

NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT
TO
THE CONGRESS

April 1 – September 30, 2011



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INSPECTOR GENERAL'S MESSAGE TO THE NCUA BOARD AND THE CONGRESS

It is my pleasure to submit this Semiannual Report on the accomplishments of the National Credit Union Administration (NCUA) Office of Inspector General (OIG) for the six-month period ending on September 30, 2011. This report summarizes the major activities and accomplishments of the OIG during this reporting period.

The NCUA OIG strives to carry out its mission to promote efficiency and effectiveness in NCUA programs and operations. This reporting period is no exception. In the past six months, the OIG has been active on both the audit and investigative sides of the office.

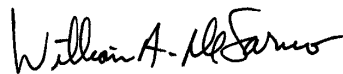
On the audit side, while conducting and reporting on Material Loss Reviews (MLRs) remained a major focus, we also completed a review of building security measures at the NCUA's Central Office and Region II facility. The review assessed the adequacy of physical building security measures, including (a) security operations and administration; (b) facility entrance security; (c) security systems; and (d) site and interior security. In response to our specific recommendations, the agency made and has planned substantive security improvements. The Office of Audit also issued a report on NCUA's Document of Resolution (DOR) follow-up process. That review focused on the agency's process for the resolution/closure of DORs and the effectiveness of the current resolution process. Based on the deficiencies the review uncovered, we made three recommendations and one suggestion. Management agreed with our findings and recommendations, and has already or is in the process of taking corrective action.

On the investigative side, we investigated and reported on an administrative case involving employee misuse of the government computer to send and receive, respectively, over 700 pornographic photographs of himself and adult females. This case stemmed from an ongoing FBI criminal investigation and referral that the same employee was sending pornographic photographs of himself to an undercover agent posing as a twelve year old female. We found the administrative allegations in the case were substantiated; based on our report and the record as a whole, the agency has proposed the employee's removal. In another case, we investigated and reported on allegations that an NCUA employee had committed bank fraud. In that case, we found that the allegations were unsubstantiated. Finally, in the wake of the departure in July of our former Director of Investigations, the OIG hired a new Director of

Investigations, Michael Egan, who comes to us from the United States Postal Service Office of Inspector General.

During the reporting period, the OIG, under advisement of the OIG Counsel, provided significant input to the agency in its bargaining contract renewal negotiations with the National Treasury Employees Union, regarding warnings and union representation at OIG interviews. The OIG appreciates greatly the dialogue that ensued with agency representatives and we feel comfortable that the unique role of the OIG within NCUA will continue to be represented accurately to the NTEU and NCUA employees alike.

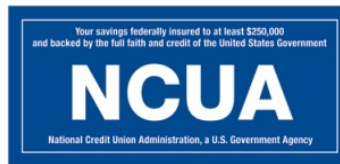
I would like to thank Chairman Matz, and Board Members Hyland and Fryzel for their sustained support of the OIG's work. Our office is committed to assisting the NCUA in ensuring the safety and soundness of credit unions as we work with the agency to achieve needed changes and improvements to NCUA's programs and activities.



William A. DeSarno
Inspector General

THE NCUA MISSION

NCUA’s charge is to provide, through regulation and supervision, a safe and sound credit union system which promotes confidence in the national system of cooperative credit.



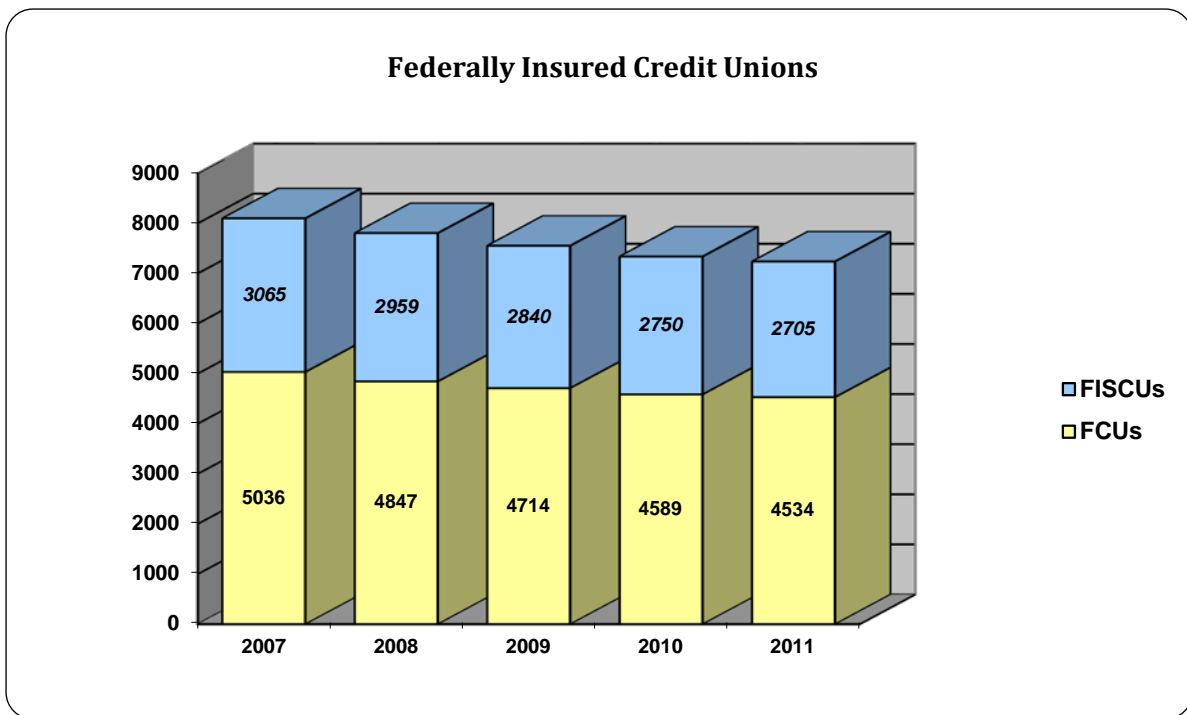
THE OFFICE OF INSPECTOR GENERAL MISSION

The OIG promotes the economy, efficiency, and effectiveness of NCUA programs and operations, and detects and deters fraud, waste, and abuse, thereby supporting the NCUA’s mission of monitoring and promoting safe and sound federally insured credit unions.

We accomplish our mission by conducting independent audits, investigations, and other activities, and by keeping the NCUA Board and the Congress fully and currently informed of our work.

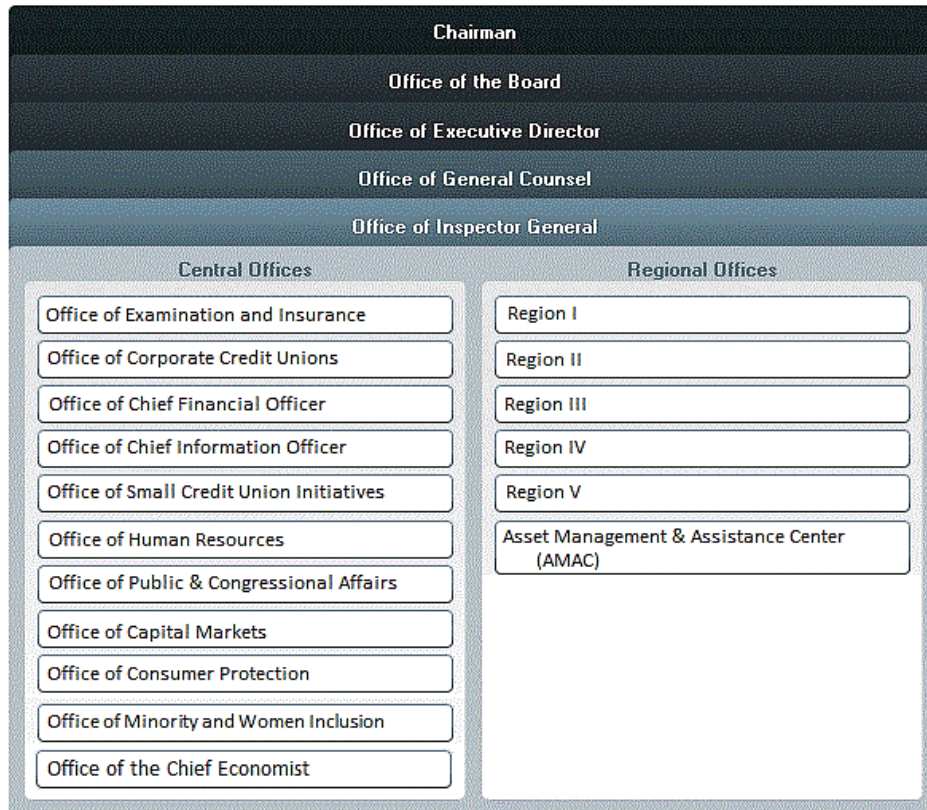
INTRODUCTION

The 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. The NCUA is funded by the credit unions it supervises and insures. As of June 30, 2011, the NCUA was supervising and insuring 4,534 federal credit unions and insuring 2,705 state-chartered credit unions, a total of 7239 institutions. This represents a decline of 55 federal and 45 state-chartered institutions since December 31, 2010, for a total decline of 100 credit unions nationwide, primarily as a result of mergers and liquidations.

