

NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT
TO
THE CONGRESS

April 1 – September 30, 2012



TABLE OF CONTENTS

Inspector General’s Message	i
The NCUA and Office of Inspector General Missions	1
Introduction	2
NCUA Hightlights	5
Federally Insured Credit Union Highlights	8
Legislative Highlights	9
Office of the Inspector General	11
Audit Activity	12
Investigative Activity	20
Legislative and Regulatory Reviews	23
Table I: Inspector General Issued Reports with Questioned Costs	25
Table II: Inspector General Issued Reports with Recommendations that Funds be Put to Better Use	26
Table III: Summary of OIG Activity October 1, 2011 through March 30, 2012.....	27
Index of Reporting Requirements	28
Appendix A: NCUA System Review Report (SEC OIG Report No. 478)	29



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

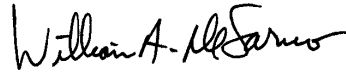
On behalf of the Office of Inspector General (OIG) of the National Credit Union Administration (NCUA), I am pleased to present our *Semiannual Report to Congress* highlighting our accomplishments and ongoing work for the six-month period ending September 30, 2012.

Of particular note this reporting period, on the audit side we issued our *Review of NCUA's Examination and Complaint Processes for Small Credit Unions*, at the request of Senator Tim Johnson, Chairman, United States Senate, Committee on Banking, Housing, and Urban Affairs; issued our *Review of NCUA's Policies, Procedures and Practices Regarding Financial Stability Oversight Council Information*; completed and reported on the financial statement audits of 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, all of which received "clean," unqualified opinions; and conducted four (4) Material Loss Reviews. On the investigative side, the OIG completed and reported on two investigations, one in response to an allegation we received that an NCUA Regional Director had made false statements concerning a state credit union regulator and the other involving allegations of harassment and retaliation against credit union officials by an NCUA examiner.

We also responded to a request from Rep. Darrell Issa, Chairman, Committee on Oversight and Government Reform, sent to 73 Federal Inspectors General (IG), seeking information on the issuance of seven-day letters, used by IGs to report particularly flagrant problems to Congress as required under section 5(d) of the *Inspector General Act*. Chairman Issa's request stemmed from concern over the delay Congress experienced in learning of the General Services Administration (GSA) conference scandal.

Pursuant to the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, I am a member of the Council of Inspectors General on Financial Oversight (CIGFO), which comprises the Inspectors General of several financial regulatory agencies and facilitates the sharing of information, with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight. The CIGFO generally meets quarterly. During the reporting period, the CIGFO issued its second annual report highlighting the concerns and recommendations of the member Inspectors General, as well as issues that may apply to the broader financial sector.

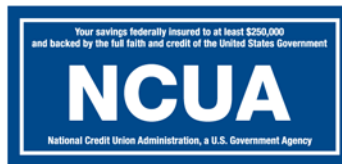
I wish to express my appreciation to the NCUA Board and senior management for their consistent cooperation and support of the work of the OIG. Moreover, I would like to thank all the OIG staff for their continued hard work and dedication. I look forward to all that we will accomplish in the coming months.



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.



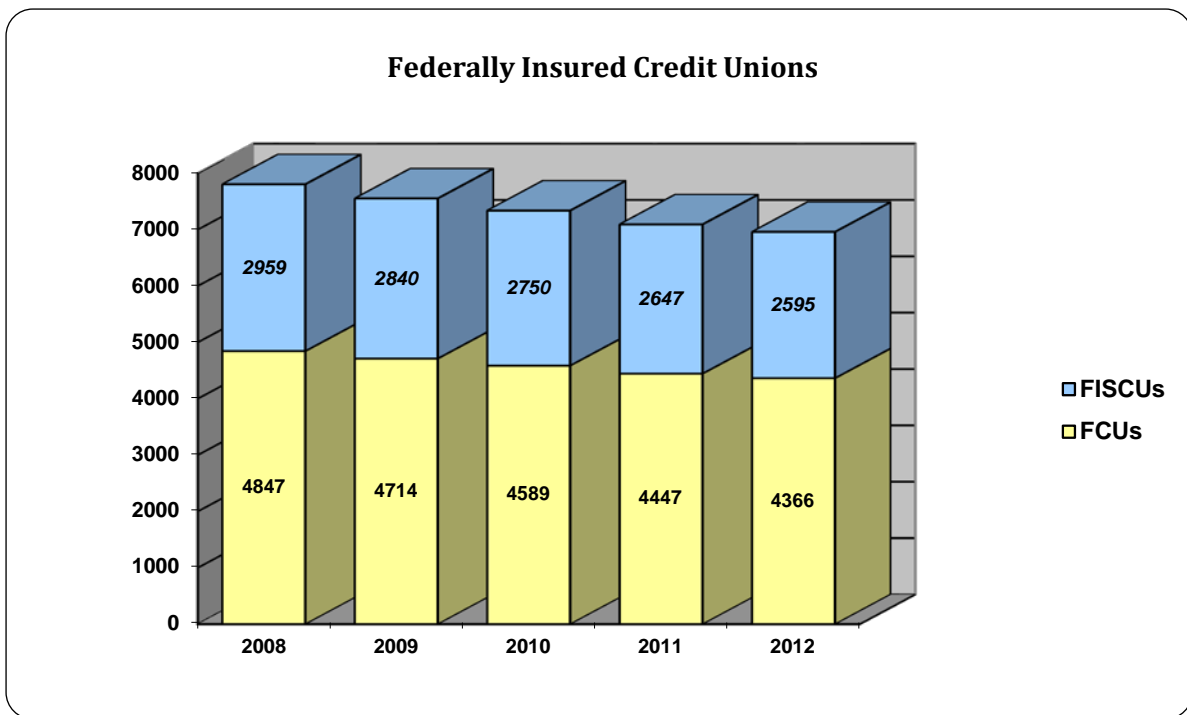
THE OFFICE OF INSPECTOR GENERAL MISSION

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.

