NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL

# Semiannual Report to the Congress

October 1, 2013 – March 31, 2014

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## A MESSAGE FROM THE INSPECTOR GENERAL

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 the NCUA Board and the Congress highlighting our accomplishments and ongoing work for the six-month period ending March 31, 2014. Our work reflects the legislative mandate of the *Inspector General Act of 1978, as amended*, to promote the economy, efficiency, and effectiveness of NCUA programs and operations, and protect against fraud, waste, and abuse. The audits and investigations highlighted in this report demonstrate our commitment to that cause as well as our goal of enhancing public confidence in the regulatory process.

On the audit side, we continued to work on Material Loss Reviews (MLRs) and issued three MLR reports: Chetco Federal Credit Union; G.I.C. Federal Credit Union; and Taupa Lithuanian Credit Union. We discuss each report in more detail in the body of this report. We anticipate that in 2015, we will see a reduction in MLRs and reduce this particular workload to our lowest level since the start of the financial crisis in late 2007. We also focused on mission critical areas such as the National Credit Union Share Insurance Fund (NCUSIF) and conducted a review of NCUA's process for documenting NCUSIF losses and credit union failures. We made substantive recommendations that will help the agency formalize procedures to better track loss estimates and failure data.

During this reporting period we also issued a comprehensive report on the NCUA's information security program in accordance with the *Federal Information Security Management Act of 2002* (FISMA). FISMA provides a comprehensive framework for ensuring the effectiveness of information security controls over information resources that support federal operations and assets. Consistent with FISMA's requirements, we performed an annual independent evaluation of the NCUA's information security program and practices. In the FISMA report, we highlighted steps that the agency could take to improve the security of its information resources.

On the investigative side, the Office of Investigations (OI) saw increased activity. OI opened four cases during the reporting period, the majority stemming from complaints alleging non-criminal employee/manager misconduct. The OI also conducted an investigative review and prepared a Management Implication Report (MIR) for another OIG based on a complaint alleging inappropriate personnel practices. The OI closed three cases during the reporting period: one case that was opened in the previous reporting period and two that were opened in the present reporting period. In total, the OI issued two Reports of Investigation (ROI) and one MIR.

Finally, I would like to thank Chairman Matz and Board Members Fryzel and Metsger for their sustained support of the OIG's work. More than ever, the OIG is dedicated to accomplishing its mission of conducting independent audits, investigations, and reviews to help the NCUA accomplish its mission; improve its effectiveness; and prevent and detect fraud, waste, and abuse. As in the past, the NCUA Board and management have been responsive in attempting to implement all OIG recommendations. I appreciate management's support and I look forwarding to working with them in our ongoing efforts to promote economy and efficiency in agency programs.

James W. Hagen
Inspector General

## THE NCUA MISSION

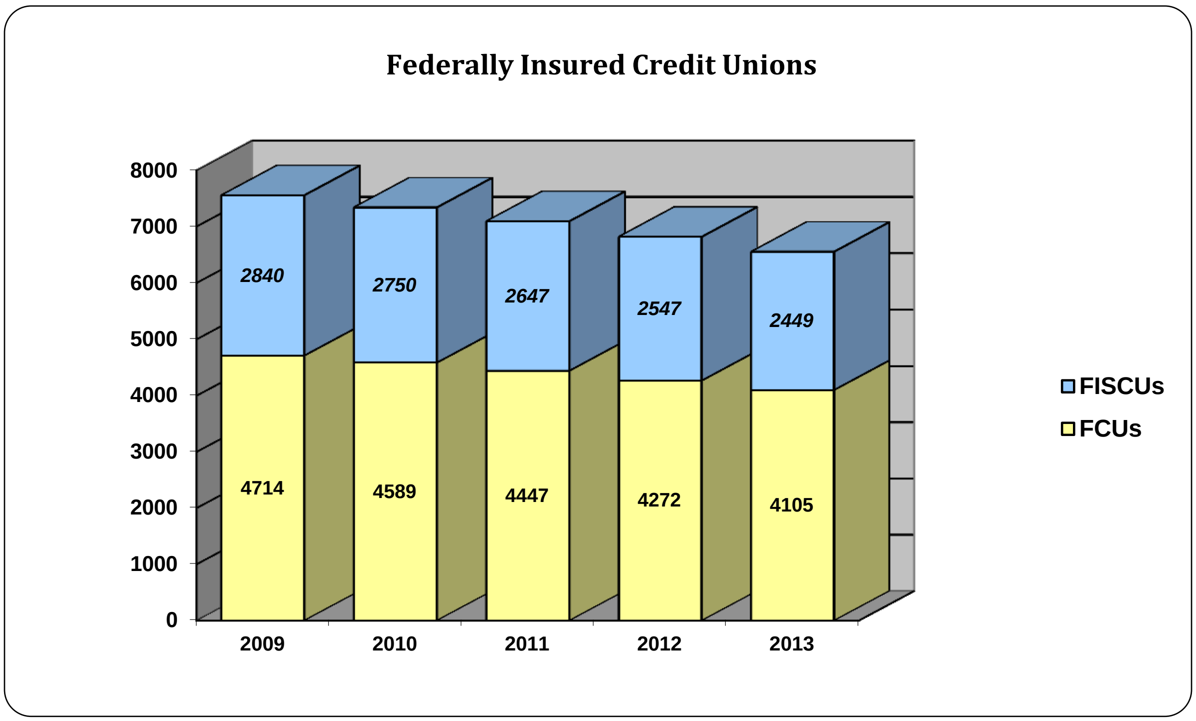
NCUA's charge is to provide, through regulation and supervision, a safe and sound credit union system which promotes confidence in the national system of cooperative credit.