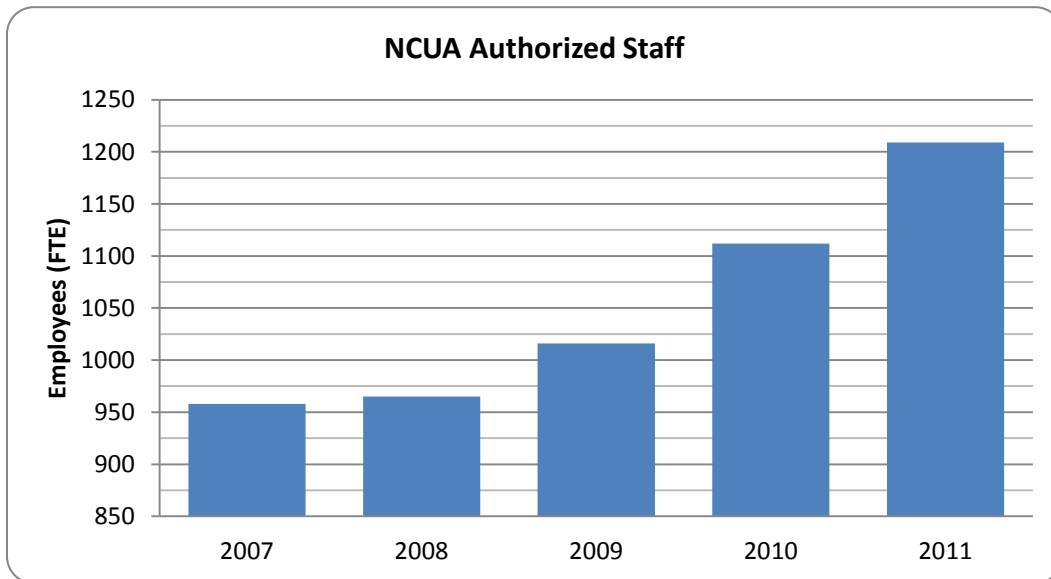
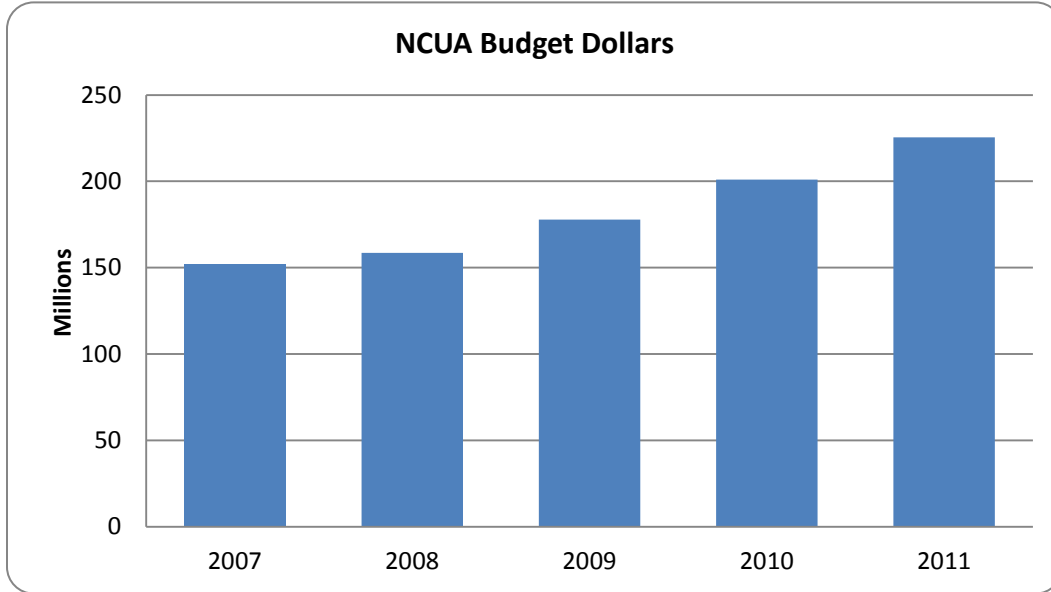


The NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one term expires every two years. The Board is responsible for the management of the NCUA, including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

The NCUA executes its program through its central office in Alexandria, Virginia and regional offices in Albany, New York; Alexandria, Virginia; Atlanta, Georgia; Austin, Texas; and Tempe, Arizona. The NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer to the NCUA organizational chart below.



The NCUA Board adopted its 2011 budget of \$225,403,988 on November 18, 2010. The Full-Time Equivalent (FTE) staffing authorization for 2011 is 1,209 representing an increase of 97 FTEs from 2010.



NCUA HIGHLIGHTS

NCUA Ranked Among Top Performing Agencies

On September 23, 2011, the U.S. Office of Personnel Management (OPM) released the results of the 2011 Employee Viewpoint Survey, giving high marks to the NCUA among 37 agencies ranked. The survey is a tool that measures employees' perceptions of whether, and to what extent, conditions characterizing successful organizations are present in their agencies. Survey results provide valuable insights into the challenges agency leaders face in ensuring the Federal government has an effective civilian workforce and how well they are responding. In three of the survey's four indices, NCUA ranked as one of the "top performing" agencies:

- NCUA ranked fourth in the category "results-oriented performance culture," up from tenth place in 2010;
- NCUA held its position as sixth in "talent management;"
- Most significantly, NCUA tied for fifth place in "job satisfaction," up from the eleventh spot in 2010; and
- For "leadership and knowledge management," the only metric where NCUA did not rank in the top ten, OPM's report noted that the agency had significant improvement over 2010.

NCUA Executive Director Marquis Testifies on Underbanked Credit

National Credit Union Administration Executive Director David Marquis testified, on September 22, 2011, before the House Financial Services Subcommittee on Financial Institutions and Consumer Credit on the availability of credit for and lending to people who primarily use alternative financial services, also called the underbanked. Since December 2007, credit union loans expanded by 6 percent. Concurrently, low-income credit unions (LICUs) nearly tripled in assets and lending and doubled in members. In 2003, Marquis testified, there were 963 LICUs with \$15.2 billion in assets, \$9.9 billion in loans, and 3.2 million members. As of June 30, 2011, there were 1,118 LICUs with \$44.3 billion in assets, \$27.2 billion in loans, and 6.1 million members. Marquis stated that during the period, LICUs increased loan growth by more than twice the rate of loans at other credit unions, 14 percent versus 6 percent. Notably, real estate lending by LICUs grew by 29 percent versus 12 percent at other credit unions. Marquis also discussed NCUA's rule on short-term, small amount loans, finalized in September 2010. The rule allows federal credit unions to offer members an alternative to payday lenders. "With strong consumer protections," Marquis stated, "the rule balances increased risk with access to affordable, fully amortized credit that is faster and easier to qualify for." Since its introduction, the small loan product has gained growing market acceptance and enhanced the availability of short-term credit. Today, 343 federal credit unions report more than 33,000 small loans, averaging \$412 each with just below a 21 percent interest rate, significantly lower than the triple-digit interest rates often charged by payday lenders.

