



NCUA
National Credit Union Administration

OFFICE OF
INSPECTOR GENERAL



Semiannual Report to the Congress

October 1, 2017 – March 31, 2018

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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 6-month period ending March 31, 2018. 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.

During this reporting period, the Office of Audit reviewed the NCUA's records management process. Results of our audit determined that the NCUA lacks a comprehensive records management program and needs to implement the steps that will correct the areas of weakness. In addition, we found that the depth and scope of the issues we identified are due in large part to management not making records management a priority due to competing priorities. We concluded the NCUA does not have a comprehensive records management framework, retention, and disposal system in place. We also concluded that those charged with governance over records management for the agency did not consistently follow applicable laws, regulations, and guidance to ensure the NCUA had a comprehensive records management program in place. Details can be found in the audit section of this report.

On the investigative side, the Office of Investigations (OI) opened five cases during the reporting period, the majority stemming from complaints alleging non-criminal employee/manager misconduct. The OI closed one case and issued a Report of Investigation that was handled as an administrative misconduct case and closed with no action taken.

Finally, I would like to thank Chairman McWatters and Board Member Metsger for their sustained support of the OIG's work. As in the past, the NCUA Board and management are responsive to all OIG recommendations and strive to implement them expeditiously. I look forward to working with them in our ongoing efforts to promote economy and efficiency in agency programs and operations.

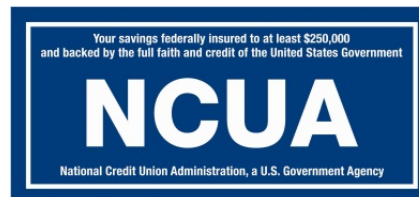
A handwritten signature in black ink, appearing to read "James W. Hagen".

James W. Hagen
Inspector General



The National Credit Union Administration Mission

The National Credit Union Administration's (NCUA) 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

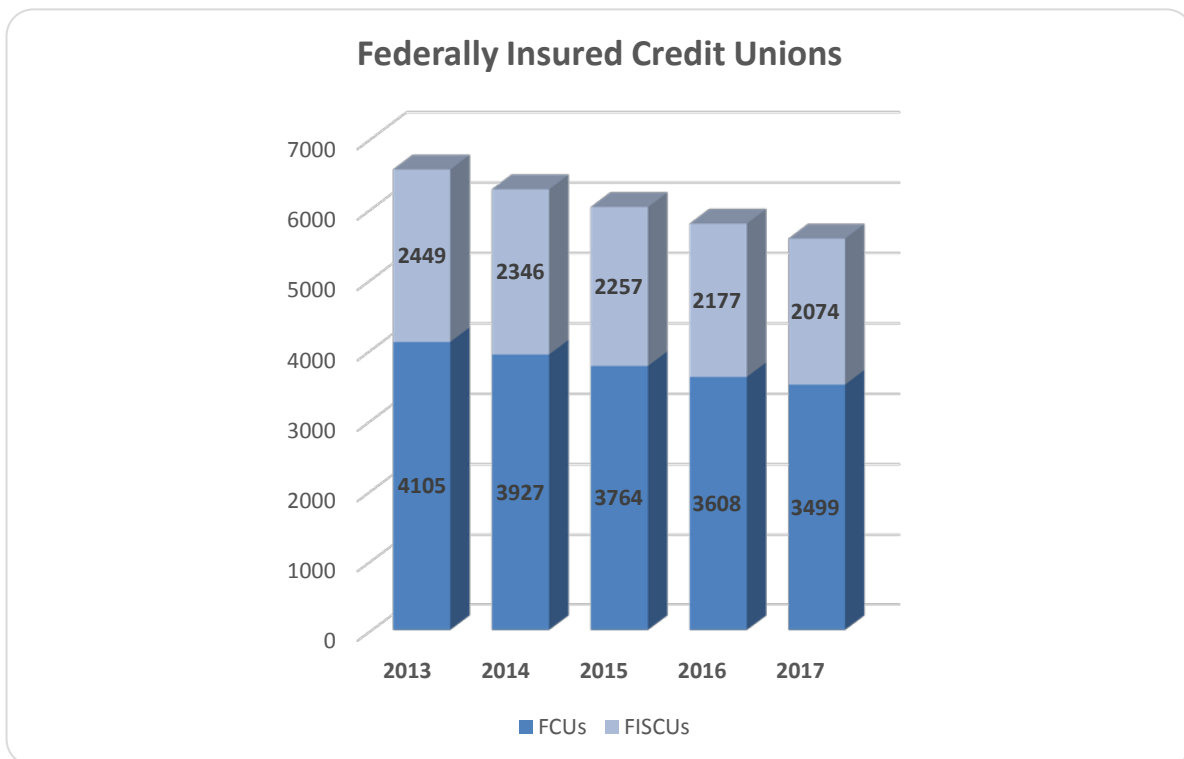
The Office of Inspector General (OIG) promotes the economy, efficiency, and effectiveness of NCUA programs and operations, and detects and deters fraud, waste, and abuse, thereby supporting the NCUA's mission of monitoring and promoting safe and sound federally insured credit unions.