## 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.

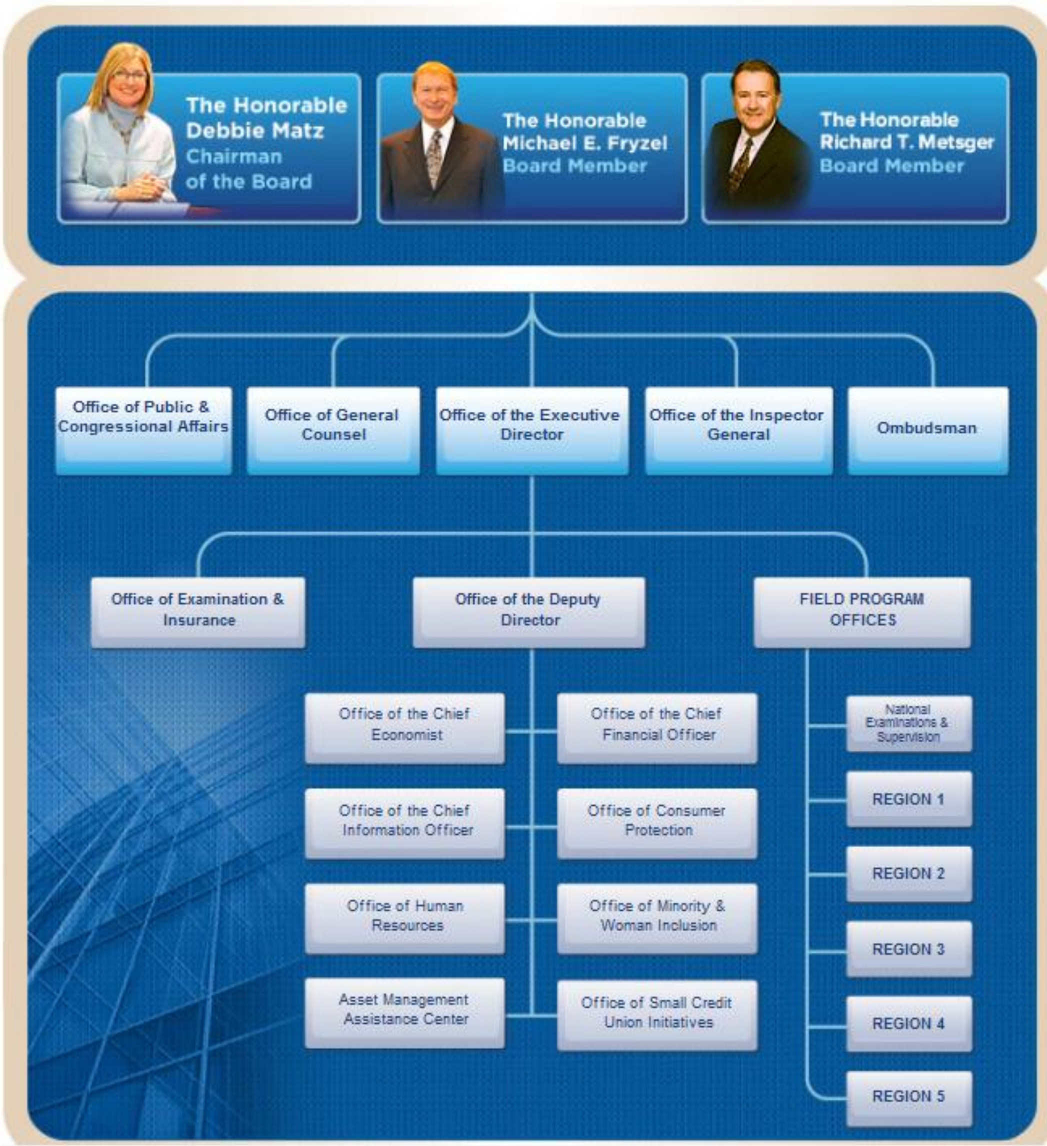
## INTRODUCTION

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 December 31, 2013, the NCUA was supervising and insuring 4,105 federal credit unions and insuring 2,449 state-chartered credit unions, a total of 6,554 institutions. This represents a decline of 167 federal and 98 state-chartered institutions since December 31, 2012, for a total decline of 265 credit unions nationwide, primarily as a result of mergers and liquidations.

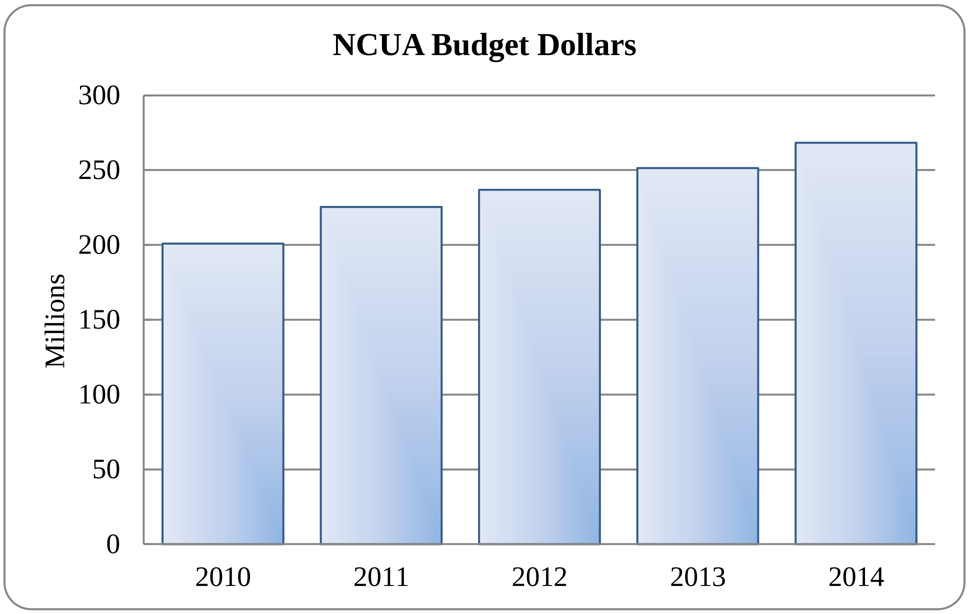


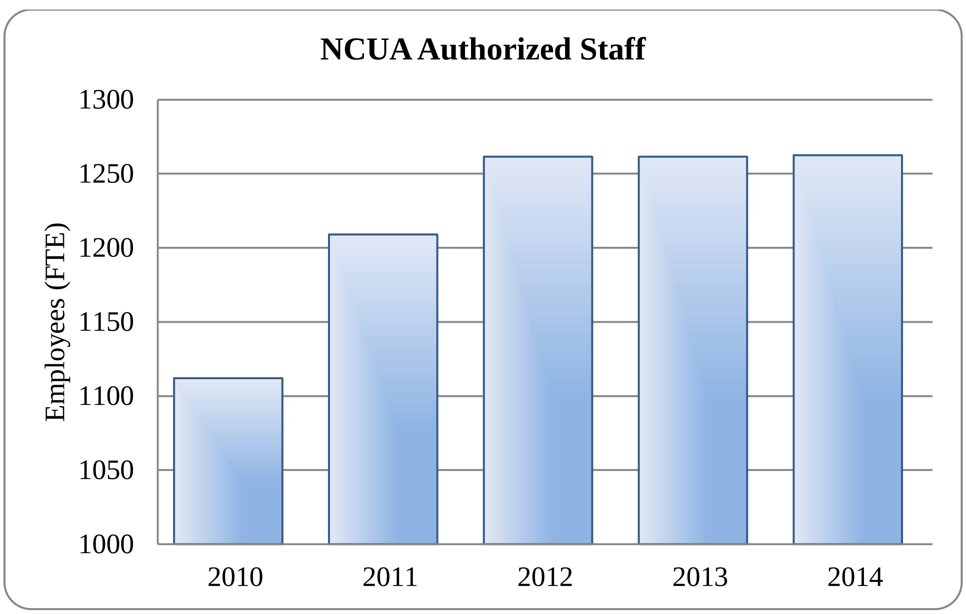

The NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one term expires every two years. The Board is responsible for the management of the NCUA, including 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 2014 budget of $268,290,296 on November 21, 2013. The Full-Time Equivalent (FTE) staffing authorization for 2014 is 1,262.50 representing an increase of one FTE from 2013.