NCUA Board Sets 2011 Temporary Corporate Credit Union Stabilization Fund Assessment

At a special open meeting convened by the NCUA Board on August 29, 2011, the Board set the 2011 Temporary Corporate Credit Union Stabilization Fund at 25 basis points for a total of \$1.96 billion. The Board based the 2011 assessment of 25 basis points on projected fixed, near-term net cash flow needs with the expectation that future assessments would be considerably lower. Funds generated

from the 2011 assessment, along with borrowed funds from the U.S. Treasury, will pay the principal and interest on maturing medium term notes issued by corporate credit unions and guaranteed by the Stabilization Fund, and the guaranteed notes issued to the bridge corporate credit unions. As required by law, the Board took into consideration the potential negative impact of this assessment on credit union earnings by annualizing June 30 call report figures.

NCUA Board Creates Oversight Plan to Maintain NCUA Guaranteed Notes

At the same August 29, 2011, open meeting, the NCUA Board approved the creation of the NCUA Guaranteed Notes (NGN) Securities Management and Oversight Committee and associated staff positions to ensure the achievement of the objectives for the NGN initiative and sound management of the Stabilization Fund. In approving the delegation, the Board charged the group with ensuring that NCUA fulfills its ongoing responsibilities of the corporate resolution process in a manner that promotes transparency, efficiency, and accountability. The NGN's require long-term monitoring, managing, and reporting on very complex transactions for at least the next 10 years. Creation of the NGN Securities Management and Oversight Committee addresses the need for long-term, streamlined management of the NGN initiative's daily activities. The Stabilization Fund will fund costs associated with staffing and operating the committee, including consultants.

Chairman Matz Attests to Congress her Approval of the FSOC's First Annual Report

Chairman Debbie Matz attested to Congress, on July 26, 2011, her approval of the Financial Stability Oversight Council's (FSOC) Annual Report and recommendations as the FSOC released its first annual review of emerging risks in the financial system. Chairman Matz was one of 10 FSOC members that attested to the report. During the past year, NCUA worked with other regulators on the FSOC to implement the initiatives mandated by the "Dodd-Frank Wall Street Reform and Consumer Protection Act" to restore integrity in the markets and strengthen the public's trust in the financial system. The FSOC report identified declining real estate prices, a sudden increase in term premiums on U.S. government debt, and an escalation of the European sovereign debt crisis as issues that could trouble the economy going forward. The council, which provides a forum for discussion between various regulatory agencies, is composed of ten voting members—nine federal financial regulatory agencies and an independent member with insurance expertise—and five nonvoting members. In addition to Chairman Matz, voting members of the council include the Secretary of the Treasury, who serves as the Chairperson of the FSOC; the Chairman of the Board of Governors of the Federal Reserve System (Fed); the Director of the Consumer Financial Protection Bureau (CFPB); the Chairman of the Securities and Exchange Commission (SEC); the Chairperson of the Federal Deposit Insurance Corporation (FDIC); the Chairperson of the Commodity Futures Trading Commission (CFTC); the Comptroller of the Currency (OCC); and the Director of the Federal Housing Finance Agency (FHFA). The independent member is appointed by the President and confirmed by the Senate for a six-year term. The non-voting members serve in an advisory capacity. The council will also oversee the resolution of troubled financial institutions.

NCUA Finalizes Voluntary Prepayment of Stabilization Fund Assessments Plan

Responding to requests and feedback from credit unions, the NCUA Board, at its June 29, 2011 meeting, adopted a plan to permit voluntary prepayments of \$500 million in Corporate Stabilization Fund assessments. Under the program, NCUA will solicit and collect voluntary advances of certain Stabilization Fund assessments due in 2013 and thereafter so as to level assessments in 2011 and 2012. The approved program has the potential to decrease the currently projected 2011 Stabilization Fund assessment by 6.4 basis points from 24.9 to 18.5 basis points of insured shares. NCUA

designed the voluntary prepayment of Stabilization Fund assessments program with the following principles in mind:

- Setting assessments in a counter-cyclical manner relative to credit union performance and providing resolution to the corporate crisis during this economic cycle;
- Maintaining a meaningful contingency in Treasury borrowing capacity; and
- Using credit union prepayments to meaningfully reduce near-term Stabilization Fund assessments.

Chairman Matz Named FFIEC Chair

In early April the Federal Financial Institutions Council (FFIEC) announced that, for the first time in more than 20 years, the NCUA Board Chairman is now the Chairman of the FFIEC for a two-year term. Chairman Matz succeeds Sheila C. Bair, former Chairman of the Federal Deposit Insurance Corporation. FFIEC also named acting Comptroller of the Currency John Walsh as its new Vice chairman. The FFIEC was established by Congress in 1979 to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions, to make recommendations to promote uniformity in the supervision of financial institutions, and to conduct schools for examiners. The Council has six voting members: the Comptroller of the Currency, the Chairman of the Board of Directors of the FDIC, the Governor of the Fed Board of Governors, the Director of the Office of Thrift Supervision, the NCUA Chairman, and the Chairman of the State Liaison Committee.

FEDERALLY INSURED CREDIT UNION HIGHLIGHTS

Credit unions submit quarterly call reports (financial and operational data) to the NCUA. An NCUA staff assessment of the June 30, 2011, quarterly call reports submitted by all federally insured credit unions found that key financial indicators are mixed.

Key Financial Indicators Mixed

Looking at the June 30, 2011 quarterly statistics for major balance sheet items and key ratios shows the following for the nation's 7,239 federally insured credit unions: assets grew .3 percent; net worth to assets ratio increased from 10.06 to 10.14 percent; the loan to share ratio decreased from 71.81 percent to 69.44 percent. However, the delinquency ratio decreased from 1.76 to 1.58 percent; and credit union return on average assets increased from .51 percent to .77 percent.

Savings Shifting to Regular Shares

Total share accounts increased 3.28 percent. Regular shares increased 8.42 percent. Regular shares comprise 29.44 percent of total share accounts; share certificates comprise 25.43 percent; money market shares comprise 22.66 percent; share draft accounts comprise 11.65 percent; and all other share accounts comprise 10.82 percent.

Loan Volume Flat

Loans declined .13 percent resulting in a decrease in total loans by \$.7 billion. Total net loans of \$564 billion comprise 60 percent of credit union assets. First mortgage real estate loans are the largest single asset category with \$227.3 billion accounting for 40.29 percent of all loans. Other real estate loans of \$83.3 billion account for 14.77 percent of all loans. Used car loans of \$103.57 billion were 18.36 percent of all loans, while new car loans amounted to \$59.51 billion or 10.55 percent of total loans. Credit card loans totaled \$35.25 billion or 6.25 percent of total loans and other loans totaled \$55.13 billion for 9.77 percent of total loans.

LEGISLATIVE HIGHLIGHTS

First Dodd-Frank Anniversary Marks Implementation Date for New Consumer Rules

The one-year anniversary of the “Dodd-Frank Wall Street Reform and Consumer Protection Act” served as the start date for three noteworthy consumer-focused, self-effectuating provisions that credit unions must implement.

- **Fair Credit and Equal Opportunity Changes:** Dodd Frank amendments to the Fair Credit Reporting Act (FCRA) and the Equal Credit Opportunity (ECOA) became effective July 21, 2011. These changes update FCRA and ECOA forms with new credit score disclosure requirements. Similarly, they update notifications to combine adverse action notice and new credit score disclosure requirements. The changes together promote accuracy, privacy, and equality in reporting and applying for credit. Such disclosures help the consumer better understand their credit rights.
- **Truth in Lending Reforms:** Amendments to the Truth in Lending Act (Regulation Z) and the Consumer Leasing Act (Regulation M) also became effective in late July. These amendments apply to certain consumer credit transactions and consumer leases up to \$50,000, compared with \$25,000 before Dodd-Frank. This maximum will adjust annually to reflect increases in the Consumer Price Index. Private loans and loans subject to real property are not exempt, regardless of the amount.
- **Expedited Funds Thresholds Raised:** The last self-effectuating amendment is an update to the Expedited Funds Availability Act (Regulation CC). This rule requires credit unions to make \$200 available for withdrawal on the business day after receiving the deposit, an increase from \$100. This change allows consumers access to a greater portion of a deposit no matter what the previous hold policy was on deposited checks. Congress mandated this change so consumers could access more of their money more quickly, but NCUA will need to monitor the increased risk exposure involved.

