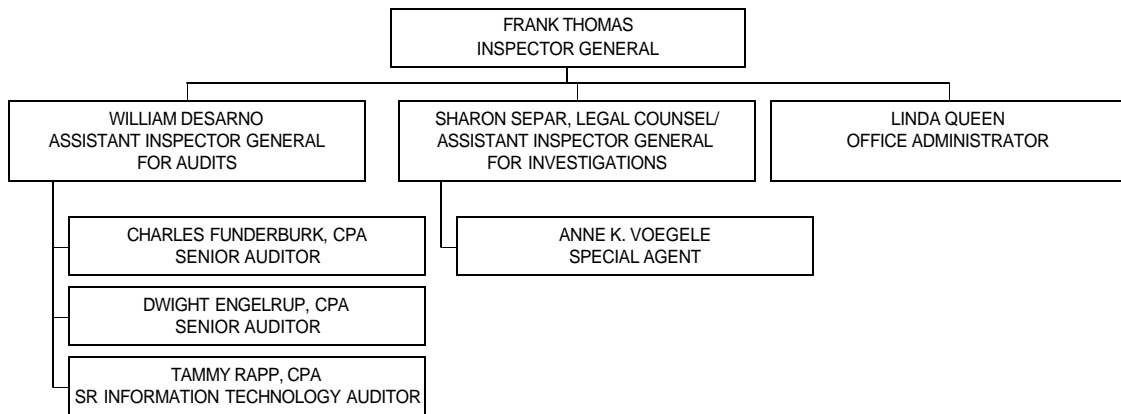


**OFFICE OF INSPECTOR GENERAL**

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 Special Agent, an Assistant Inspector General for Audits, two Senior Auditors, a Senior Information Technology Auditor and an Office Administrator.

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**

**Management Consulting Report on 5300 Process in Region I**  
**OIG-00-05 June 20, 2000**

This was the first management consulting report (MCR) prepared by the OIG. The engagement topic and procedures were jointly developed with input from the Region I management team and the OIG. Management consulting reports are prepared expressly for a particular NCUA region. MCRs are not formal audits. The information provided in the report is intended to assist management in achieving the region's mission.

This particular engagement involved providing assistance to Region I in determining the accuracy of call reports (form 5300) submitted by credit unions to NCUA. Our review objective was to evaluate the regional office process in determining the accuracy of 5300 reports. The review scope included 5300 report activity in Region I for years 1999 and 2000.

We found that there was a good relationship among the 5300 program, written guidance, regional and national plans, and goals. Overall, we found the Region I process to ensure the accuracy of 5300 reports working well and evolving to meet new challenges. The OIG provided nine suggestions for Region I consideration to further improve the 5300 process.

**Review of Notebook Computer Inventory**  
**OIG-00-06 July 26, 2000**

In December 1999, NCUA committed \$6.5 million to a three year lease for 1,560 Compaq notebook computers. Because of this substantial commitment, the OIG decided to review the Agency's internal controls over its current inventory of IBM and Toshiba notebook computers including a review of NCUA's notebook computer inventory property management system and practices. This review concentrated on the Agency's current property management system and practices, while at the same time gathering information regarding any new developments in property management as it related to the procurement of the new Compaq notebook computers which had not yet been delivered at the time we began our review.

Our review objectives were to determine the accuracy of NCUA's notebook computer inventory and to evaluate the adequacy of internal controls over notebook computers.

We were unable to reach a conclusion regarding the accuracy of NCUA's accounting for notebook computers for several reasons. First, there was no reconciliation performed between property recorded in the Agency's financial statements and the property accounted for via the personal property management system. Second, there has not been a recent physical inventory taken on notebook computers. The OIG attempted to perform a notebook computer physical inventory and confirmation process which resulted in several unresolved discrepancies. We did not attempt to resolve all of the discrepancies. However, we did follow up on a judgmental sample of these discrepancies and were unable to resolve all of them in our sample. Third, the accuracy of the initial distribution of IBM notebook computers was suspect. And fourth, errors in the personal property record input fields indicated an inaccurate accounting of assets, such as more than one record with the same serial number; more than one record with a duplicate inventory tag number; assignee confirmation of assets not recorded in the property management system; and notebook computers assigned to contractors not recorded in the property management system.