## NCUA HIGHLIGHTS

### NCUA to Receive More Than $1.4 Billion in JPMorgan Chase Settlement

On November 19, 2013, NCUA announced that, along with the U.S. Department of Justice and other governmental plaintiffs, it was part of a $13.0 billion settlement with JPMorgan Chase and affiliated companies. The settlement resolves four suits NCUA filed against JPMorgan Chase, Bear Stearns and Washington Mutual for corporate credit union losses resulting from the sale of faulty residential mortgage-backed securities (RMBS). Under the settlement, NCUA will receive $1.417 billion. As part of the agreement, JPMorgan Chase acknowledged it made serious misrepresentations to the public about numerous RMBS transactions.

With this settlement, NCUA has recovered more than $1.75 billion in settlements, including more than $335 million in claims settled with Citigroup, Deutsche Bank Securities, HSBC and Bank of America. NCUA uses the net settlement proceeds to reduce Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) assessments it charges to federally insured credit unions to pay for the losses caused by the failure of five corporate credit unions.

On February 12, 2014, NCUA announced that as a result of strong asset management and significant recoveries from the various settlements, there will likely be no need for future assessments.

### NCUA Financial Statements Earn Clean Audit Opinions for 2013

On February 18, 2014, the NCUA released its 2013 audited financial report for the agency's four permanent funds: the National Credit Union Share Insurance Fund (Share Insurance Fund); the Central Liquidity Facility; the Community Development Revolving Loan Fund; and the Operating Fund. All four funds received unmodified or "clean" audit opinions, including the Share Insurance Fund which protects deposits up to $250,000 for nearly 96 million consumers at 6,550 federally insured credit unions. KPMG LLP was the independent auditor for all four funds.

KPMG LLP also issued an unmodified opinion on the Stabilization Fund 2013 financial statements on March 17, 2014. This marks the fifth consecutive clean audit opinion for the Stabilization Fund. 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.

The Stabilization Fund was established in May 2009 to accrue the losses of the corporate credit unions crisis and to recover such losses over time. It allows the NCUA Board to mitigate a onetime assessment burden on insured credit unions for corporate credit union stabilization actions by spreading the costs over multiple years. At its discretion, the Board determines if and when to assess premiums over the life of the Stabilization Fund. From its inception through

2013, NCUA collected $4.8 billion in special premium assessments from federally insured credit unions.

NCUA's Financial Statement Audit reports for 2013 are available here on the NCUA OIG website.

NCUA National Credit Union Share Insurance Fund Continues Positive Trends

The Share Insurance Fund ended 2013 in a stronger position due to continued improvement in the performance of federally insured credit unions and a decline in insurance and guarantee program liabilities. The Share Insurance Fund had a 1.30 percent equity ratio, calculated on an insured share base of $866.3 billion at the end of 2013. This represented a 3.2 percent growth over the 2012 insured base of $839.4 billion. The net position of the Share Insurance Fund remained steady at $11.3 billion at the end of 2013.

NCUA Board Chairman Matz stated: "Protecting the Share Insurance Fund is NCUA's top priority, and the 2013 year-end results reflect the agency's prudent management and effective approach to regulation." NCUA Board Chairman Matz also stated: "The metrics continue trending in the right direction. The number of federal credit unions with CAMEL codes 3, 4 and 5 continued to decline, as did the exposure level of potential losses." Specifically, NCUA's Chief Financial Officer reported:

- The total number of CAMEL code 3, 4 and 5 credit unions dropped 7.9 percent from 1,940 at the end of 2012 to 1,787 at the end of 2013.

- Assets of CAMEL code 3 credit unions decreased from $119.3 billion as of December 31, 2012 to $108.6 billion at the end of the fourth quarter of 2013, a 9.0 percent decline.

- Assets of CAMEL code 4 and 5 credit unions fell to $13.8 billion at the end of 2013, a 27.4 percent decrease from $19 billion at the end of 2012.

Overall, the amount of assets in CAMEL code 3, 4 and 5 credit unions decreased 40.5 percent from its high in September 2010. These continuing positive trends and other factors contributed to a $191.8 million (46.5 percent) net decrease in the Share Insurance Fund's reserve for insurance losses during 2013.

Also during 2013, there were 17 credit union liquidations and assisted mergers, compared to 22 in 2012, and total losses associated with failures decreased 68 percent from $210.5 million in 2012 to $66.8 million in 2013.

## Upper End of Projected Loss Range for Failed Corporates Continues Decline

Total projected assessments associated with the Temporary Corporate Credit Union Stabilization Fund declined $2.2 billion at the upper end between July and December 2013. The sharp drop was due largely to the JPMorgan Chase settlement in November 2013.

The current projected range for total future remaining assessments is now between negative $2 billion and negative $600 million. At the end of the second quarter of 2013, the total range was negative $200 million to $1.6 billion. The overall rate of change in the assessment range is consistent with recent trends, and the continued improvement in the performance of the legacy assets underlying the NCUA Guaranteed Note program.

NCUA's Board announced at its November 2013 meeting there would be no planned Stabilization Fund assessment in 2014. As long as both ends of the projected range of net remaining assessments remain negative, there will likely be no need for future assessments.

## President Obama Nominates J. Mark McWatters to NCUA Board

President Obama announced the nomination of Texas tax attorney and former Troubled Asset Relief Program (TARP) panel member J. Mark McWatters to the NCUA Board in December 2013.

McWatters served as counsel for Rep. Jeb Hensarling (R-Texas) in 2009. He was a member of the TARP panel in Washington from December 2009 to April 2011. McWatters currently is assistant dean for graduate programs at Southern Methodist University's School of Law in Dallas.

At his confirmation hearing in March 2014 McWatters previewed his overall approach to regulation in his opening statement, saying his focus as a regulator "will remain straightforward: Don't neglect the fundamentals of capital, liquidity, and transparency, and always remember that the greatest threat to a financial system may reside where you least expect it--hidden within plain view." McWatters stated that he pledged to "work diligently to ensure the continued integrity and safety and soundness of our nation's credit union system in an ever-evolving marketplace...I will aim to balance competing viewpoints while maintaining the safety and soundness of the credit union system, safeguarding the Share Insurance Fund, enforcing consumer protection rules, and protecting taxpayers and credit union members from losses."

If confirmed, McWatters would fill Republican Michael Fryzel's spot on the three-person board. Fryzel has been serving since July 2008 and his term has expired.

## FEDERALLY INSURED CREDIT UNION HIGHLIGHTS

Credit unions submit quarterly call reports (financial and operational data) to the NCUA. An NCUA staff assessment of the December 31, 2013, quarterly call reports submitted by all federally insured credit unions found that key financial indicators are positive.