New Credit Score Notice Requirements

As of July 21, 2011, credit unions and other lenders began complying with credit score disclosure regulations recently issued by the Federal Reserve Board and the Federal Trade Commission. Required by Dodd-Frank, these new rules allow consumers to receive more information about how their credit scores affect certain lending decisions. Congress mandated these changes, outlined below, to help consumers verify the accuracy of the information contained in their credit reports.

- **Credit Score Notice:** Under the new rule, lenders must provide a notice to consumers—regardless of the terms of credit offered to the consumer--detailing the consumer’s credit score and information about how it compared to other consumers. If a consumer does not have a credit score, the lender will identify which credit bureau did not provide a credit score.
- **Risk-Based Pricing Notice:** The new rule also requires certain consumers to receive a risk-based pricing notice. Risk-based pricing refers to the practice of setting or adjusting the price and other terms of credit provided to a consumer based on the consumer’s

creditworthiness. A consumer will only receive this type of notice if the consumer is offered credit on terms that are less favorable than the terms offered to other consumers because of information contained in the consumer's credit report.

- **Account Review Notice:** If a consumer's APR on an existing credit account is increased based on a review of the consumer's credit report, the consumer may now receive an account review notice. For example, some credit card issuers conduct periodic reviews of customers' credit reports. If a consumer's credit report has changed since the initial application for the credit card, the issuer might increase the APR to account for the increased risk. Under these circumstances, a consumer will now receive a notice providing the credit report information that resulted in the APR increase.

Chairman Matz Comments on Interchange Rule

In response to the Federal Reserve Board's approval on June 29, 2011, of a final rule on interchange fee limits required by Section 1705 of the "Dodd-Frank Wall Street Reform and Consumer Protection Act," NCUA Board Chairman Debbie Matz praised the new rule, stating that the new rule took into account NCUA's concerns about the impact on the safety and soundness of small credit unions. The Fed's rule places a 21 cents cap on debit transactions plus an additional cent to help pay for fraud protection and five more basis points to account for losses due to fraud. The new rule, which took effect on October 1, 2011, was a change from the proposed rule which would have capped fees at 12 cents.

Chairman Matz stated that while NCUA had strong concerns about the initial interchange fee proposal, she stated her belief that the final regulation addressed those concerns. Specifically, she praised the Fed for taking into account credit unions with less than \$100 million in assets. She stated that the higher interchange fee amounts were a "step in the right direction." Chairman Matz stated further that NCUA will monitor carefully the implementation of the interchange fee limit rule and will study "whether the rule creates unintended consequences for or imposes disproportionate burdens on smaller credit unions." Some credit union industry representatives opined that they did not believe the rule went far enough in covering the costs for small issuers.

NCUA Asks Congress to Lift Cap on Member Business Lending

In testimony before the Senate Committee on Banking, Housing and Urban Affairs on June 16, 2011, Chairman Matz asked Congress to lift the present statutory cap on credit union member business lending (MBL). The crux of her testimony supported the Small Business Lending Enhancement Act (S. 509), a bill that would alter the cap on MBL for credit unions. The present statutory cap establishes the aggregate limit on a credit union's net member business balance as the lesser of 1.75 times the credit union's net worth or 12.25 percent of total assets, with certain exceptions. Chairman Matz testified that "[t]he current statutory cap deters many credit unions from fully serving the business lending marketplace." She stated further that the bill "would allow more credit unions to achieve the economies of scale necessary to make greater investments in business lending expertise and systems, engage in prudent underwriting, and diversify their portfolios."

NCUA's testimony supports increasing the current statutory MBL limitation. Under the proposed bill, experienced, well-capitalized credit unions, consistent with safety and soundness, could increase member business lending portfolios on a gradual basis, by no more than 30 percent annually, up to a new cap of 27.5 percent of a credit union's total assets.

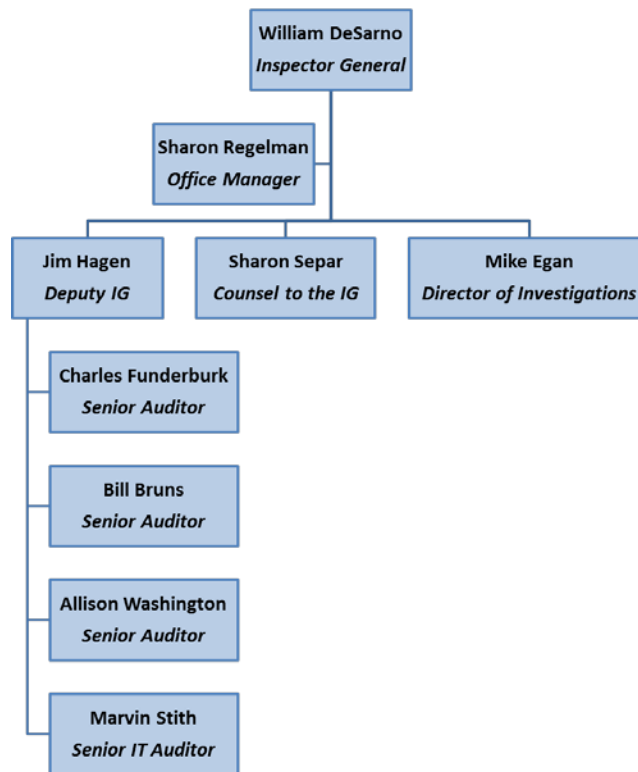
OFFICE OF THE INSPECTOR GENERAL

The Office of the Inspector General was established at the NCUA in 1989 under the authority of the Inspector General Act of 1978, as amended. The staff consists of the Inspector General, Deputy Inspector General, Counsel to the Inspector General, Director of Investigations, three Senior Auditors, Senior Information Technology Auditor, and Office Manager.

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 Board and the Congress apprised of significant findings and recommendations.

NCUA OIG ORGANIZATIONAL CHART



AUDIT ACTIVITY

Audit Reports Issued

OIG-11-01 – May 4, 2011

Material Loss Review of Members United Corporate FCU

Our review determined Members United's management and Board of Directors (Board) contributed to the conservatorship of Members United and resulting material loss to the Temporary Corporate Credit Union Stabilization Fund (TCCUSF). Specifically, management and the Board's inadequate oversight resulted in Members United purchasing significant holdings of private-label mortgage-backed securities, many of which were later downgraded to subprime and Alt-A that exposed the credit union to excessive amounts of financial risk. Members United's management and the Board failed to identify and manage this risk exposure prior to the mortgage-backed securities market dislocation that occurred in mid-2007.

Members United's management and Board failed to recognize the substantial risk they were undertaking with significant investments in complex mortgage-backed securities, with a substantial portion of these securities backed by subprime assets. Management allowed the investments in mortgage-backed products to represent a significant concentration compared to net worth and they failed to impose limits in these securities.

We also determined NCUA failed to adequately assess or timely identify key risks related to Members United's investment portfolio related to the concentration of mortgage-backed securities, until it was too late. The lack of adequate and timely oversight of Members United was partially attributable to corporate examiners not having the appropriate regulatory support, such as more specific investment concentration limits, to adequately address Members United's concentration risk and the exposure to credit, market, and liquidity risks.

We believe stronger and timelier supervisory action regarding Members United's concentration in mortgage-backed securities could have resulted in a reduced loss to the TCCUSF. Although NCUA does not provide examiners with specific guidance regarding sector concentration limits, we believe NCUA examiners should have recognized the risk exposure that Members United's significant concentration in mortgage-backed securities represented earlier than 2007 and 2008.

We made three recommendations in this report to address findings identified that have not previously been reported to NCUA in our Capping Report. NCUA Management agreed with all three recommendations and has either already taken corrective action or plans to take corrective action in the near future to address each recommendation.