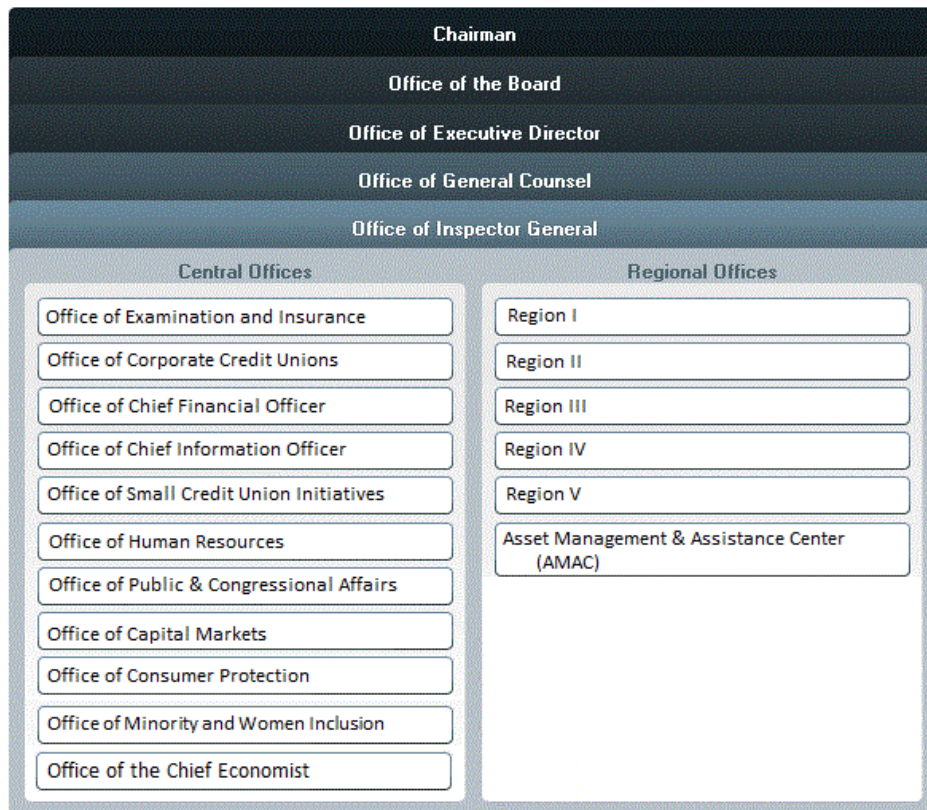
INTRODUCTION

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, 2012, the NCUA was supervising and insuring 4,366 federal credit unions and insuring 2,595 state-chartered credit unions, a total of 6,961 institutions. This represents a decline of 81 federal and 52 state-chartered institutions since December 31, 2011, for a total decline of 133 credit unions nationwide, primarily as a result of mergers and liquidations.

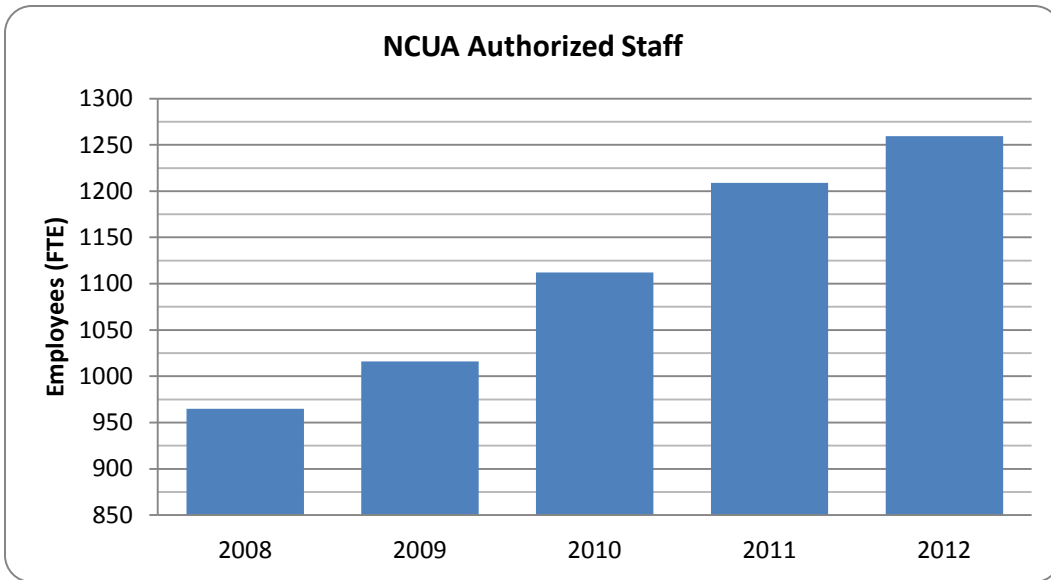
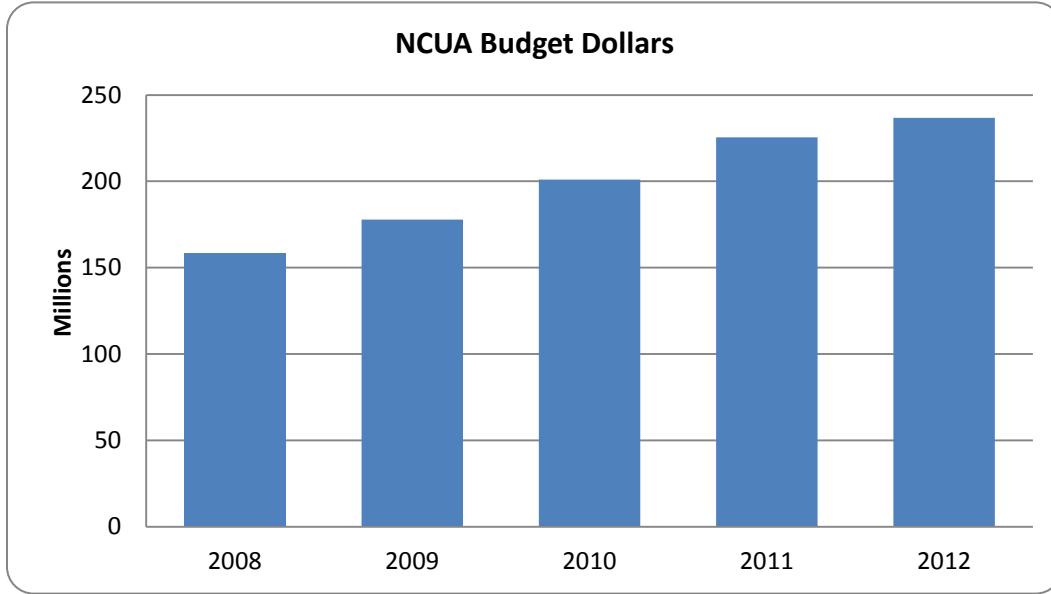


The NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one term expires every two years. The Board is responsible for the management of the NCUA, including 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 2012 budget of \$236,854,786 on November 17, 2011. The Full-Time Equivalent (FTE) staffing authorization for 2012 is 1,259.50 representing an increase of 33 FTEs from 2011.