We concluded that the agency property management internal control system was weak for the following reasons: there was a lack of segregation of duties; there were few property management, EDP or manual, internal controls in place; and, there was a lack of management oversight due to the absence of exception and edit reports for review.

We offered 24 recommendations for improving the property management system as it applies to notebook computers.

**Management Consulting Report on the Member Complaint Process in Region III  
OIG-00-07 September 21, 2000**

This report represents the second management consulting review conducted by the OIG. The engagement involved providing assistance to NCUA's Region III in determining the effectiveness of the regional member complaint process.

The review objective was to evaluate the current process in the resolution of member complaints submitted to the regional office and to provide suggestions for process improvement. The review scope included member complaint activity in Region III for years 1999 and 2000.

Our review included an evaluation of the relationship of the member complaint process to written staff guidance; discussions with staff to determine and evaluate the regional office program to ensure effectiveness and timeliness of the member complaint process; and an evaluation of a sample of closed and in-process member complaints to evaluate the effectiveness of the process. We found that overall the member complaint process was working well in Region III. The OIG offered nine suggestions to further improve the member complaint process in the region.



**SEC OIG Peer Review**

**April 25, 2000**

During this period, we completed a peer review of the audit operations at the Securities and Exchange Commission (SEC) Office of Inspector General. The review was conducted in accordance with the guidance adopted by the President's Council on Integrity and Efficiency (PCIE). The objective of the PCIE external quality control review program is to foster quality audits by OIGs through an independent assessment of the effectiveness of the internal quality control system in providing reasonable assurance that applicable audit standards and requirements are being followed. We provided a favorable opinion while offering several suggestions for improving SEC OIG audit operations.

**AUDITS IN PROCESS**

**SAP Security and Control Audit**

We completed the fieldwork and are currently preparing a draft report of a SAP security and control review that was performed in partnership with an independent public accounting firm. NCUA implemented SAP R/3 in 1997 to handle its core financial processes. The review included assessing controls in the following areas: SAP security; data integrity; IT infrastructure; and business processes surrounding the Materials Management, Financial Accounting, Controlling, and Human Resources modules.

**Results Act: Review of Selected Performance Measures**

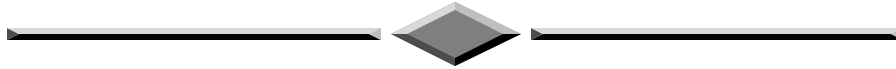
The Government Performance and Results Act of 1993 (Results Act) seeks to improve the effectiveness, efficiency, and accountability of federal programs by requiring federal agencies to set goals for program performance and to report on annual performance compared with the goals. Natural person and corporate credit unions periodically report financial status to NCUA using call report forms 5300 and 5310 respectively. NCUA has identified the call reports as key data sources to measure progress in meeting a number of agency strategic goals. This OIG review will evaluate and determine the reliability of credit union call report (forms 5300 and 5310) information identified as Results Act performance measurements.

**NCUA Budget Process**

We have begun preliminary planning on a review of the NCUA budget process. Overall, we will be evaluating the budget process to see if it can be improved to provide more useful and reliable information to the NCUA Board. Specific objectives include how well the NCUA budget accounts for the cost of meeting each of the agency's strategic goals; and how well the events leading up to approval of the NCUA budget are effectively planned.

**Review of Several Issues Related to the Acquisition and Roll-Out of  
Compaq Notebook Computers and Windows 2000**

The audit staff is in the process of reviewing several issues related to the recent procurement and roll-out of Compaq notebook computers and the Windows 2000 operating system.



**INVESTIGATION ACTIVITY**

In accordance with professional standards and guidelines established by the Department of Justice, the Office of Investigations performs investigations of both criminal and administrative wrongdoing involving agency programs. Our investigative jurisdiction focuses on activities designed to promote economy, effectiveness, and efficiency, as well as fighting fraud, waste, and abuse in agency programs. In addition to our proactive efforts to deter misconduct and promote integrity awareness among agency employees, we investigate referrals and direct reports of employee misconduct. 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.



Moreover, we receive complaints from credit union members that involve NCUA employee program responsibilities. These complaints are 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.