OIG-11-02/03/04/05 – May 12, 2011

NCUA Financial Statements Audit 2010: Operating Fund, Central Liquidity Facility, Community Development Revolving Loan Fund, and Share Insurance Fund

Our contracting audit firm, KPMG LLP, issued opinions on the 2010 financial statements of the National Credit Union Administration Operating Fund, Central Liquidity Facility, Community Development Revolving Loan Fund, and the National Credit Union Share Insurance Fund. The auditors found that the

financial statements presented fairly the financial position of the agency's funds as of December 31, 2010.

The [NCUA Operating Fund \(OIG-11-02\)](#) was established as a revolving fund managed by the NCUA Board for the purpose of providing administration and service to the federal credit union system. The auditors issued an **unqualified opinion** on the Operating Fund's financial statements. The fund's total assets for 2010 were \$75.6 million, up from \$66 million in 2009.

The [Central Liquidity Facility \(OIG-11-03\)](#) was established as a mixed ownership government corporation managed by the NCUA Board to improve general financial stability by meeting the liquidity needs of credit unions. The auditors issued an **unqualified opinion** on the Central Liquidity Facility's (CLF) financial statements. The CLF's total assets for 2010 were \$2 billion, down from \$20.2 billion in 2009. The decline in total assets is the result of maturing loans made by CLF during the financial crisis (in particular, the \$8.3 billion Credit Union System Investment Program and the \$10 billion loan to the NCUSIF matured prior to yearend 2010).

The [Community Development Revolving Loan Fund's \(OIG-11-04\)](#) purpose is to stimulate economic activities in the communities served by low-income credit unions. This in turn will result in increased income, ownership and employment opportunities for low-wealth residents and other economic growth. The auditors issued an **unqualified opinion** on the Fund's financial statements. The Community Development Revolving Loan Fund's total assets for 2010 were \$17.1 million, down from \$17.8 million in 2009.

The [National Credit Union Share Insurance Fund \(OIG-11-05\)](#) was established as a revolving fund managed by the NCUA Board to insure member share deposits in all Federal credit unions and qualifying state credit unions. The auditors issued an **unqualified opinion** on the Share Insurance Fund's financial statements. The Fund's total assets for 2010 were \$10.9 billion.

[OIG-11-06 – June 23, 2011](#)

[Review of Facility Security at NCUA Central Office](#)

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) conducted a review of facility security at NCUA's Central Office. We reviewed facility security to: (1) assess the adequacy of physical building security measures at NCUA's Central Office. Within this objective, we placed a particular emphasis upon reviewing building security access and controls, specifically related to: (a) security operations and administration; (b) facility entrance security; (c) security systems, and (d) site and interior security.

Because this report contains proprietary information and addresses issues associated with physical security, we do not intend to release the specific findings to the public. We made three recommendations to correct the deficiencies found. Management agreed with our first recommendation and agreed with all but one aspect of our second recommendation. However, management disagreed with our third recommendation. After reviewing the agencies reasoning we agreed and consider all three recommendations as resolved.

[OIG-11-07 – June 7, 2011](#)

[Material Loss Review of Beehive Credit Union](#)

We determined Beehive failed because Management did not effectively manage the risks, policies, operations, and financial position of Beehive, nor did they demonstrate an understanding of the risks

inherent in their strategic decisions. In addition, both the Board of Directors and management lacked sufficient and responsive action to address repeat findings raised by examiners related to concentrations, Allowance for Loan and Lease Losses (ALLL) methodology, and asset quality.

We also determined the Utah Division of Financial Institutions, the State Supervisory Authority, and the NCUA contributed to the failure of Beehive because neither performed a supervisory contact for 32 months – from March 2006 to November 2008. We believe this 32-month supervisory lapse came at a critical time and prevented examiners from detecting the deficiencies and curtailing the risky lending practices that eventually led to Beehive's insolvency.

In November 2008, the NCUA adopted changes to its risk-based examination scheduling policy and now requires an annual examination or material on-site supervision for FISCO's with assets greater than \$250 million, and allows for additional contact if warranted by risk profiles and negative trends. We believe this change is important and will prevent the supervision gap that occurred with Beehive from happening in the future. As a result, we are making no formal recommendations as a result of the findings in this report.

OIG-11-08 – September 1, 2011

Material Loss Review of Certified Federal Credit Union

We determined Certified failed for the following reasons: 1) Inaccurate financial reporting and weak accounting practices and internal controls, 2) weak board oversight, and 3) inadequate risk management practices.

In addition, we determined examiners and Region V management missed opportunities to prevent or reduce the loss to the NCUSIF. Specifically, examiners did not:

- Adequately assess the Management component of the CAMEL rating system.
- Adequately consider external audit findings and reviews when developing their examination procedures; or
- Apply appropriate administrative remedies when their own fraud investigation into the CEO's fiduciary duties raised serious safety and soundness concerns due to the CEO's business practices and ethical behavior.

Based on our review of the causes of Certified's failure, we made three recommendations to NCUA management that we believe would correct identified deficiencies. Management agreed with all three recommendations and has already or is in the process of taking corrective action.

OIG-11-09 – September 1, 2011

Material Loss Review of Constitution Corporate Federal Credit Union

Our review determined Constitution's management and Board of Directors (Board) contributed to the conservatorship of Constitution and resulting material loss to the Temporary Corporate Credit Union Stabilization Fund (TCCUSF). Specifically, management and the Board's inadequate oversight resulted in Constitution purchasing significant holdings of private-label mortgage-backed securities, many of which were later downgraded to below investment grade, which exposed the credit union to excessive amounts of financial risk. Constitution's management and the Board failed to identify and manage this risk exposure prior to the mortgage-backed securities market dislocation that occurred in mid-2007

In addition, we determined NCUA failed to adequately assess or timely identify key risks related to Constitution's investment portfolio related to the concentration of mortgage-backed securities, until it was too late. We also determined the lack of adequate and timely oversight of Constitution was

partially attributable to corporate examiners not having the appropriate regulatory support, such as more specific investment concentration limits, to adequately address Constitution's concentration risk and the exposure to credit, market, and liquidity risks.

We believe stronger and timelier supervisory action regarding Constitution's concentration in mortgage-backed securities could have resulted in a reduced loss to the TCCUSF. NCUA regulations did not provide corporates with specific limits for concentrations of credit risk. We believe NCUA examiners should have recognized the risk exposure that Constitution's significant concentration in mortgage-backed securities represented earlier than August 2008.

This report includes three repeat recommendations from an earlier OIG report (OIG-11-01) and we recognize that NCUA management has already taken or agreed to take action to resolve these concerns. In addition, we made one new recommendation to address findings related to utilization of agency resources. NCUA Management agreed with the recommendation and is taking corrective action to address this recommendation.

OIG-11-10 – September 22, 2011

Material Loss Review of Southwest Corporate Federal Credit Union

We determined Southwest's management and Board of Directors (management) did not implement appropriate risk management practices to adequately limit or control significant risks in its investment strategy. Management's actions resulted in substantial exposure to privately-issued residential mortgage-backed securities (RMBS), which resulted in significant concentration risk and left Southwest vulnerable to significant credit, market, and liquidity risks. Management's actions contributed directly to the conditions that led to NCUA placing Southwest into conservatorship on September 24, 2010 and involuntarily liquidating the corporate effective October 31, 2010. NCUA expects the estimated loss to its Stabilization Fund from Southwest's failure to be \$141 million.

In addition, we determined that NCUA Office of Corporate Credit Unions (OCCU) staff did not adequately and timely address the risks associated with Southwest's direct concentration of and indirect exposure to privately-issued RMBS. We believe this occurred in part because OCCU staff did not properly aggregate or correlate Southwest's concentration of privately-issued RMBS. In addition, OCCU staff did not have the appropriate regulatory support in the form of specific investment concentration limits to address the growing and risky concentrations that OCCU staff reviewed during its examinations. Furthermore, NCUA regulations: (1) did not place any limits on corporate investments with other corporates; and (2) did not require special emphasis on monitoring such investments with other corporates.

We also determined NCUA's assessment of Southwest's credit risk may have been improved had NCUA's policies and procedures required independent analysis of Southwest's credit exposure and potential risk.

NCUA management agreed with our recommendation and indicated NCUA already has an active working group identifying elevated risk posed by large, complex institutions and developing appropriate strategies to supervise those institutions.