NCUA HIGHLIGHTS

NCUA Board Member Hyland Departs NCUA Board

On September 20, 2012, NCUA Board Member Christiane Gigi Hyland announced her intention to resign from the NCUA Board, effective October 5, 2012. Hyland was sworn in as a Board member on November 18, 2005, for a six-year term and worked more than a year after her term expired on August 2, 2011. Prior to joining the NCUA Board, Hyland's career spanned fourteen years serving the credit union community as an attorney and advocate.

During her seven years on the NCUA Board, one of Hyland's most important initiatives was updating rules to raise the small credit union asset threshold. At the September 20, 2012, Board meeting—where Hyland publicly announced her resignation—the Board approved for public comment a proposed rule to accomplish Hyland's goal.

NCUA has a full-time, three-member Board appointed by the President of the United States and confirmed by the Senate. No more than two Board members can be from the same political party, and each member serves a staggered six-year term. Current NCUA Chairman Debbie Matz is a Democrat and Board Member Michael E. Fryzel is a Republican. Unless President Obama nominates another candidate for Hyland's seat before the election, the position will likely remain vacant for some months. In the interim, Chairman Matz and Board Member Fryzel will have to agree on new regulations and other Board decisions until a third Board member is in place.

NCUA Executive Director Dave Marquis to Retire

After 34 years at NCUA, Executive Director David Marquis will retire at the end of 2012. Marquis started his career at NCUA in 1978. Since that time, the credit union industry's total assets grew 1,860 percent from \$51.4 billion to more than \$1 trillion. Marquis is credited with working to ensure the stability of credit unions and the industry through five recessions over more than three decades.

Marquis has overseen NCUA's day-to-day operations since his appointment as Executive Director in January 2009. For the previous 14 years, Marquis served as Director of the Office of Examination and Insurance, where he was responsible for the safe and sound operation of the National Credit Union Share Insurance Fund (NCUSIF) and monitoring the examination and supervision procedures at federally insured credit unions. He has also served as a supervisory examiner, regional manager, associate regional director, regional director, and Deputy Director of the Office of Examination and Insurance. Marquis began his career with NCUA as an examiner in Baltimore, Maryland. As the longest-serving Director of the Office of Examination and Insurance, Marquis mentored many of the agency's current executives and managers.

New Office of National Examinations and Supervision in 2013

On July 26, 2012, Chairman Matz announced the creation of an Office of National Examinations and Supervision, changing NCUA's structure to serve an evolving credit union industry. The change will reorganize NCUA's existing resources to create an Office of National Examinations and Supervision to enhance oversight of the nation's largest consumer credit unions—those with more than \$10 billion in assets—and also assume supervision of corporate credit unions.

NCUA currently spends 45 percent of examination hours on credit unions with less than \$50 million in assets, yet this group holds only seven percent of overall industry assets. Meanwhile, the largest

credit unions—those with more than \$1 billion in assets—hold 47 percent of industry assets and receive only 10 percent of examination hours. To address this imbalance, NCUA will concentrate more hours and more attention where more of the industry’s risk is held. The reallocation of examiner resources from smaller credit unions to the largest ones means examiners will spend less time in well-performing small credit unions.

NCUA Initiative Expands Low-Income Designation Opportunities

As part of its new initiative to streamline the process for federal credit unions to receive a low-income credit union (LICU) designation, on August 7, 2012, NCUA sent letters to more than 1,000 credit unions notifying them of their eligibility for the LICU designation. The initiative cuts regulatory burdens by implementing a rule to streamline the process for federal credit unions to become LICUs. NCUA estimates that, if all qualified credit unions elect to participate, it could unlock between \$250 million and \$500 million in new business capital in the near term. The initiative could also nearly double the number of existing LICUs, from 1,121 to 2,122, and nearly triple membership in LICUs, from 6.5 million to 17 million.

The LICU designation offers several significant benefits to credit unions—and, therefore, their communities—including:

- Exemption from the 12.25 percent statutory cap on Member Business Loans (MBL) by credit unions;
- Ability to accept non-member deposits from any source;
- Access to NCUA’s Office of Small Credit Union Initiatives programs, including the grants and loans provided by the Community Development Revolving Loan Fund and the consulting services offered by NCUA’s Economic Development Specialists;
- Authorization to obtain supplemental capital, such as from the U.S. Treasury’s Community Development Financial Institutions program, private benefactors and foundations, and institutions interested in receiving Community Reinvestment Act credit.

To qualify as a LICU, a majority of a federal credit union’s membership must meet low-income thresholds based on 2010 Census data.

NCUA’s initiative was incorporated into a relief and recovery package for drought-stricken states announced at the White House on August 7. Of the LICU-eligible institutions, 470 federal credit unions—representing 47 percent of potential new LICUs, 52 percent of potential new assets, and 54 percent of potential new members—are headquartered in states identified by the National Oceanic and Atmospheric Administration as having “extreme” drought conditions.

Stabilization Fund Assessment Set

At an open meeting on July 24, 2012, the NCUA Board approved an assessment for the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) at 9.5 basis points. The 2012 assessment falls within the projected range of 8 to 11 basis points and represents a significant decline from the 25 basis points assessment for 2011.

The funds generated by the assessment, along with funds borrowed from the U.S. Treasury, will pay \$2.66 billion in net obligations due in 2012, primarily principal and interest on maturing Medium Term Notes issued by corporate credit unions and guaranteed by the Stabilization Fund.

The 2012 assessment will raise an estimated \$790.5 million. With the 2012 assessment, federally insured credit unions will have paid a total of \$4.1 billion in expenses for the Corporate System Resolution Program, including \$337.4 million in 2009, nearly \$1 billion in 2010, and almost \$2 billion in

2011. After 2012, federally insured credit unions can expect to pay between \$1.9 billion and \$5.2 billion in total remaining assessments from 2013 through 2021, based on current loss estimate projections from the liquidation estates of the five failed corporate credit unions.