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, 2017, the NCUA was supervising and insuring 3,499 federal credit unions and insuring 2,074 state-chartered credit unions, a total of 5,573 institutions. This represents a decline of 109 federal and 103 state-chartered institutions since December 31, 2016, for a total decrease of 212 credit unions nationwide, primarily as a result of mergers and liquidations.

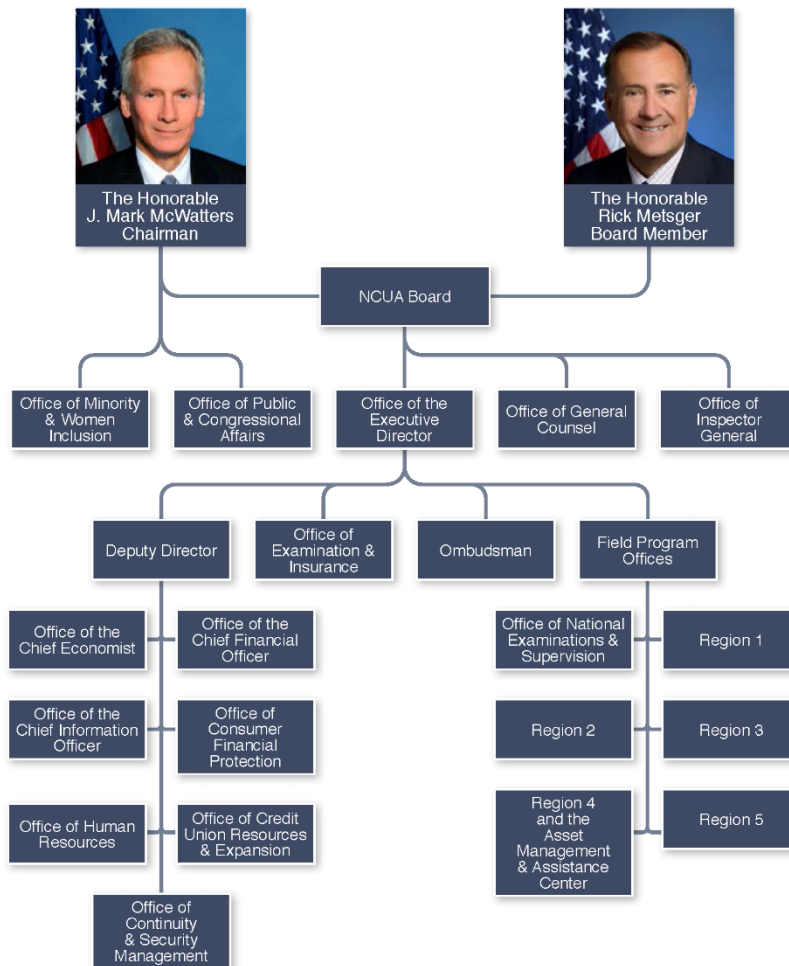


NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve 6-year terms. Terms are staggered, so that one term expires every 2 years. The Board is responsible for the management of the NCUA, including the National Credit Union Share Insurance Fund (Share Insurance Fund), the NCUA Operating Fund, the Central Liquidity Facility (CLF), and the Community Development Revolving Loan Fund (CDRLF).



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’s organizational chart below.