OIG-11-11 – September 29, 2011

Review of NCUA's Document of Resolution Follow-up Process

We determined that neither NCUA's Office of Examination nor Insurance (E&I), nor the five regional offices, effectively monitored or followed up on unresolved DOR items. Specifically, we found that E&I performed limited DOR monitoring and that monitoring in each region varied based on their individual policy. Accordingly, NCUA is developing the National Supervision Policy Manual to replace the

individual regional supervision manuals and policies and to help improve the overall DOR follow-up process. However, we found that under this new policy it would be optional for examiners to require a written response to all DOR items in CAMEL 2 credit unions with unresolved DORs. Subsequent to receiving a draft of this report, E&I management amended the draft NSPM and will require a written response to the examiner for all DOR items not completed within the prescribed timeframe, regardless of the credit union's composite CAMEL rating.

We found that of the 74 credit unions closed and/or merged from 2008 through 2010, 45 percent had been regularly rated a composite CAMEL 1 or 2. The problems were so insurmountable that 18 of these credit unions closed or merged about a year after the initial downgrade. We also found that for 14 of these credit unions examiners noted a total of 55 unresolved DOR items during the last examinations where the credit union received a composite CAMEL 1 or 2 rating. We believe NCUA examiners considered these credit unions a low risk and therefore did not aggressively pursue timely resolutions for the unresolved DOR items. Consequently, NCUA missed opportunities to mitigate losses to the National Credit Union Share Insurance Fund (NCUSIF).

Furthermore, we determined that as of December 31, 2010, NCUA had over 26,000 unresolved DOR items which encompassed 63 percent of all federally insured credit unions. We also determined that examiners reduced identified areas of unacceptable risk by resolving over 106,000 DOR items. Moreover, examiners resolved over 91,000 (86 percent) of these DORs in two years or less.

As a result, we made three recommendations and one suggestion to correct the deficiencies. Management agreed with our findings and recommendations, and has already or is in the process of taking corrective action. However, management did not believe it was feasible to implement our suggestion.

AUDITS IN PROGRESS

NCUA Temporary Corporate Credit Union Stabilization Fund Financial Statement 2010

Our current contracting audit firm, KPMG, is working on the 2010 financial statements of the NCUA Temporary Corporate Credit Union Stabilization Fund (TCCUSF).

The TCCUSF, established in 2009, allows NCUA to borrow money from the Treasury to pay for corporate credit union losses, and then pay back the Treasury over time with funds obtained from assessments on federally insured credit unions. Due to extraordinary circumstances related to the complexity of this area the audit of these financial statements has taken longer than anticipated. We expect to issue our report in October 2011.

Review of NCUA Asset Management & Assistance Center

The OIG is conducting a review of the NCUA's Asset Management Assistance Center (AMAC) Property Management. The objectives of this review are to determine the efficiency and effectiveness of AMAC's 1) Policies/procedures and internal controls for the following areas: (a) asset recover, (b) liquidations of member services, and (c) accounting services; 2) Payments of share accounts including closing out the account or return checks that occur; and 3) Valuation process and disposal of property and assets. We are currently conducting fieldwork and plan to issue a report in late 2011.

Independent Evaluation of the NCUA's Compliance with the Federal Information Security Management Act (FISMA) 2011

The OIG engaged Carson & Associates Inc. to independently evaluate its information systems and security program and controls for compliance with the Federal Information Security Management Act (FISMA), Title III of the E-Government Act of 2002.

Carson & Associates Inc. is evaluating NCUA's security program through interviews, documentation reviews, technical configuration reviews, social engineering testing, and sample testing. NCUA is being evaluated against standards and requirements for federal government agencies such as those provided through FISMA, National Institute of Standards and Technology (NIST) Special Publications (SPs), and OMB memoranda. We anticipate issuing the final report in November 2011.

NCUA Financial Statements 2011

Our current contracting audit firm, KPMG, is working on the 2011 financial statements of the NCUA Operating Fund, National Credit Union Share Insurance Fund, the Central Liquidity Facility, the Community Development Revolving Loan Fund and the Temporary Corporate Credit Union Stabilization Fund (TCCUSF).

The NCUA Operating Fund was established as a revolving fund managed by the NCUA Board for the purpose of providing administration and service to the federal credit union system. The National Credit Union Share Insurance Fund was established as a revolving fund managed by the NCUA Board to insure member share deposits in all Federal credit unions and qualifying state credit unions. The CLF was established as a mixed ownership government corporation managed by the NCUA Board to improve general financial stability by meeting the liquidity needs of credit unions. And the Community Development Revolving Loan purpose is to stimulate economic activities in the communities served by low-income credit unions. This in turn will result in increased income, ownership and employment

opportunities for low-wealth residents and other economic growth. The TCCUSF, established in 2009, allows NCUA to borrow money from the Treasury to pay for corporate credit union losses, and then pay back the Treasury over time with funds obtained from assessments on federally insured credit unions. We expect to issue our report in February 2012.

Material Loss Review of Vensure Federal Credit Union

The Federal Credit Union Act requires the NCUA OIG to conduct a material loss review (MLR) of an insured credit union if the loss exceeds \$25 million. The “Dodd-Frank Wall Street Reform and Consumer Protection Act” requires the OIG to assess all losses to the Share Insurance Fund under the \$25 million threshold and determine if unusual circumstances warrant a MLR. We determined that Vensure credit union met this criterion and have elected to conduct an MLR.

We are in the process of conducting a MLR on Vensure credit union. We will review Vensure to (1) determine the cause(s) of the credit union’s failure and the resulting loss to the National Credit Union Share Insurance Fund (NCUSIF); and (2) assess NCUA’s supervision of the credit union. To achieve these objectives, we will analyze NCUA examination and supervision reports and related correspondence; interview management and staff from NCUA Regional offices; and reviewed NCUA guidance, policies and procedures, NCUA Call Reports, and Financial Performance Reports.

Significant Audit Recommendations on which Corrective Action Has Not Been Completed

As of September 30, 2011, the following list of OIG reports with unimplemented recommendations where management has agreed to implement corrective action but has not completed. This information is based on (1) information supplied by NCUA Office of Examination and Insurance and (2) the OIG’s report recommendation tracking system.

Report Number, Title and Date

OIG-10-20	OIG Capping Report on Material Loss Reviews	November 23, 2010
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Significant Recommendations Open and Brief Summary

On November 23, 2010 the OIG issued report #OIG-10-20 titled OIG Capping Report on Material Loss Reviews. There are 11 open recommendations related to the examination and supervision procedures for overseeing credit unions. These issues include documentation, monitoring, ratings, call reports, third party relationships, due diligence, exam procedures, quality control reviews and regulatory guidance. We have determined that NCUA has made significant progress and is in various stages of implementing corrective action on all 11 of these recommendations.

Report On Credit Union Losses Under Materiality Level of \$25 Million

Section 988 of P.L. 111-203, the “Dodd-Frank Wall Street Reform and Consumer Protection Act” did two things relative to material loss reviews (MLR) of failed credit unions.

First, the threshold for a mandated material loss review was raised to \$25 million or greater loss to the National Credit Union Share Insurance Fund (NCUSIF or SIF) starting on the implementation date of the Act (July 21, 2010) and going forward.

Second, the NCUA OIG is now required to (1) perform limited reviews of all credit union failures under the threshold to assess whether an in-depth review (consistent with the scope of a material loss review) is warranted and (2) report to the National Credit Union Administration Board and the Congress every 6 months on the results of the limited reviews and the timeframe for performing any in-depth reviews we determine are necessary.

This report on losses not reaching \$25 million covers the six month period from April 1, 2011 to September 30, 2011. For all losses to the SIF under the MLR threshold we determined (1) why NCUA initiated assistance and (2) whether any unusual circumstances existed that might warrant an in-depth review of the loss.

For each limited review, we performed procedures that included but were not limited to: 1) obtaining and analyzing the regulator’s supervisory memorandum and other pertinent documents; 2) preparing a schedule of CAMEL ratings assigned to the institution through full scope or other examinations during the five years preceding the failure; 3) conducting interviews as needed; 4) inquiring about any investigative actions that were taken, planned, or considered involving credit union officials or others; and 5) analyzing supervisory history and other review methods.