The NCUA Board also authorized up to \$2.5 billion in Stabilization Fund borrowing from the U.S. Treasury. The timing and amount of borrowing is consistent with original cash needs and uses envisioned under the Corporate System Resolution Program, including an appropriate contingency amount.

Stabilization Fund Earns Clean 2011 Audit

On June 21, 2012, NCUA's independent financial auditor, KPMG LLP, issued an unqualified, or clean, opinion on the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) 2011 financial statements. This marked the second year in a row NCUA received a clean audit opinion from KPMG. Since releasing the 2010 Stabilization Fund audit, NCUA has continued to strengthen the systems needed to handle the Stabilization Fund's many complex transactions, including those related to the NCUA Guaranteed Notes. NCUA also improved its internal control environment which allowed the 2011 audited financial statements to be completed six months earlier than the 2010 statements.

The Stabilization Fund provides NCUA with the flexibility needed to manage the effect of the costs to the credit union system associated with the losses on troubled mortgage-backed securities purchased by the five failed corporate credit unions. NCUA liquidated these five failed credit unions in 2009 and 2010.

The Stabilization Fund's full audited financial statements can be found at:

<http://www.ncua.gov/about/Leadership/CO/OIG/Documents/OIG-12-07CorpStabilFundAudit.pdf>

Chairman Matz Hosts NCUA "Listening Sessions" With Credit Unions

From May through July 2012, NCUA Board Chairman Debbie Matz hosted six "Listening Sessions" across America, covering all five NCUA regions. The goal of the sessions was to discuss issues face-to-face and hear directly from credit union officials and volunteers about how NCUA can improve its examination process, how it can reduce or streamline its regulations, and other areas of concern. Participants were afforded the opportunity to dialog with NCUA Board members, senior NCUA staff, and supervisory examiners from the NCUA Region co-hosting each Listening Session. Participants were also invited to contribute to roundtable discussions with their peers.

Board Member Fryzel Highlights Importance of Credit Unions Understanding Member Needs

During his address on September 27, 2012, at the Combined Council of America's Credit Unions' 31st Annual Conference, NCUA Board Member Michael E. Fryzel highlighted the importance of credit unions understanding the needs of their members and ensuring that they get it in the "least-cost, highest-quality manner possible." In his first address before the automobile-related credit unions, Board Member Fryzel praised the group for doing the "heaving lifting" and for "making a difference in families' lives." Board Member Fryzel discussed the struggles the automobile industry has faced and the effect these struggles have had on the Council's credit unions. He commended the Council's credit unions for their large rate of member growth and their healthy range of net worth and urged them to continue to make a difference.

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, 2012, 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, 2012 quarterly statistics for major balance sheet items and key ratios shows the following for the nation's 6,961 federally insured credit unions: assets grew 9.55 percent; net worth to assets ratio decreased from 10.21 to 10.16 percent; the loan to share ratio decreased from 69.07 percent to 66.96 percent. However, the delinquency ratio decreased from 1.60 to 1.20 percent; and credit union return on average assets increased from .67 percent to .86 percent.

Savings Shifting to Regular Shares

Total share accounts increased 10.01 percent. Regular shares increased 19.57 percent. Regular shares comprise 30.94 percent of total share accounts; share certificates comprise 23.20 percent; money market shares comprise 22.80 percent; share draft accounts comprise 12.66 percent; and all other share accounts comprise 10.40 percent.

Loan Volume Flat

Loans increased 3.6 percent resulting in an increase in total loans by \$10.3 billion. Total net loans of \$582 billion comprise 57.73 percent of credit union assets. First mortgage real estate loans are the largest single asset category with \$240.3 billion accounting for 41.31 percent of all loans. Other real estate loans of \$76.5 billion account for 13.15 percent of all loans. Used car loans of \$111 billion were 19.08 percent of all loans, while new car loans amounted to \$59.9 billion or 10.3 percent of total loans. Credit card loans totaled \$36.9 billion or 6.35 percent of total loans and other loans totaled \$57.1 billion for 9.81 percent of total loans.

LEGISLATIVE HIGHLIGHTS

Senate Introduces S. 3394, ATM Fee Disclosure Requirement and the Financial Institution “Privileged Information” Protection Bill

On July 16, 2012, Senate Banking Committee Chairman Tim Johnson, Ranking Member Richard Shelby, and others introduced S. 3394, a bill that seeks repeal of the dual ATM disclosure requirement and the financial institution “privileged information” protection bill. The measure was introduced with Senators Johanns, Crapo, Tester, Brown, McCaskill, and Hagan signed on as co-sponsors. Once through the Senate, the bill is expected to win approval in the House, which has already passed both provisions reflected in the new Senate bill.

Among the bill’s provisions are the following:

- The ATM measure would amend the Electronic Funds Transfer Act to eliminate the requirement to post placards on ATMs regarding fees. It would leave intact the requirement to disclose fees on the screen at a point where the consumer could still cancel a transaction. Eliminating the placard requirement would end the stream of frivolous lawsuits aimed at ATM owners when placards are stolen or defaced.
- The privileged information bill adds the Consumer Financial Protection Bureau (CFPB) to the list of agencies required to keep confidential sensitive data provided by financial institutions. This requirement already applies to NCUA and banking regulators.

House Introduces Bill to Protect the Privilege of Document Shared by Non-Banks with Federal and State Agencies

On July 12, 2012, Rep. Jim Renacci introduced H.R. 6125, a bill to amend the Federal Deposit Insurance Act (FDIA) and the Federal Credit Union Act (FCUA) to protect the privilege of documents shared by non-banks with federal regulators, including the CFPB. Specifically, the bill declares that certain federal agencies, including NCUA, shall not be deemed to have waived any confidentiality application for information by either transferring such information to, or permitting it to be used by, another covered agency or specified federal agencies. H.R. 6125 reflects parallel FCUA treatment, unlike earlier versions of the bill.

Congress Continues Debating Cybersecurity Legislation

Both Chambers of Congress continued to debate cybersecurity legislation during the reporting period, in the wake of the introduction of S. 2105, the *Cybersecurity Act of 2012*, introduced by Senators Lieberman, Collins, Rockefeller, and Feinstein in February 2012. The bill requires the Department of Homeland Security (DHS) to establish standardized cybersecurity protocols for private companies engaged in the operation of the nation’s critical infrastructure. The bill also calls for increased sharing of cyber-threat information between private companies and the federal government, and replaces the industry’s longstanding regulator on issues of cybersecurity—the Department of Treasury—with a new agency, DHS. Finally the bill includes significant revisions to the *Financial Information Security Management Act*.