### Key Financial Indicators Favorable

Looking at the December 31, 2013 quarterly statistics for major balance sheet items and key ratios shows the following for the nation's 6,554 federally insured credit unions: assets grew 3.93 percent; net worth to assets ratio increased from 10.43 to 10.78 percent; the loan to share ratio increased from 68.06 percent to 70.90 percent. The delinquency ratio decreased from 1.16 to 1.01 percent however, credit union return on average assets decreased from .85 to .78 percent.

### Savings Shifting to Regular Shares

Total share accounts increased 3.67 percent. Regular shares increased 8.06 percent. Regular shares comprise 32.67 percent of total share accounts; share certificates comprise 21.05 percent; money market shares comprise 23.36 percent; share draft accounts comprise 13.07 percent; and all other share accounts comprise 9.86 percent.

### Loan Volume Increasing

Loans increased 7.98 percent resulting in an increase in total loans by $47.7 billion. Total net loans of $645 billion comprise 60.76 percent of credit union assets. First mortgage real estate loans are the largest single asset category with $268 billion accounting for 41.50 percent of all loans. Other real estate loans of $71 billion account for 11.01 percent of all loans. Used car loans of $127 billion were 19.73 percent of all loans, while new car loans amounted to $71 billion or 11.07 percent of total loans. Credit card loans totaled $43 billion or 6.60 percent of total loans and other loans totaled $65 billion for 10.08 percent of total loans.

## LEGISLATIVE HIGHLIGHTS

NCUA Joins Federal Financial Regulators to Propose Standards for Assessing Diversity

In a joint release issued on October 23, 2013, NCUA joined five other federal financial regulators in proposing standards for assessing the diversity policies and practices of the institutions they regulate, as required by Section 342 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (*Dodd-Frank Act*). The proposed standards are intended to promote transparency and awareness of diversity policies and practices within the institutions. The proposed assessment standards would address four key areas:

- Organizational commitment to diversity and inclusion;
- Workforce profile and employment practices;
- Procurement and business practices and supplier diversity; and
- Practices to promote transparency of organizational diversity and inclusion.

NCUA Chairman Debbie Matz noted that the diversity assessments would not be part of traditional examinations or supervisory activities. Rather, credit unions meeting the Equal Employment Opportunity Commission filing criteria threshold with at least 100 employees would report their self-assessments to NCUA. NCUA would then report the aggregate results to Congress annually. Currently, about 600 federally insured credit unions have more than 100 employees. All credit unions are encouraged to adopt the self-assessment standards voluntarily.

The *Dodd-Frank Act* required NCUA and other regulators to each create an Office of Minority and Women Inclusion (OMWI), which is responsible for developing standards for assessing diversity policies and practices of regulated entities. The proposed standards are aimed at creating uniformity across the regulating agencies.

Federal Regulators Provide Guidance on Qualified Mortgage Fair Lending Risks

On October 22, 2013, five federal financial regulators, including NCUA, issued a statement to address industry questions about fair lending risks associated with offering Qualified Mortgages (QMs). The statement was in response to creditors' requests for clarity regarding whether the disparate treatment doctrine of the *Equal Credit Opportunity Act* (*ECOA*) and its implementing regulation, Regulation B, allows them to originate only QMs. For the reasons set forth in the joint statement, the five agencies do not anticipate that a creditor's decision to offer only QMs would, absent other factors, elevate a supervised institution's fair lending risk.

The Consumer Financial Protection Bureau's Ability-to-Repay Rule implements provisions of the *Dodd-Frank Act* that require creditors to make a reasonable, good faith determination that a consumer has the ability to repay a mortgage loan before extending credit to the consumer. Lenders are presumed to have complied with the Ability-to-Repay Rule if they issue QMs, which must satisfy requirements that prohibit or limit risky features that harmed consumers in the recent crisis.

The *ECOA* makes it illegal for a creditor to discriminate in any aspect of a credit-based transaction based on characteristics including race, religion, marital status, color, national origin, sex, and age.

In January 2014, NCUA issued a Supervisory Letter to all field staff providing information about the new Ability-to-Pay and Qualified Mortgage Rule (ATR/QM) issued by CFPB.  The Letter advised that, in addition to the requirement that lenders consider a consumer's ability to repay a home loan before extending credit to them, the rule established standards for QMs that meet the ability-to-repay requirements.  Further, the rule provides a safe harbor for lenders that originate QMs.  The rule applies to new mortgage loans made on or after January 10, 2014.

The letter, which applies to the supervision of all federally insured credit unions, also established supervisory expectations with respect to credit unions' compliance with the new rule, including ensuring that credit unions meet certain risk-management expectations with regard to QM and non-QM loans.

## 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.

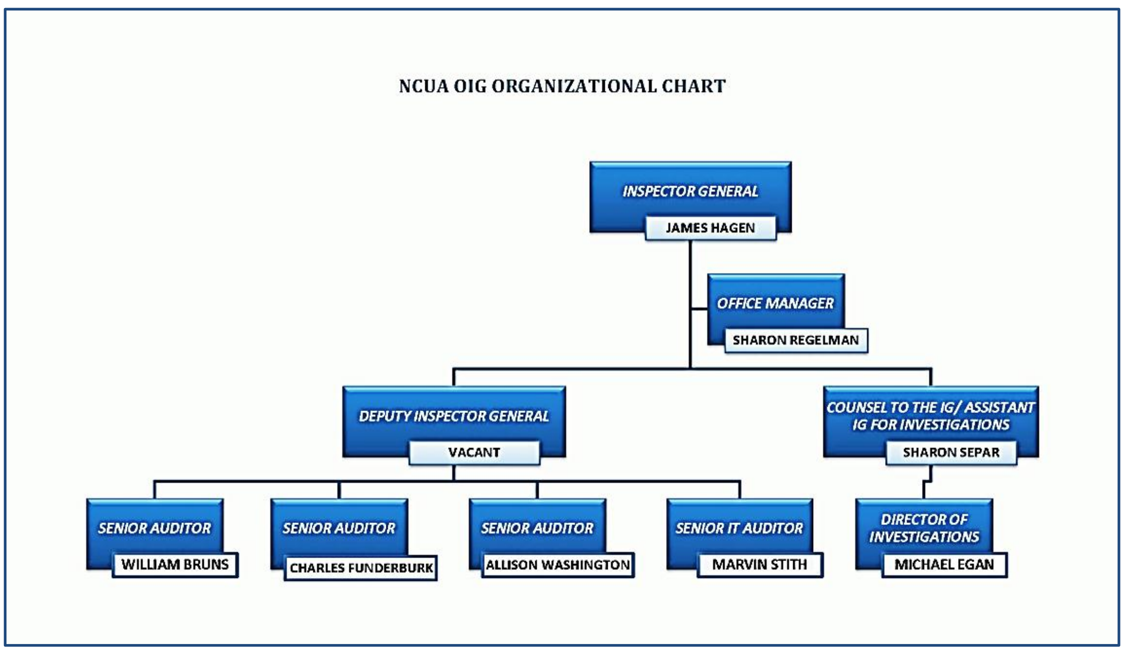
The Inspector General reports to, and is under the general supervision of, the NCUA Board. The Inspector General is responsible for:

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-13-10 – October12, 2013*
Material Loss Review of Chetco Federal Credit Union

The OIG contracted with Crowe Horwath LLP to conduct a Material Loss Review (MLR) of Chetco Federal Credit Union. We reviewed Chetco to: (1) determine the cause of the failure and resulting loss to the NCUSIF; (2) assess NCUA's supervision of the credit union; and (3) make appropriate recommendations to prevent future losses.