We conducted limited reviews of three failed credit unions that incurred losses to the NCUSIF under \$25 million between April 1 and September 30, 2011. Based on those limited reviews, we determined that one of the losses warranted conducting additional work. For the two failed credit unions for which we do not intend to conduct additional work, we concluded that either 1) no unusual circumstances presented themselves in our review, or 2) we had already addressed the reasons identified for failure in recommendations to the agency in our Material Loss Review Capping report or other MLR reports.

The chart below provides details on the three credit union losses to the NCUSIF of less than \$25 million. It provides details on the credit union such as supervision, date of failure, estimated loss to the NCUSIF, and grounds for conservatorship, merger, or other factors. The chart also provides our decision whether to terminate or proceed with an MLR of the credit union.

DECISIONS REGARDING LOSSES LESS THAN \$25 MILLION

Decision*	Credit Union	Region	Date of Failure	Est. Loss to NCUSIF	Grounds for the NCUA Appointment
Terminate	Mission San Francisco Federal Credit Union	II	04/08/2011	\$1,250,000	Insolvent; low and declining net worth position, high loan losses, high delinquency, high operating expenses.
Terminate	South DeKalb Church Federal Credit Union	III	04/08/2011	\$330,000	Weak management and ineffective Board; weak loan underwriting; weak collection program; high operating expenses; poor internal controls; inadequately funded ALLL account.
Proceed with MLR	Vensure Federal Credit Union	V	07/11/2011	\$39,043	Insolvent; material weaknesses in wire and ACH practices due to involvement with internet gambling activity.

*Criteria for the decisions included: (1) dollar value and/or percentage of loss; (2) institutions background, such as charter type and history, geographic location, affiliations, business strategy; (3) uncommon cause of failure based on prior MLR findings; (4) unusual supervisory history, including the nature and timing of supervisory action taken, noncompliance with statutory examination requirements, and/or indications of rating disagreements between the state regulator and NCUA; and (5) other, such as apparent fraud, request by NCUA Chairman or management, Congressional interest, or IG request.

PEER REVIEWS

April 1 through September 30, 2011

Government Auditing Standards require audit organizations that perform audits and attestation engagements of federal government programs and operations undergo an external peer review every three years. The objectives of an external peer review include a review of an audit organization's system of quality control to determine not only the suitability of the design, but also whether the audit organization is in compliance with its quality control system so as to provide reasonable assurance the audit organization conforms to applicable professional standards.

External Peer Review of NCUA OIG Office of Audit

Although the NCUA OIG did not undergo an external peer review during the current semiannual period, the U.S. Securities and Exchange Commission (SEC) OIG completed our most recent peer review on May 7, 2010 for the three-year period ending October 31, 2009. The SEC OIG issued its report entitled NCUA System Review and rendered the opinion that the system of quality control for the NCUA OIG, Office of Audit, was suitably designed and complied with, thus providing reasonable assurance the system of controls conformed with applicable professional standards in all material respects. As a result, we received a peer rating of pass. In addition, we have no outstanding recommendations from this external peer review. A copy of this most recent peer review report is included herein as Appendix A.

External Peer Review of National Labor Relations Board OIG Office of Audit

Currently, the NCUA OIG is in the process of conducting a peer review of the National Labor Relations Board OIG. We plan to complete this review in October 2011. In addition, in compliance with *Government Auditing Standards* for the three year period ended September 30, 2008, the NCUA OIG issued an external peer review report on February 5, 2009 to the National Science Foundation (NSF) OIG related to its audit function. The NSF OIG reported no outstanding recommendations related to this peer review report.

INVESTIGATIVE ACTIVITY

In accordance with professional standards and guidelines established by the United States Department of Justice, the OIG conducts investigations of criminal, civil, and administrative wrongdoing involving agency programs, operations and personnel. Our investigative program focuses on activities designed to promote accountability, effectiveness, and efficiency, as well as fighting fraud, waste, and abuse in agency programs and operations. In addition to our 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.

Moreover, we receive complaints from credit union members and officials that involve NCUA employee program responsibilities. We examine these complaints to determine whether there is any indication of NCUA employee wrongdoing or misconduct. If not, we refer the complaint to the NCUA Office of Consumer Protection (OCP) or the appropriate regional office for response, or close the matter if contact with the OCP or the regional office indicates that the complaint has already been appropriately handled.

OIG HOTLINE CONTACTS

The OIG maintains a toll free hotline to enable employees and citizens to call with information about suspected waste, fraud, abuse or mismanagement involving agency programs or operations. We also receive complaints through an off-site post office box, from electronic mail, and facsimile messages. All information received from any of these sources is referred to as a *hotline contact*. The OIG hotline program is handled by our Office Manager, under the direction of our Director of Investigations. The majority of hotline contacts are from consumers seeking help with a problem with a credit union. These contacts are referred to the appropriate NCUA regional offices for assistance. During this reporting period, we referred 133 consumer complaints to the OCP and regional offices. We referred two allegations of potential fraud at credit unions to the NCUA Office of General Counsel.

INVESTIGATIONS

Misuse of Government Property; Misuse of Official Time; Violation of Basic Obligation of Public Service; Violation of Computer Security Rules of Behavior

During the reporting period, the FBI contacted the OIG seeking information about and assistance in an ongoing FBI investigation of an NCUA employee who had allegedly used his government email to contact an online undercover agent posing as a 13-year old girl. With the FBI's approval, the OIG opened a parallel, administrative investigation into the employee for misuse of his government computer, misuse of official time, violation of a basic obligation of public service, and violation of the agency's policy on computer security and use. The investigation substantiated all the administrative charges. The OIG issued a report of investigation to agency management. The agency has proposed the employee's removal from federal service. The FBI's case is ongoing.

Bank Fraud

During a previous reporting period, the OIG received an allegation that an NCUA employee committed bank fraud. The OIG's investigation found no evidence to support the allegation. The OIG issued a report of investigation summarizing the investigation and closing the case.

Unprofessional Behavior

During this reporting period, the OIG received an allegation that an NCUA examiner had displayed unprofessional behavior while conducting an examination. The preliminary inquiry into the allegation determined that there was no substantive basis to open an investigation. The OIG closed the matter to file and referred the matter to the appropriate regional office.

Misuse of Government-Issued Charge Card

During the current reporting period, the OIG received an allegation that an employee used his government-issued charge card for personal expenses in violation of agency policy. The OIG's investigation substantiated the allegation. The investigation also found that the employee had not accurately accounted for his transit subsidy reimbursement, an additional violation of agency policy. The OIG issued a report of investigation and forwarded it to agency management. The employee resigned prior to finalization of the agency's removal action.

Negotiating for Employment

During this reporting period, the OIG received an allegation that an employee was seeking employment with a credit union while conducting an examination on-site. This investigation found that while the employee's conduct at the credit union in question did not rise to the level of negotiating for employment under the *Standards of Ethical Conduct for Employees of the Executive Branch*, it was inappropriate and unprofessional. The agency issued the employee a letter of reprimand.

PEER REVIEWS

April 1 through September 30, 2011

Section 6(e)(7) of the Inspector General Act of 1978, as amended, requires those OIGs that have been granted statutory law enforcement authorities pursuant to the Act, to be periodically reviewed by another OIG or a committee of OIGs (Peer Review). The purpose of the peer review is to ascertain whether adequate internal safeguards and management procedures exist to ensure that the law enforcement powers conferred by the 2002 amendments to the Act are properly exercised. The NCUA OIG does not have statutory law enforcement authority; therefore, our investigation organization is not required to have a peer review and, to date has neither undergone a peer review nor conducted a peer review of another OIG. However, the NCUA Office of Investigations intends to participate in the peer review process in the future and is scheduled to undergo a peer review in the third quarter of 2013.

LEGISLATIVE AND REGULATORY REVIEWS

Section 4(a) of the Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the NCUA and to make recommendations concerning their impact. Moreover, we routinely review 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 proposed legislation, proposed and final regulations, NCUA Interpretive Ruling Policy Statements (IRPS) and Letters to Credit Unions.