NCUA Works to Develop Diversity Standards and Assessments to Comply with Dodd-Frank Act

Section 342 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, a provision that concerns improving diversity and minority inclusion, requires NCUA to develop standards that may ultimately affect some or all credit unions. Specifically, Congress required each federal financial services regulatory agency, including NCUA, to establish an Office of Minority and Women Inclusion (OMWI). These offices are responsible for all matters at each agency relating to diversity in management, employment, and business activities. Additionally, Section 342 applies to all entities regulated by a covered financial government agency, as well as the contractors providing services to those entities.

In January 2011, NCUA established its OMWI, headed by Tawana Y. James. Since then, the office has established standards at NCUA for equal employment opportunity, workforce diversity, and increased participation of minority- and women-owned businesses in agency programs and contracts. NCUA's OMWI also submitted NCUA's first annual report to Congress on efforts to comply with this law. NCUA posted this report at <http://go.usa.gov/7aw>.

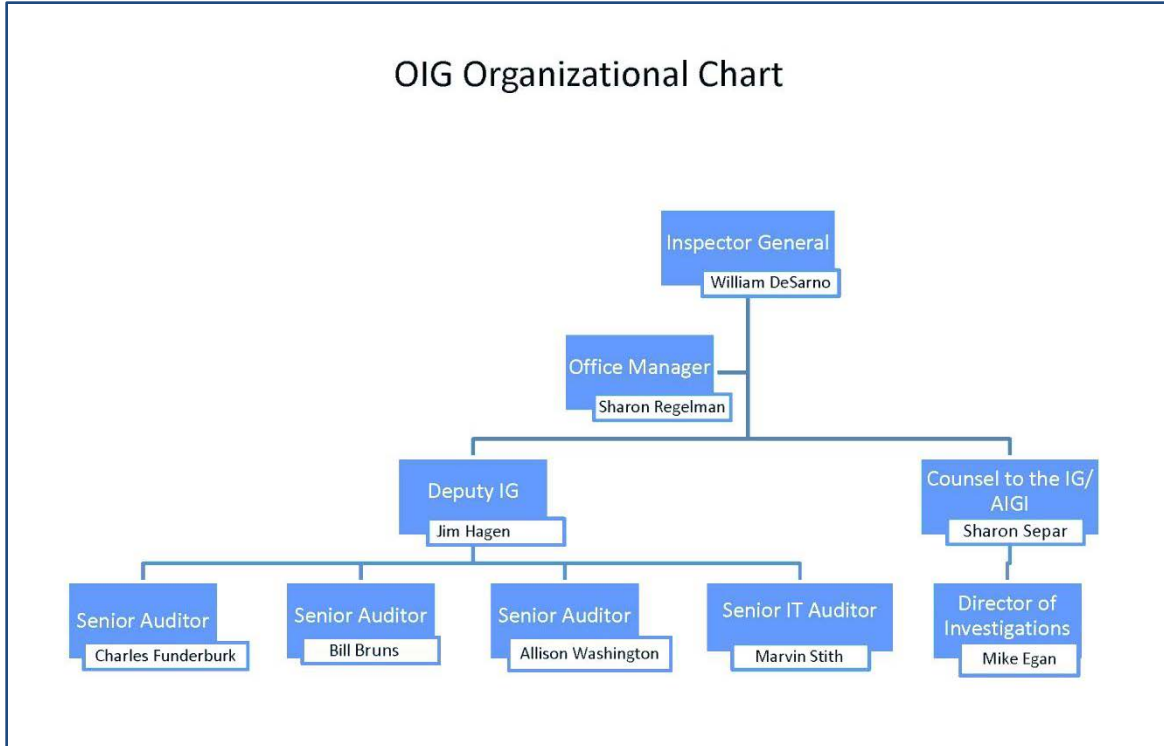
OMWI Director James and her staff are now participating on a regulated entities subcommittee consisting of representatives from each covered agency to ensure a common framework and consistent approach among the agencies in implementing Section 342 with respect to each agency's regulated entities. NCUA's OMWI has also already begun outreach efforts to credit unions, trade groups, and advocacy organizations to gather input on drafting credit union diversity standards.

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/Assistant Inspector General for Investigations, 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.



AUDIT ACTIVITY

AUDIT REPORTS ISSUED

OIG-12-07 – June 22, 2012

2011 NCUA Financial Statement Audit of the Temporary Corporate Credit Union Stabilization Fund

Our contracting audit firm, KPMG LLP, issued its opinion on the 2011 financial statements of the National Credit Union Administration Temporary Corporate Credit Union Stabilization Fund (TCCUSF). The auditors found that the financial statements presented fairly the financial position of the agency fund as of December 31, 2011 and issued an unqualified opinion on the TCCUSF's financial statements.

OIG-12-08 – June 25, 2012

Review of NCUA Red Flag Reports

Our objective for this review was to determine whether NCUA examiners were identifying and addressing high risk areas. During our analysis we found that examiners addressed high risk areas at sampled credit unions. We found that examiner actions to address potential issues included performing follow-up for open Document of Resolution (DOR) items; onsite and offsite contacts; drafting for issuance and/or issuing Regional Director Letters and Letters of Understanding and Agreement; changing the overall CAMEL rating; and elevating discussion items to examiner's findings. We determined that regional management and staff were monitoring potential high areas of risk and ensuring issues were or would be resolved. Accordingly, we did not make any formal recommendations.

OIG-12-09 – June 27, 2012

Review of NCUA's Policies, Procedures and Practices Regarding Financial Stability Oversight Council Information

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) conducted an audit of NCUA's policies, procedures, and practices regarding Financial Stability Oversight Council (FSOC)-related information. Our objective was to review NCUA's policies, procedures, and practices for ensuring FSOC-related information that it collects, shares, or deliberates is adequately protected from unauthorized disclosure. We conducted this audit as part of a larger audit that the Council of Inspectors General on Financial Oversight (CIGFO) initiated.

While we believe NCUA has a culture of protecting sensitive information, we determined NCUA's existing policies and procedures are not sufficiently comprehensive to help the agency protect confidential non-public FSOC information from unauthorized disclosure.