National Credit Union Administration
Organizational Chart

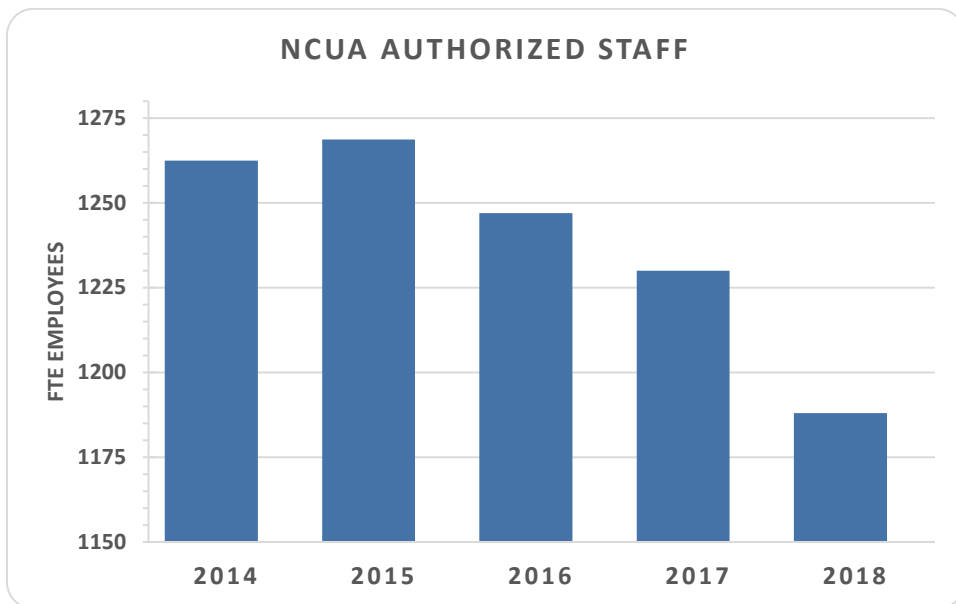
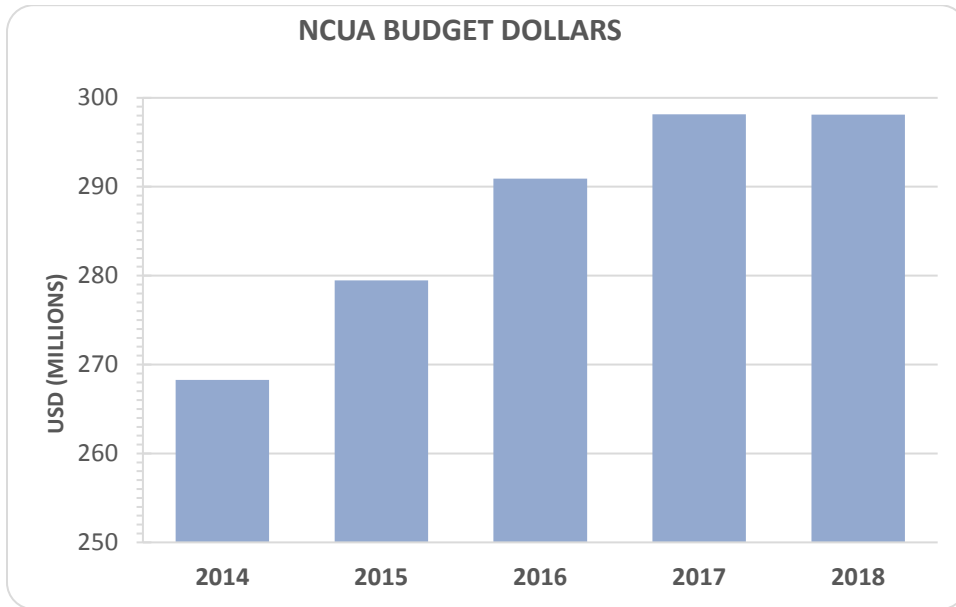


NCUA OIG Semiannual Report to the Congress

October 1, 2017 – March 31, 2018



The NCUA’s Board adopted its 2018 operating budget of \$298,097,000 on November 16, 2017. The full time equivalent (FTE) staffing authorization for 2018 is 1,188, representing a decrease of 42 FTE from 2017.





NCUA Highlights

NCUA's Four Permanent Funds Receive Clean Audit Opinions for 2017

On February 15, 2018, the NCUA's four permanent funds earned unmodified, or "clean," audit opinions for 2017.

The financial statements, audited by the independent auditor KPMG LLP (KPMG), cover the Share Insurance Fund, the agency's Operating Fund, the CLF, and the CDRLF.

The Share Insurance Fund, which protects the deposits of more than 110 million members at more than 5,600 federally insured credit unions, held more than \$16.6 billion in total assets as of December 31, 2017.

The NCUA Board closed the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) effective October 1, 2017, merging it with the Share Insurance Fund. The final Stabilization Fund audit report was completed on November 15, 2017.

NCUA Board Approves \$736 Million Share Insurance Distribution in Q3 2018

On February 15, 2018, the NCUA Board unanimously approved a Share Insurance distribution of \$736 million to eligible, federally insured credit unions in the third quarter of 2018 and a final rule amending the agency's share insurance requirements rule that is intended to provide greater fairness, predictability, and transparency and add a temporary provision to govern share insurance equity distributions related to the Corporate System Resolution Program.