SUMMARY OF STATUTES AND REGULATIONS REVIEWED	
Legislation	Title
H.R. 1418/S. 509	“Small Business Lending Enhancement Act of 2011”
H.R. 1081/S. 575	“Debit Interchange Fee Study Act”
H.R. 1315	“Consumer Financial Protection Safety and Soundness Improvement Act of 2011”
H.R. 2340	“Transparency in Government Act of 2011”
Regulations/Rulings/IRPS	Title
12 CFR Parts 700, 701, 702, 725, and 741	Net Worth and Equity Ratio
12 CFR Part 701	Remittance Transfers
12 CFR Part 750	Golden Parachute and Indemnification Payments— Technical Correction
12 CFR Part 701	Sample Income Date to Meet the Low-Income Definition
12 CFR Part 740	Accuracy of Advertising and Notice of Insured Status
12 CFR Parts 704, 741 and 750	Golden Parachute and Indemnification Payments
12 CFR Part 745	Share Insurance and Appendix
12 CFR Part 704	Corporate Credit Unions
IRPS 11-1	Final IRPS (Amending IRPS 95-1 and 02-1): “Supervisory Review Committee”

Letters to Credit Unions	Title
11-0220	Management Official Interlocks Pertaining to a Federal Credit Union (FCU) 08/09/2011
11-0241	NCUA Share Insurance Coverage for an Inherited Individual Retirement Account 06/06/2011
11-0332	Investment in Insurance Agency as Credit Union Service Organization 06/03/2011
11-0358	Sale of Federal Credit Union Loans 05/05/2011
11-0642	Credit Union Service Organization Leasing Activity 08/03/2011
11-0734	Musical Instrument Loans as Member Business Loans 08/03/2011
11-0805	Hudson Valley FCU Volunteer Service Award Policy 08/18/2011
11-0824	Conversions from NCUSIF Coverage and TCCUSF Assessments 08/29/2011

TABLE I: INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS				
		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	
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 allowed	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	N/A
	(ii) Dollar value of recommendations not agreed to by management.	N/A	N/A
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: SUMMARY OF OIG ACTIVITY April 1 through September 30, 2011		
PART I – AUDIT REPORTS ISSUED		
Report Number	Title	Date Issued
OIG-11-01	Material Loss Review of Members United Corporate FCU	05/04/2011
OIG-11-02/03/04/05	NCUA Financial Statements Audit 2010 (OF, CLF, CDRLF, SIF)	05/12/2011
OIG-11-06	Review of Facility Security at NCUA's Central Office	06/23/2011
OIG-11-07	Material Loss Review of Beehive CU	07/07/2011
OIG-11-08	Material Loss Review of Certified FCU	09/01/2011
OIG-11-09	Material Loss Review of Constitution Corporate FCU	09/01/2011
OIG-11-10	Material Loss Review of Southwest Corporate FCU	09/22/2011
OIG-11-11	Review of NCUA's Document of Resolution Follow-up Process	09/29/2011
PART II – AUDITS IN PROGRESS <i>(as of September 30, 2011)</i>		
NCUA Financial Statements Audit 2010 (TCCUSF)		
NCUA Financial Statements Audit 2011		
Independent Evaluation of the NCUA's Compliance with the Federal Information Security Management Act (FISMA) 2011		
Material Loss Review of Vensure FCU		
Review of NCUA Asset Management and Assistance Center (AMAC)		

INDEX OF REPORTING REQUIREMENTS		
Section	Data Required	Page Ref
4(a)(2)	Review of legislation and regulations	24
5(a)(1)	Significant problems, abuses, or deficiencies relating to the administration of programs and operations disclosed during the reporting period.	12
5(a)(3)	Recommendations with respect to significant problems, abuses or deficiencies	12
5(a)(3)	Significant recommendations described in previous semiannual reports on which corrective action has not been completed.	18
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.	28
5(a)(7)	Summary of particularly significant reports.	12
5(a)(8)	Statistical tables on audit reports with questioned costs.	26
5(a)(9)	Statistical tables on audit reports with recommendations that funds be put to better use.	27
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
5(a)(14)	An appendix containing the results of any peer review conducted by another OIG during the reporting period or, if no peer review was conducted within that reporting period, a statement identifying the date of the last peer review conducted by another OIG.	20
5(a)(15)	List of outstanding recommendations from any peer review conducted by another OIG that have not been fully implemented.	None
5(a)(16)	A list of any peer reviews conducted by the IG of another OIG during the reporting period, including a list of any outstanding recommendations made that remain outstanding or have not been fully implemented.	None

APPENDIX A: NCUA SYSTEM REVIEW REPORT (SEC OIG REPORT NO. 478)



U.S. Securities and Exchange Commission
Office of Inspector General
Office of Audits

**National Credit Union Administration
System Review Report**



May 7, 2010
Report No. 478

System Review Report

May 7, 2010

William DeSarno
Inspector General
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Mr. DeSarno,

We have reviewed the system of quality control for the audit organization of the National Credit Union Administration (NCUA), Office of Inspector General (OIG) in effect for the period ended October 30, 2009. A system of quality control encompasses NCUA OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*. The elements of quality control are described in the *Government Auditing Standards*. NCUA OIG is responsible for designing a system of quality control and complying with it to provide NCUA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and NCUA OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed NCUA OIG personnel and obtained an understanding of the nature of the NCUA OIG audit organization, and the design of the NCUA OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with NCUA OIG's system of quality control. The engagements selected represented a reasonable cross-section of the NCUA OIG's audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with NCUA OIG's management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for NCUA OIG's audit organization. In addition, we tested compliance with NCUA OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of NCUA OIG's policies and procedures on selected engagements. Our review was based on selected tests;

therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control, and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

Enclosure 1 to this report identifies the audit engagements that we reviewed.

In our opinion, the system of quality control for the audit organization of NCUA OIG in effect for the period ended October 30, 2009 has been suitably designed and complied with to provide NCUA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*; *pass with deficiencies*, or *fail*. The NCUA OIG has received a peer review rating of *pass*. As is customary, we issued a letter dated May 7, 2010, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to NCUA OIG's monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and therefore is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether NCUA OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on NCUA OIG's monitoring of work performed by IPAs.

Sincerely,

H. David Kotz
Inspector General

Enclosures (2)

Enclosure 1

SCOPE AND METHODOLOGY

We tested compliance with the NCUA OIG audit organization’s system of quality control to the extent we considered appropriate. These tests included a review of 1 of 2 audit reports issued during the period April 1, 2008, through October 30, 2009. We also reviewed the internal quality control review performed by NCUA OIG.

In addition, we reviewed the NCUA OIG’s monitoring of an engagement performed by an IPA, where the IPA served as the principal auditor. NCUA OIG contracted for the audit of its agency’s Fiscal Year 2008 Financial Statements. Due to problems related to a major accounting issue that has not been resolved, the financial statement audit has not been completed and a final report has not been issued. We reviewed this audit to determine whether it was adequately monitored.

Reviewed Engagements Performed by NCUA OIG

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
OIG-09-03	Oct 23, 2009	Material Loss Review – New London Security Federal Credit Union
OIG-08-06	June 4, 2008	Review of the Implementation of Homeland Security Presidential Directive 12

Reviewed Monitoring Files of NCUA OIG for Contracted Engagements

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
Pending	Pending	NCUA Financial Statements

Enclosure 2



National Credit Union Administration

Office of Inspector General

The Honorable H. David Kotz
Inspector General
Office of the Inspector General
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Date: April 22, 2010

Subject: Report on the External Quality Control Review of the National Credit Union Administration Inspector General Audit Organization

Dear Mr. Kotz

We appreciate the work conducted by your staff in reviewing the quality control process for the audit function at the National Credit Union Administration (NCUA) OIG. We agree with your opinion that the system of quality control for the audit function meets the requirements established by the Comptroller General of the United States for a General Government audit organization. We have no additional comments on the final System Review draft report provided. Thank you for the professionalism shown and your efforts in completing this review.

Sincerely,

A handwritten signature in black ink, appearing to read 'William A. DeSarno'.

William A. DeSarno
Inspector General

1775 Duke Street • Alexandria, Virginia 22314-3428 • 703-518-6350 • 703-518-6349 FAX • oigmail@ncua.gov