We suggested in this report that NCUA coordinate with FSOC and FSOC member agencies to supplement or improve its policies, procedures, and practices. While acknowledging its existing policies and procedures are not specific to FSOC information and could be more comprehensive, NCUA management believes its policies, procedures, and training are effective. They agreed to continue coordinating with FSOC to implement improved policies, procedures, and practices as suggested by FSOC.

*OIG-12-10 – August 31, 2012***Review of NCUA's Examination and Complaint Processes for Small Credit Unions**

On February 10, 2012, the National Credit Union Administration (NCUA) Office of Inspector General (OIG), along with Inspectors General at the U.S. Department of the Treasury (Treasury), the Federal Reserve Board (FRB), and the Federal Deposit Insurance Corporation (FDIC), received a request from Senator Tim Johnson, Chairman, United States Senate, Committee on Banking, Housing, and Urban Affairs, to conduct an audit at each agency under their purview regarding each agency's examination process for small community banks and credit unions.

Although NCUA defines small credit unions as those having \$10 million or less in assets, all natural-person credit unions with assets less than \$1 billion are examined using the same Risk-Focused Examination (RFE) process. Therefore, the results of this report apply to all natural-person credit unions with \$1 billion or less in assets, covering over 97 percent of all federally insured credit unions.

In addition, the Senator's request also asked the Inspectors General to include examination timelines, how agencies ensure consistency in the administration of examinations across the country, and the ability of regulated institutions to question examination results such as through an Ombudsman, an appeals process, or informal channels, and the frequency and success of such appeals.

This report outlines NCUA's policies, procedures, and processes for examinations and complaints, and provides the OIG's assessment of NCUA's adherence to its guidance. Overall, we determined NCUA's examination process has clear standards and policies to conduct examinations. However, we noted inconsistencies in the manner in which NCUA carried out the procedures to implement those policies. Despite inconsistencies in the manner in which NCUA implemented its examination policies, we are not making recommendations to the examination process because NCUA recently implemented a National Supervision Policy Manual (NSPM) which we believe addresses the inconsistent procedures we noted in the report.

In addition, we determined NCUA has an adequate appeals process, which allows credit unions to question examination results. However, we determined there are operational and organizational deficiencies related to compliance monitoring, the regional determination process, the Supervisory Review Committee (SRC), and the Ombudsman position, respectively, that we believe NCUA management could improve.

This report makes four recommendations, which the OIG believes can improve NCUA's examination and complaint processes, as well as assist Chairman Johnson and members of the Senate Committee on Banking, Housing, and Urban Affairs better understand these areas of NCUA's programs. NCUA Management agreed with all four recommendations and has taken or is planning corrective action to address each recommendation.

AUDITS IN PROGRESS**Independent Evaluation of the NCUA's Compliance with the Federal Information Security Management Act (FISMA) 2012**

The OIG engaged Mitchell & Titus, LLP 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.

Mitchell & Titus 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 2012.

NCUA Financial Statements 2012

Our current contracting audit firm, KPMG, is working on the 2012 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. The purpose of the Community Development Revolving Loan 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 2013.

Material Loss Reviews

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. We have one MLR on Telesis that matches this criterion. In addition, the *Dodd-Frank Wall Street Reform and Consumer Protection Act* requires the OIG to assess all losses to the NCUSIF under the \$25 million threshold and determine if unusual circumstances warrant a MLR. We determined that O.U.R. and Eastern New York federal credit unions met this criterion and elected to conduct MLRs.

For each of these MLRs, we will review to (1) determine the cause(s) of the credit union's failure and the resulting loss to the 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 review NCUA guidance, policies and procedures, NCUA Call Reports, and Financial Performance Reports.

Accounting for Share Insurance Fund Losses

NCUA has several methods for accounting for losses and failures of credit unions. Accounting for losses and failures depends on whether NCUA is recording a loss, assistance, merger or liquidation. Credit unions may close through a variety of methods, some voluntary and some involuntary.

Voluntary closures include voluntary liquidations and unassisted mergers. Both federal and state chartered credit unions may also convert to banks and some state chartered credit unions may convert to private insurance. Involuntary closures include involuntary liquidations (including purchase and assumptions) and assisted mergers. Under certain circumstances, NCUA may provide “Section 208 assistance” to a credit union. This may entail a loan to the credit union or the purchase of some credit union assets. These may produce a loss to the NCUSIF. The objective of our review is to determine: (1) NCUA’s methodology for identifying and tracking credit union failures and losses to the NCUSIF; (2) what constitutes a loss to the NCUSIF; (3) when does NCUA recognize and report the loss; and (4) how NCUA identifies, tracks and classifies the various types of credit union closures, such as failures, mergers, purchase and assumptions, and liquidations.

Audit of NCUA’s Use of the Delphi Financial Management System versus the SAP R/3 Enterprise Resource Planning System

The NCUA OIG conducted an audit to determine why NCUA has not fully implemented the Delphi Financial Management System (Delphi) and continues to use the SAP R/3 Enterprise Resource Planning (SAP). To accomplish this audit, we reviewed Office of Management and Budget Memoranda pertaining to Financial Management Lines of Business, Financial Management Systems (FMS), and FMS Shared Service Providers. We also interviewed staff from the NCUA Office of the Chief Financial Officer and reviewed NCUA and other documentation pertaining to SAP, the Department of Transportation Enterprise Service Center and its Delphi FMS, and NCUA’s efforts in transitioning to Delphi.

We determined NCUA has fully implemented Delphi, but continues to use SAP along with Delphi because SAP fulfills other financial management functions and human resource functions.

Based on NCUA’s current and planned use of Delphi and SAP and the significantly reduced resources necessary to concurrently maintain SAP, we did not make any recommendations. In its response, NCUA management indicated that when Delphi went live in January 2010, it gave users a more functional management system than any other system NCUA had previously used. NCUA management also indicated there will be additional enhancements to the agency’s management systems which will eventually allow NCUA to eliminate SAP. This report was issued after the semiannual period on October 11, 2012.