Our review determined Chetco failed due to inadequate management and board oversight. The Board of Directors and management exposed the credit union to excessive amounts of credit and liquidity risk due to its failure to set appropriate limits and maintain the appropriate risk management infrastructure to support the growth in the Member Business Loan (MBL) portfolio. In addition, we determined examiners missed the opportunity to reduce the loss to the Share Insurance Fund. We believe that red flags were present, which may have indicated the existence of governance issues affecting the management of MBL credit risk. Although we cannot conclude that further analysis by examiners would have prevented the credit unions liquidation, we can reason that these observations might have served as a red flag prompting examiners to expand the scope of the review of the MBL portfolio sooner.

*OIG-13-11 – October 29, 2013*
Review of NCUA's Process for Documenting Share Insurance Fund Losses and Credit Union Failures

The OIG conducted a self-initiated review of NCUA's process for documenting credit union failures and their associated share insurance fund losses. Our objective for this review was to determine NCUA's methodology for identifying and tracking credit union failures and losses to the Share Insurance Fund.

The results of our review disclosed NCUA management could strengthen its documenting of Share Insurance Fund estimated losses for specific credit union failures. Specifically, we determined the Office of Examination and Insurance, the Office of the Chief Financial Officer, and the Asset Management and Assistance Center documented different estimated Share Insurance Fund loss amounts throughout the year. However, we determined these differences were mostly attributable to timing differences and new information that is continually received, which causes the estimated Share Insurance Fund loss amounts to change frequently. In addition, we determined that each of these offices may not document Share Insurance Fund loss activity in a timely manner, and regional and central offices document losses into independent, nonintegrated systems. However, despite these offices having differing estimated loss amounts throughout the year due to timing, we also determined that they ensure the estimated Share Insurance Fund loss amounts agree at year-end for financial statement reporting.

In addition, we determined NCUA management could strengthen its ability to capture basic credit union failure data. Specifically, we identified discrepancies between NCUA's regional and central offices when reporting the dates and types of credit union failures. This occurred because each office defines the timing of a failure in a different manner and uses independent, nonintegrated systems. The report made three recommendations to NCUA management related to revising internal procedures, conducting a feasibility study, and developing an agency-wide definition for credit union failure, all of which we believe will help correct the deficiencies discussed in this report. NCUA management agreed with all three recommendations.

### *OIG-13-12 – November 22, 2013*
### Independent Evaluation of the NCUA's Compliance with the Federal Information Security Management Act (FISMA) 2013

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*.

NCUA has worked to significantly strengthen its information security and privacy programs during Fiscal Year (FY) 2013. We believe that many of the improvements within the agency's information security program are the result of the acquisition of additional dedicated resources within the Office of the Chief Information Officer to address information security issues. However, while NCUA continues to make improvements in the following areas, we identified remaining issues in these areas from last year's FISMA review that NCUA officials need to address:

- Finalizing its Continuous Monitoring Policies, Procedures, and Strategy;
- Finalizing its Risk Management Policies and Procedures;
- Improving its Configuration Management Program;
- Improving its New Hire Security Awareness Training Program; and
- Improving Oversight and Management of its Contractor Systems.

In addition, we identified a new finding pertaining to NCUA's remote access program. We made nine recommendations in these areas, which will help NCUA continue to improve its information security program.

*OIG-13-13 –December 2, 2013*
Material Loss Review of G.I.C Federal Credit Union

The OIG contracted with Moss Adams LLP to conduct a Material Loss Review (MLR) of G.I.C. Federal Credit Union (G.I.C. or the Credit Union), a federally insured credit union. Although the anticipated loss to the Share Insurance Fund for G.I.C. did not meet the statutory loss threshold to require an MLR, we identified the circumstances surrounding the failure of G.I.C. as unusual in nature and therefore determined an MLR should be performed. We reviewed G.I.C. to: (1) determine the cause of the failure and resulting loss to the NCUSIF; (2) assess NCUA's supervision of the credit union; and (3) make appropriate recommendations to prevent future losses.

We determined G.I.C. failed due to overstatement of $8.1 million in assets, primarily investments in certificates of deposit and cash, allegedly due to fraud. According to the FPR filed just prior to the discovery of the alleged fraud, the Credit Union reported total assets of approximately $15 million, and total liabilities of $13 million, which Credit Union management reported were comprised entirely of member shares. Region III officials determined the Credit Union to be insolvent and on December 13, 2012, NCUA liquidated G.I.C. The factors that created an environment in which such overstatement could go undetected were: (1) questionable management integrity and performance; (2) weak supervisory committee oversight; and (3) weak board of directors oversight.

As a result of our review, we made two observations and four recommendations to NCUA management related to increasing compliance with audit report filing requirements and enhancing examination procedures related to evidence of account balances. Management agreed with the recommendations.

*OIG-14-01/02/03/04 – February 18, 2014*
NCUA Financial Statements Audit 2013: Community Development Revolving Loan Fund, Central Liquidity Facility, Operating Fund, Share Insurance Fund

Our contracting audit firm, KPMG LLP, issued opinions on the 2013 financial statements of the National Credit Union Administration Community Development Revolving Loan Fund, Operating Fund, Central Liquidity Facility, 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, 2013.

The Community Development Revolving Loan Fund's *(OIG-14-01)* 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 **unmodified opinion** on the Fund's financial statements. The Community Development Revolving Loan Fund's total assets for 2013 were $16.9 million, unchanged from 2012.

The Central Liquidity Facility *(OIG-14-02)* 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 **unmodified opinion** on the Central Liquidity Facility's (CLF) financial statements. The CLF's total assets for 2013 were $139 million, down from $112 million in 2012.

The NCUA Operating Fund *(OIG-14-03)* 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 **unmodified opinion** on the Operating Fund's financial statements. The fund's total assets for 2013 were $77.3 million, down from $77.4 million in 2012.

The National Credit Union Share Insurance Fund *(OIG-14-04)* 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 **unmodified opinion** on the Share Insurance Fund's financial statements. The Fund's total assets for 2013 were 11.6 billion, down from $11.9 billion in 2012.