<b>Investigative Contacts</b>	
Contacts/inquiries/investigations carried forward from previous reporting period	1
Contacts initiated during report period	9
<i>Total contacts during reporting period</i>	10
 <u>Less:</u>	
Contacts closed for lack of verifiable evidence or referred to another office	2
Reports issued and/or matters closed	4
Management Implication Reports issued and closed	0
<i>Pending contacts</i>	4

**OFFICE OF INVESTIGATIONS ACTIVITIES**

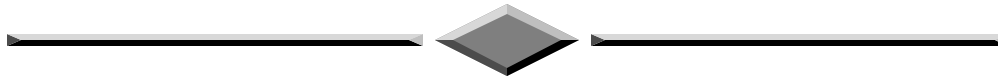
**OPEN INVESTIGATIONS**

For most of the reporting period, the Office of Investigations and the Office of Audit have devoted significant time and resources to a single ongoing investigation based upon a broad array of allegations—both criminal and administrative—referred to the OIG concerning misconduct on the part of two senior agency officials. The investigation has been time intensive as well as time sensitive. The OIG anticipates reporting the results of this investigation in its next semi-annual report.

Concurrent with the above ongoing investigation, the Office of Investigations is continuing four investigations into allegations referred to the OIG by agency employees.

**CLOSED INVESTIGATIONS**

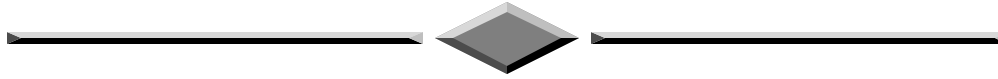
The Office of Investigations conducted an investigation into an allegation that a senior agency official inappropriately influenced the selection process for a senior level position. The allegation proved unsubstantiated and the case was closed.



***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 21 items, including 5 proposed regulations, 2 final rules, one proposed notice, one proposed policy instruction, and 6 legislative proposals. Other items reviewed included extensive comments on proposed legislation affecting the IG community.



***OTHER OIG ACTIVITIES***

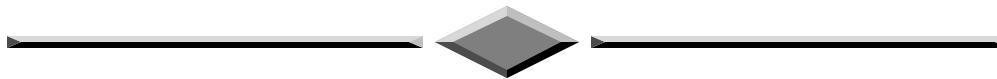
**STAFF TRAINING AND DEVELOPMENT**

The Inspector General (IG), Frank Thomas 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 Assistant IG for Audits (AIGA), William DeSarno, attended an Audit Consulting and Advisory Services course and a Computer Forensics Symposium. The AIGA also attended Federal Financial Institutions Regulatory OIG Council Meetings. Senior Auditor, Dwight Engelrup attended courses on Audit Consulting and Advisory Services; and Quick Response Auditing. Senior Auditor, Charles Funderburk attended an Intermediate Information Systems Auditing course. Senior Information Technology Auditor, Tammy Rapp, attended a course on Penetration Testing and a Computer Forensics Symposium.

The Assistant IG for Investigations (AIGI), Sharon Separ, attended training by the DCUSA on Public Corruption/Fraud. The AIGI and Special Agent, Anne Voegele, also presented a class to NCUA supervisors on the role and responsibilities of the OIG; IG independence; the types of employee misconduct that should be reported to the OIG; and how the OIG handles confidential information.

In addition, the AIGA, AIGI, Senior Auditors and Special Agent answered questions and provided information at the OIG “help desk” at NCUA’s Regional Conferences in Austin, Las Vegas, and Orlando.



**TABLE I**

<b>INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS</b>				
		Number of Reports	Questioned Costs	Unsupported 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**

<b>INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE</b>			
		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**

<b>SUMMARY OF OIG ACTIVITY APRIL 1, 2000 THROUGH SEPTEMBER 30, 2000</b>		
<b>PART I – AUDIT REPORTS ISSUED</b>		
<b>Report Number</b>	<b>Title</b>	<b>Date Issued</b>
OIG-00-05	Management Consulting Report – Region I	6/20/00
OIG-00-06	Review of Notebook Computer Inventory	7/26/00
OIG-00-07	Management Consulting Review – Region III	9/21/00
	SEC Peer Review	4/25/00
<b>PART II – AUDITS IN PROCESS (as of September 30, 2000)</b>		
	SAP Security and Control	
	Government Performance and Results Act: Review of Selected Performance Measures	
	NCUA Budget Process	
	Review of Several Issues Related to the Acquisition and Roll-Out of Compaq Notebook Computers and Windows 2000	

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