SIGNIFICANT AUDIT RECOMMENDATIONS ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

As of September 30, 2012, below is a 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

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 4 open recommendations related to the examination and supervision procedures for overseeing credit unions. These issues include documentation, call reports, third party relationships, exam procedures, and regulatory guidance. We have determined that NCUA has made significant progress and is in various stages of implementing corrective action on all 4 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 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, 2012 to September 30, 2012. 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 four failed credit unions that incurred losses to the NCUSIF under \$25 million between April 1, 2012 and September 30, 2012. Based on those limited reviews, we determined that none of the losses warranted conducting additional work. We based our conclusion on our determination 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 previous MLR reports.

The chart below provides details on the four credit union losses to the NCUSIF of less than \$25 million. It provides details on the credit union such as the date of failure, the 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 a full-scope MLR of the credit union.

DECISIONS REGARDING LOSSES LESS THAN \$25 MILLION

Decision*	Credit Union	Region	Loss Date	Est. Loss to NCUSIF	Grounds for the NCUA Appointment
Terminate	WAUSAU Postal Employees Credit Union	IV	5/18/2012	\$140,000	Insolvent due to unsafe and unsound management practices that included management’s inability to correct issues related to lending, asset/liability, interest rate risk management, compensation and benefits, corporate credit card, debt consolidation loans, outdated or inadequate policies, modifications of insider loans, and profitability.
Terminate	Branch 825 N.A.L.C. Credit Union	IV	6/11/2012	\$229,650	Insolvent due to unsafe and unsound management practices related to suspicious activity conducted by a former manager.
Terminate	AM Community Credit Union	IV	7/30/2012	\$62,000	Insolvent due to unsafe and unsound management practices related to management’s inability to manage its MBL program.
Terminate	CR Community First Credit Union	IV	8/30/2012	\$350,000	Insolvent due to unsafe and unsound management practices related to the credit union’s high-risk membership, high delinquency and loan loss rates, inadequate net worth, lack of qualified management and staff, and an inability to attract volunteers and qualified staff.

*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

October 1, 2011 through March 31, 2012

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

The NCUA OIG completed a peer review of the National Labor Relations Board (NLRB) OIG. On October 31, 2011, we issued an external peer review report for the audit function of the NLRB OIG for the three year period ended September 30, 2011. The NLRB received a rating of pass and has no outstanding recommendations related to the peer review report.

INVESTIGATIVE ACTIVITY

In accordance with professional standards and guidelines established by the United States Department of Justice, the NCUA OIG Office of Investigations conducts investigations of criminal, civil, and administrative wrongdoing involving the agency's programs, operations, and personnel. Our investigative program focuses on activities designed to promote efficiency, effectiveness, and accountability, as well as fighting fraud, waste, and abuse. In addition to our efforts to deter misconduct and promote integrity awareness within the agency and among its employees, we investigate referrals and direct reports of employee misconduct. Investigations may involve possible violations of regulations involving Federal employee responsibilities and conduct, agency policies, Federal criminal law, and other statutes and regulations pertaining to the activities of NCUA employees.

Moreover, we receive complaints from credit union officials and their members which involve NCUA employee program responsibilities. We examine these complaints and determine if 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 matter has already been appropriately handled.

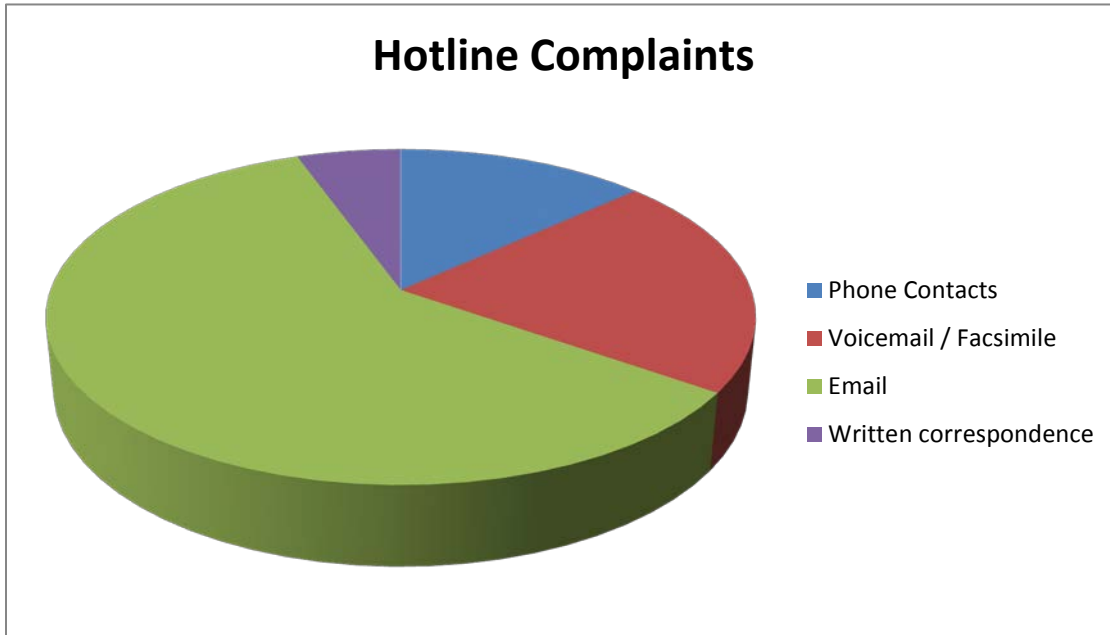
The Office of Investigations also provides instructional guidance to new or newly appointed NCUA employees about the respective roles and responsibilities of the OIG and NCUA employees with regard to criminal, civil, and administrative wrongdoing. This provides for vital communication between NCUA employees and the OIG. The overall effect is a stronger agency.

OIG Hotline Contacts

The OIG has and maintains a 24 hour toll free hotline to enable employees and citizens to call in and provide information about suspected fraud, waste, and abuse or mismanagement involving agency programs or operations. We also receive complaints from an off-site post office box, electronic mail, and facsimile messages. In addition, the Office of Investigations recently introduced an electronic hotline form to the NCUA intranet. This electronic form will open an additional venue for confidential employee communication with the OIG. All information received from any of these sources is referred to as a hotline contact. The OIG hotline program is administered to by our Office Manager, under the direction of the Director of Investigations.

The majority of hotline contacts we receive are from consumers seeking help with problems encountered within their respective credit unions. As discussed above, these contacts are generally referred to the OCP and regional offices.