*OIG-14-05 –March 17, 2014*
### 2013 NCUA Financial Statement Audit of the Temporary Corporate Credit Union Stabilization Fund

Our contracting audit firm, KPMG LLP, issued its opinion on the 2013 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, 2013 and issued an **unmodified opinion** on the TCCUSF's financial statements.

The TCCUSF was created by Public Law 111-22, "Helping Families Save Their Homes Act of 2009," enacted May 20, 2009. The fund was established as a revolving fund in the Treasury of the United States under the management of the Board of Directors of the NCUA. The purposes of the TCCUSF are to accrue the losses of the corporate credit union system, and over time, to assess the credit union system for the recovery of such losses. The TCCUSF's net position was a $142 million deficit for the period ending December 31, 2013.

*OIG-14-06 – March 26, 2014*
### Material Loss Review of Taupa Lithuanian Credit Union

The OIG contracted with Moss Adams LLP to conduct a Material Loss Review (MLR) of Taupa Lithuanian Credit Union (Taupa). The objectives of the MLR were to: (1) determine the cause of the credit union's failure and resulting loss to the Share Insurance Fund; (2) assess NCUA's supervision of the credit union; and (3) provide appropriate suggestions and/or recommendations to prevent future losses.

We determined Taupa failed because its management fraudulently overstated assets, specifically cash on deposit, and understated shares. We also determined NCUA could have mitigated the loss to the Share Insurance Fund had examiners adequately identified the Transaction Risks and addressed the red flags that were present at Taupa by performing additional procedures related to those risks.

This report reaffirms three recommendations made in recent OIG reports to NCUA management related to fraud training, independent account confirmations, and direct communication with external auditors. The report also makes two observations related to examiner's use of Red Flag Questionnaires and metric analysis.

## Audits in Progress

### NCUA's Credit Union Success Stories

The OIG is conducting a review of NCUA credit union success stories to help NCUA in its supervisory oversight of the credit union industry moving forward. Specifically, we are identifying lessons learned from past NCUA successful cases where specific corrective actions helped revive failing credit unions. This is a discretionary audit from our 2013 Annual Audit Plan.

### Mobile Security Devices

NCUA provides iPhones and iPads for use by select users. In addition, NCUA allows NCUA users to connect their personally-owned mobile devices such as the Apple iPhone, iPad, Android, and Windows Mobil to the NCUA Exchange server to receive corporate email, calendar, and contacts.

Mobile handheld devices can be used not only for voice calls, simple text messages, and Personal Information Management but also for many functions done at a desktop computer. While handheld devices provide many productivity benefits, they also pose new risks to an organization's security. In this review we will determine whether NCUA has adequate mobile device security controls to adequately protect NCUA information and information systems assets.

### Travel and Purchase Card Review

The OIG is currently conducting a review of NCUA's purchase and travel cards in compliance with the *Government Charge Card Abuse Prevention Act of 2012* to: (1) assess, identify, and analyze risks of illegal, improper, or erroneous purchases and payments made through NCUA's purchase and travel card programs; and (2) determine whether the results of our risk assessments justify performing an audit in compliance with Government Auditing Standards.

House of Representatives Committee on Financial Services Request

On March 24, 2014, our office received a bipartisan request from the United States House of Representatives Committee on Financial Services to review NCUA's "internal operations to determine whether any personnel practices have created a discriminatory workplace or otherwise systematically disadvantaged minorities from obtaining senior management positions." We have started a review of this area.

## Significant Audit Recommendations on Which Corrective Action Has Not Been Completed

As of March 31, 2014, below is a list of OIG reports with unimplemented recommendations where management has agreed to implement corrective action but has yet not completed those actions. 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 is 1 open recommendation related to the regulatory guidance to establish limits or other controls for concentrations that pose an unacceptable safety and soundness risk and determine an appropriate range of examiner response to high-risk concentrations.

## Report on Credit Union Losses under Materiality Level of $25 Million

*Dodd Frank* requires the NCUA OIG to perform a limited review where the Share Insurance Fund incurred a loss below the $25 million threshold with respect to an insured credit union. The OIG must report to the NCUA Board and the Congress every 6 months on the results of the limited reviews and the timeframe for performing any subsequent in-depth reviews we determine are necessary.

This report on losses below the $25 million threshold covers the six-month period from October 1, 2013, to March 31, 2014. For all losses to the Share Insurance Fund 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 memoranda 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 eight failed credit unions that incurred losses to the Share Insurance Fund under $25 million between October 1, 2013, and March 31, 2014. Based on those limited reviews, we determined that none of the losses warranted conducting additional work because no unusual circumstances presented themselves in our review; or 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 eight credit union losses to the Share Insurance Fund below the $25 million threshold. It provides details on the credit union, such as the date of failure, the estimated loss to the Share Insurance Fund, 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** | **Date of Failure** | **Est. Loss to NCUSIF** | **Grounds for the NCUA Appointment** |
| Terminate | Southside Credit Union | IV | 11/30/2013 | $50K | Critically undercapitalized with no prospect of recovery due to weak management, poor internal controls, excessive operating expenses, poor underwriting for both consumer and member business loans and high Provision for Loan Loss expense. |
| Terminate | SJH Employees' Credit Union | IV | 12/01/2013 | $378K | Insolvent with no prospect of recovery due to weak management, which allowed the credit union to become critically undercapitalized due to poor loan quality and weak recordkeeping. |
| Terminate | St. Francis Campus Credit Union | IV | 2/14/2014 | $12.9M | Insolvent with no prospect of recovery due to fraud committed by the manager through the manipulation of members' accounts. |
| Terminate | Jayhawk Federal Credit Union | IV | 2/28/2014 | $450K | Insolvent with no prospect of recovery due to fraud committed by the manager and assistant manager through the posting of fraudulent entries to the credit union's ACH and money order clearing accounts. |
| Terminate | Union Settlement Federal Credit Union | I | 3/14/2014 | $150K | Insolvent with no prospect of recovery due to management's inability to correct identified weaknesses, resulting in continued operating losses and declining net worth, as well as poor asset quality exhibited by continued elevated delinquency. |
| Terminate | Parsons Pittsburg Credit Union | IV | 3/21/2014 | $9.4M | Insolvent with no prospect of recovery due to fraud committed by the manager through unrecorded nonmember deposits. |

| DECISIONS REGARDING LOSSES LESS THAN $25 MILLION (continued) | | | | | |
|---|---|---|---|---|---|
| **Decision**** | **Credit Union** | **Region** | **Date of Failure** | **Est. Loss to NCUSIF** | **Grounds for the NCUA Appointment** |
| Terminate | Oldham Family Alliance Federal Credit Union | II | 3/31/2014 | $150K | Critically undercapitalized with no prospect of recovery due to Management's inability to comply with goals outlined in a Net Worth Restoration Plan and correct repeat Document of Resolution issues such as poor recordkeeping, failure to charge off non-performing loans, poor marketing, and high operating expenses. |
| Terminate | Mayfair Federal Credit Union | II | 3/31/2014 | $1.57M | Insolvent with no prospect of recovery due to fraud, which included fictitious nonmember deposits, manipulated financial records, and missing cash. |