During this reporting period, the hotline received the following:



Phone contacts	36
Voicemail / Facsimile	58
Email	162
Written correspondence	15
Total:	271

INVESTIGATIONS

Employee Misconduct / Possible Time and Attendance Fraud and Conflict of Interest

During the reporting period, the OIG received an allegation that an NCUA employee used sick leave to fulfill remunerative instructional assignments for an outside entity. Additionally, it was alleged that the employee used and distributed NCUA materials for the outside instructional assignments. The investigation revealed that the employee improperly used some sick leave hours to fulfill his outside instructional assignments. However, the investigation did not substantiate that the employee also used NCUA instructional materials for his outside employment. The investigation resulted in the employee retiring from federal employment. The OIG closed the investigation during the reporting period.

Employee Misconduct / False Statements

During this reporting period, the OIG received allegations that a senior NCUA employee made false statements with regard to a state chartered credit union and the state regulator’s office. The investigation found that the senior NCUA employee’s statements were not false. Rather, the investigation determined that the state regulator improperly provided confidential NCUA documents to the state chartered credit union. The OIG closed the investigation during the reporting period and posted a redacted copy of the report on its website.

Employee Misconduct / Alleged Sexual Harassment and Retaliation

During this reporting period, the OIG received allegations that an NCUA examiner made inappropriate and potentially harassing comments to credit union staff members during two examinations. Additionally, credit union management alleged that the NCUA examiner downgraded the credit union's CAMEL scores in retaliation for the management filing a complaint about the examiner's alleged misconduct. The investigation did not substantiate either allegation. The OIG closed the investigation during the reporting period.

Employee Misconduct / Misuse of Government Property

During this reporting period, the OIG received an allegation that an NCUA employee used her government-issued travel card for personal purchases, amounting to approximately \$7000.00 in charges. The investigation is ongoing.

Employee Misconduct / False Statements

During the reporting period, the OIG received allegations regarding the circumstances surrounding an NCUA employee's relocation to another geographical location and the employee's subsequent filing of improper travel claims. The investigation is ongoing.

PEER REVIEWS

April 1 through September 30, 2012

Section 6(e)(7) of the Inspector General Act of 1978, as amended, requires those OIGs that have been granted statutory law enforcement authority 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 investigative 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 is scheduled for its first peer review in the third quarter 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 27 items, including final and proposed legislation (see chart below), proposed and final regulations (see chart below), two (2) Regulatory Alerts, three (3) Legal Opinion Letters, and two (2) new or revised NCUA Instructions. The OIG also responded to five (5) Freedom of Information Act requests.

SUMMARY OF STATUTES AND REGULATIONS REVIEWED	
Legislation	Title
S. 3394	“A bill to address fee disclosure requirements under the Electronic Fund Transfer Act, to amend the Federal Deposit Insurance Act with respect to information provided to the Bureau of Consumer Financial Protection, and for other purposes.”
H.R. 6125	“A bill to amend the Federal Deposit Insurance Act and the Federal Credit Union Act with respect to privilege of information provided to Federal and State agencies, and for other purposes.”
H.R. 6105	“A bill to amend the Federal Home Loan Bank Act to allow non-Federally insured credit unions to become members of a Federal Home Loan Bank.”
H.R. 2146	“Digital Accountability and Transparency Act of 2011”
H.R. 3393	“The Capital Access for Small Business and Jobs Act”
S. 2151	“SECURE IT”
S. 2105	“Cybersecurity Act of 2012”
H.R. 4263	“SECURE IT Act of 2012”
H.R. 4631	“Government Spending Accountability Act of 2012”
H.R. 4454	“Agency Conferences and Conventions Operating Under Necessary Transparency Act of 2012”
S. 2469	“A bill to prohibit an agency or department of the United States from establishing or implementing an internal policy that discourages or prohibits the selection of a resort or vacation destination as the location for a conference or event, and for other purposes.”

Regulations/Rulings/IRPS	Title
12 CFR Part 741	Loan Workouts and Nonaccrual Policy, and Regulatory Reporting of Troubled Debt Restructured Loans (Final Rule)
12 CFR Parts 701, 703, 713, 721, 723, and 742	Eligible Obligations, Charitable Contributions, Nonmember Deposits, Fixed Assets, Investments, Fidelity Bonds, Incidental Powers, Member Business Loans, and Regulatory Flexibility Program (Final Rule)
12 CFR Part 702, 741, and 791	Asset Thresholds Affecting Regulatory Relief for Small Credit Unions (Proposed Rule and IRPS with request for comments)
12 CFR Part 703	Investment and Deposit Activities (Proposed Rule with request for comments)
12 CFR Part 701	Chartering and Field of Membership Manual for Federal Credit Unions (Proposed Rule with request for comments)
12 CFR Part 701	Pay-Day Alternative Loans (ANPR)
12 CFR Part 722	Appraisals for Higher-risk Mortgage Loans (Proposed Rule with request for public comment)
12 CFR Part 741	Maintaining Access to Emergency Liquidity (NPRM with request for comment)
12 CFR Parts 700, 701, 741, and 750	Definition of Troubled Condition (Proposed Rule with Request for comments)

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	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, 2012		
PART I – AUDIT REPORTS ISSUED		
Report Number	Title	Date Issued
OIG-12-07	NCUA Financial Statements Audit 2011 (TCCUSF)	06/22/2012
OIG-12-08	Review of NCUA’s Red Flag Reports	06/25/2012
OIG-12-09	Review of NCUA’s Policies, Procedures and Practices Regarding Financial Stability Oversight Council Information	06/27/2012
OIG-12-10	Review of NCUA’s Examination and Complaint Processes for Small Credit Unions	08/31/2012
PART II – AUDITS IN PROGRESS <i>(as of September 30, 2012)</i>		
Independent Evaluation of the NCUA’s Compliance with the Federal Information Security Management Act (FISMA) 2012		
NCUA Financial Statements Audit 2012		
Material Loss Reviews		
Accounting for Share Insurance Fund Losses		
Use of the Delphi Financial Management System versus the SAP R/3 Enterprise Resource System		

INDEX OF REPORTING REQUIREMENTS		
Section	Data Required	Page Ref
4(a)(2)	Review of legislation and regulations	23
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.	16
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.	27
5(a)(7)	Summary of particularly significant reports.	12
5(a)(8)	Statistical tables on audit reports with questioned costs.	25
5(a)(9)	Statistical tables on audit reports with recommendations that funds be put to better use.	26
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.	19
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.	19

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