***Criteria for each decision included: (1) dollar value and/or percentage of loss; (2) the institution's 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 Board or management, Congressional interest, or IG request.*

## Peer Reviews - October 1, 2013 through March 31, 2014

*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

The Peace Corps OIG completed our most recent peer review on February 4, 2013 for the three-year period ended December 31, 2012. The Peace Corps OIG issued its report entitled System Review Report 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 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 (OI) 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 both efficiency and economy within the NCUA and its programs and operations, and to fight fraud, waste, and abuse. In this regard, we investigate referrals and allegations of misconduct on the part of NCUA employees, former employees, and contractors. Investigations may involve possible violations of regulations involving Federal employee responsibilities and conduct, agency policies, Federal criminal law, and other statutes and regulations. Finally, we have a robust training program within the agency that encompasses integrity awareness briefings and orientation presentations regarding the role of the OIG within the agency and how to report wrongdoing to the OI.

Additionally, we routinely 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 misconduct or wrongdoing by an NCUA employee. If not, we refer the complaint to the NCUA Office of Consumer Protection (OCP) or 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.

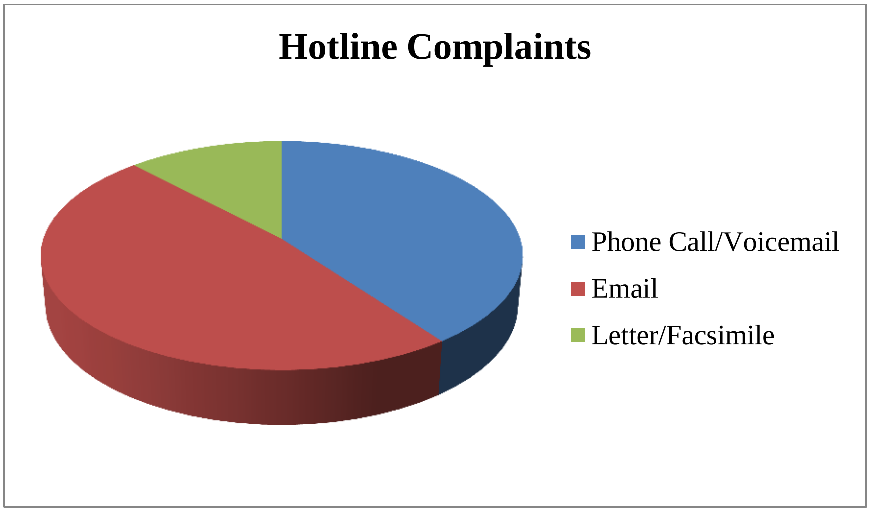
The instructional guidance the OI provides to new NCUA employees and newly appointed supervisors about the respective roles and responsibilities of the OIG and NCUA employees facilitates more open communication between both. The final product is a stronger agency.

### 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. Additionally, the OIG receives complaints from an off-site post office box, electronic mail, and facsimile messages. The OI has also developed an electronic version of a hotline complaint form, located on the NCUA intranet. The electronic form offers an additional venue for confidential employee and contractor communication with the OIG. All information received from any of these sources is referred to as a hotline contact. Our Office Manager, under the direction of the Director of Investigations, administers the OIG hotline program.

The majority of hotline contacts received is from consumers seeking assistance with problems encountered within their respective credit unions. As discussed above, these contacts are generally referred to the OCP and regional offices for action.

In recent years, however, the OIG Hotline has also become a valuable repository for reports of potential cases of fraud in credit unions. While the OIG does not, in most cases, have jurisdiction to investigate fraudulent activity that takes place in credit unions, it analyzes the information obtained through the Hotline and refers potential cases of fraud to the appropriate regional office, the Office of Examination and Insurance, and the Office of General Counsel for immediate review and action. Moreover, the OIG relays general information from these referrals at new employee and supervisor training sessions to alert NCUA employees about the need for heightened fraud awareness.




| | |
|---|---|
| Phone Call/Voicemail | 73 |
| Email | 88 |
| Letter/Facsimile | 22 |
| **Total:** | **183** |

## INVESTIGATIONS

Employee Misconduct /Alleged Harassment

During the previous reporting period, the OIG received information alleging harassment of a federal credit union employee by two NCUA examiners during an examination. The investigation found that one of the examiners may have used interviewing techniques that were unduly "heavy-handed" and inappropriate. Allegations concerning the other examiner were not substantiated. The OIG issued a Report of Investigation and closed this case during this reporting period.

Employee Misconduct /Alleged Harassment

During the reporting period, the OIG received allegations that an NCUA supervisor, on several occasions, received vaguely threatening messages on his NCUA-issued iPhone voicemail. The supervisor alleged that one of his subordinates was the suspected caller, because he had recently placed the employee on a performance improvement plan. This investigation is ongoing.

Employee Misconduct/Inappropriate Conduct

The OIG received a complaint that an NCUA examiner, in the course of conducting an examination at a credit union, made intimidating comments to one of the credit union's vendors, potentially threatening the vendor's business standing in the credit union community. This investigation is ongoing.

Employee Misconduct/Gross Mismanagement/Abuse of Authority

During this reporting period, the OIG received allegations from employees concerning gross mismanagement and abuse of authority on the part of two NCUA managers. This investigation is ongoing.

Investigation for Farm Credit Administration OIG/Inappropriate Personnel Practices

Because of an internal conflict of interest, the NCUA OIG provided investigative assistance to the Farm Credit Administration (FCA) OIG in a matter involving allegations of inappropriate personnel practices. The OIG conducted an investigation and subsequently issued a Management Implication Report that found no violations of federal regulations or FCA policy, but noted concerns with FCA internal operations. This investigation is closed.

Employee Misconduct/Unauthorized Use of Government Computer

During the previous reporting period, the OIG received allegations that an employee had used his agency-issued laptop computer to upload/download pornographic materials from the internet. An investigative search of the employee's computer hard drive failed to retrieve evidence that the employee had accessed pornographic materials. However, the investigation found that the employee had inappropriately downloaded a third-party software program (Internet Eraser) onto his laptop. The OIG issued a final report and closed this case during the reporting period.

Agency Ethics Screening Process for New Board Member

During the reporting period the OIG analyzed the ethics screening of then-incoming Board Member Rick Metsger, conducted by the NCUA's Agency Ethics Officers (AEOs). The OIG found the ethics screening process was thorough and the AEOs' determination that Board Member Metsger was in full compliance with all conflict of interest laws and regulations was sound. We also found that the AEOs properly analyzed the ethics issues related to the Board Member's attendance at a post-swearing in reception and appropriately interpreted ethics rules and regulations in determining that his attendance at the event was permissible. Finally, we found that Board Member Metsger complied fully with the AEOs' recommendations regarding the terms of his attendance.

## Peer Reviews - October 1, 2013 through March 31, 2014

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. Consequently, 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.

## 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 agency program and 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 30 items, including proposed legislation, proposed and final regulations, and NCUA Letters to Credit Unions (LCU). The OIG also responded to five (5) Freedom of Information Act (FOIA) requests.

**SUMMARY OF STATUTES AND REGULATIONS REVIEWED**

| Legislation | Title |
|---|---|
| H.R. 1163 | The *Federal Information Security Amendments Act of 2013* |
| H.R. 1468__ | The *Strengthening and Enhancing Cybersecurity by Using Research, Education, Information, and Technology Act of 2013* |

| Regulations/Rulings | Title |
|---|---|
| 12 CFR Parts 703, 715, and 741 | Final Action: Derivatives |
| 12 CFR Parts 700, 701, and 704 | Final Action: Technical Amendments |
| 12 CFR Part 721 | Final Action: Charitable Donation Accounts |
| 12 CFR Parts 34, 226, and 1026 | Final Action: Appraisals for Higher-Priced Mortgage Loans; Supplemental Final Rule |
| 12 CFR Parts 712 and 741 | Final Action: Credit Union Service Organizations |
| 12 CFR Parts 741 and 748 | Final Action: Filing Financial and Other Reports |
| 12 CFR Parts 741 | Final Action: Liquidity and Contingency Funding Plans |
| (P.L. 101-203, sec. 1124) | Minimum Requirements for Appraisal Management Companies |
| 12 CFR Part 710 | Proposed Rule: Voluntary Liquidation |
| 12 CFR Parts 700, 701, 702, 703, 713 and 747 | Proposed Rule: Prompt Corrective Action; Risk-Based Capital |
| 12 CFR Part 701 | Proposed Rule: Requirements for Contacts with Federal Credit Unions |

| Regulations/Rulings (continued) | Title |
|---|---|
| P.L. 101-203 sec. 342(b)(2)(C) | Proposed Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies and Request for Comment |
| 12 CFR Part 702 | Proposed Rule: Capital Planning and Stress Testing |
| 12 CFR Part 760 | Proposed Rule: Loans in Areas Having Special Flood Hazards |

| Letters to Credit Unions | Title |
|---|---|
| NCUA LCU 14-CU-05 | Liquidity Requirements Take Effect March 31 |
| NCUA LCU 14-CU-04 | Derivatives Applications Open March 3 |
| NCUA LCU 14-CU-03 | Civil Money Penalties to be Assessed for Late Call Report and Profile Submissions in 2014 |
| NCUA LCU 14-CU-02 | Supervisory Focus for 2014 |
| NCUA LCU 14-CU-01 | Supervisory Guidance on Qualified and non-Qualified Mortgages |
| NCUA LCU 13-CU-15 | Private Student Loans |
| NCUA LCU 13-CU-14 | Projected 2014 Stabilization Fund Assessment and Share Insurance Fund Premium Range |
| NCUA LCU 13-CU-13 | Changes to NCUA Regulations Related to Credit Union Service Organizations |
| NCUA LCU 13-CU-12 | Supervisory Guidance on Enterprise Risk Management |
| NCUA LCU 13-CU-11 | Electronic Filing of Call Reports and Extended Filing Dates for 2014 |
| NCUA LCU 13-CU-10 | Guidance on How to Comply with NCUA Regulation §741.12 Liquidity and Contingency Funding Plans |
| NCUA LCU 13-CU-09 | Examination Report Modernization |
| NCUA LCU 14-FCU-02 | Permissible Interest Rate Ceiling Extended |
| NCUA LCU 14-FCU-01 | Operating Fee Scale Reduced for 2014 |

**TABLE I: 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 |

<u>Questioned costs</u> 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.

<u>Unsupported costs</u> (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: 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<br>October 1, 2013 through March 31, 2014 | | |
|---|---|---|
| Part I – Audit Reports Issued | | |
| **Report Number** | **Title** | **Date Issued** |
| OIG-13-10 | Material Loss Review of Chetco Federal Credit Union | 10/12/2013 |
| OIG-13-11 | Review of NCUA's Process for Documenting Share Insurance Fund Losses Credit Union Failures | 10/29/2013 |
| OIG-13-12 | Independent Evaluation of the NCUA's Compliance with the Federal Information Security Management Act (FISMA) 2013 | 11/22/2013 |
| OIG-13-13 | Material Loss Review of G.I.C Federal Credit Union | 12/2/2013 |
| OIG-14-01/02/03/04 | NCUA Financial Statements Audit 2013: Community Development Revolving Loan Fund, Central Liquidity Facility, Operating Fund, Share Insurance Fund | 2/18/2014 |
| OIG-14-05 | 2013 NCUA Financial Statement Audit of the Temporary Corporate Credit Stabilization Fund | 3/17/2014 |
| OIG-14-06 | Material Loss Review of Taupa Lithuanian Credit Union | 3/26/2014 |
| Part II – Audits in Progress *(as of March 31, 2014)* | | |
| NCUA's Credit Union Success Stories | | |
| Mobile Security Devices | | |
| Travel and Purchase Card Review | | |
| House of Representatives Committee on Financial Services Request | | |

| INDEX OF REPORTING REQUIREMENTS | | |
|---|---|---|
| **Section** | **Data Required** | **Page Ref** |
| 4(a)(2) | Review of legislation and regulations | 26 |
| 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 | xx |
| 5(a)(3) | Significant recommendations described in previous semiannual reports on which corrective action has not been completed. | 17 |
| 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. | 30 |
| 5(a)(7) | Summary of particularly significant reports. | 12 |
| 5(a)(8) | Statistical tables on audit reports with questioned costs. | 28 |
| 5(a)(9) | Statistical tables on audit reports with recommendations that funds be put to better use. | 29 |
| 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. | 32 |
| 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. | 21 |

## Appendix A: System Review Report (Peer Review of NCUA OIG)

**Office of Inspector General**

Office
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OIG Reports

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OIG@peacecorps.gov

System Review Report

February 4, 2013

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 National Credit Union Administration (NCUA), Office of Inspector General (OIG) in effect for the year ended December 31, 2012. 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 *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 the 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 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 the NCUA OIG's audit organization. In addition, we tested compliance with the NCUA OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the NCUA OIG's policies and procedures on selected engagements Enclosure 1 to this report identifies the offices of the NCUA OIG that we visited and the engagements that we reviewed. 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.

1

In our opinion, the system of quality control for the audit organization of NCUA OIG in effect for the year ended December 31, 2012, 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*. NCUA OIG has received a peer review rating of *pass*.

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,

Kathy A. Buller
Inspector General

Enclosure

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