The Board voted unanimously in September 2017 to close the Stabilization Fund. By law, the Stabilization Fund's assets were transferred to the Share Insurance Fund. Had the Board not closed the Stabilization Fund, credit unions would not have received a distribution and could have faced premium charges totaling more than \$1.3 billion.

Prior to the Board's action in September 2017, the Stabilization Fund was scheduled to expire in 2021. A distribution became possible after the agency won legal recoveries of more than \$5.1 billion on behalf of the five failed corporate credit unions, materially decreasing the costs to the Stabilization Fund resulting from those failures.



NCUA Board Approves Central Office Reorganization, Emergency Mergers Rules

The Board unanimously approved on December 14, 2017, two items:

- A final rule implementing changes in the agency’s central office organization.
- A final rule amending the agency’s definition of “in danger of insolvency” to give the agency more flexibility to act when emergency mergers are necessary.

Reorganization Final Rule Makes Central Office Changes

The NCUA’s central office restructuring will be completed with the Board’s approval of a rule (Parts 701, 705, 708, and 790) implementing features of the agency’s reorganization plan announced earlier this year. The rule includes:

- Closure of the Office of Small Credit Union Initiatives;
- Creation of the Office of Credit Union Resources and Expansion, which will take over various responsibilities of the former Office of Small Credit Union Initiatives as well as some functions of the Office of Consumer Financial Protection and Access and the Office of Minority and Women Inclusion; and
- Changing the name of the Office of Consumer Financial Protection and Access to the Office of Consumer Financial Protection.

Other planned changes to the agency’s central office reorganization, such as changes to the Office of Examination and Insurance, do not require a regulatory change. The reorganization plan includes closure of two agency regional offices, which is scheduled to occur in January 2019. Although this Rule became effective January 6, 2018, closure of the two regional offices will be subject to a separate rule to come before the Board later in 2018.

Final Rule Gives Agency Greater Flexibility in Emergency Mergers

Board members approved a final rule (Part 701) that would provide the NCUA with additional flexibility in situations warranting emergency mergers.

The rule amends the definition of “in danger of insolvency” in the agency’s *Chartering and Field of Membership Manual*. The current definition requires the NCUA to project a credit union to fall into at least one of three net worth categories over a period of time in order to be found in danger of insolvency. The rule lengthens the time period for two of the three current categories by 6 months and adds a fourth category to include credit unions that have been granted or received Section 208 assistance within the 15 months before an “in danger of insolvency” determination has been made.



Executive Order Establishes New Agency Seal

On December 11, 2017, the agency announced that President Donald J. Trump signed an Executive Order establishing the new official seal for the NCUA. The new seal replaced the previous NCUA seal, which was created through Executive Order 11580 signed by President Richard M. Nixon in 1971. It also brings the agency’s seal more in line with the official seals of other federal financial services regulators.

The revised design incorporates the following elements, symbolizing the NCUA’s safety and soundness mission:

- The eagle and shield from the Great Seal of the United States indicates clearly the NCUA’s role as an agency of the federal government;
- The three blue stars above the eagle represent the three-member NCUA Board;
- The agency’s name in white on a blue background on the crest of the shield matches the federal share insurance sign that all federally insured credit unions are required to display;
- The circle on the seal includes the agency’s name, as well as the year, 1934, in the lower portion of the circle. This reflects the signing of the Federal Credit Union Act and the creation of the federal credit union system that year;
- The oak branch in the eagle’s left talon is symbolic of the NCUA’s strength, honor, and longevity in carrying out its mission of promoting confidence in the national system of cooperative credit; and
- The olive branch in the right talon is symbolic of peace and prosperity, which demonstrates the vital role the nation’s credit unions play in fostering economic growth by providing essential and affordable financial services to millions of Americans.

NCUA Names Mary Anne Bradfield as Director of Public and Congressional Affairs

On November 30, 2017, NCUA announced Mary Anne Bradfield as the NCUA’s Director of Public and Congressional Affairs.

Ms. Bradfield came to the NCUA from the U.S. Small Business Administration (SBA), where she served as Chief of Staff to SBA Administrator Linda McMahon. Before being named Chief of Staff, she was on the Trump Administration’s transition team, where she led the development of SBA’s strategic plan.

Ms. Bradfield began her executive branch career in 2005 as SBA’s Deputy Assistant Administrator for Congressional and Legislative Affairs. She then served as Counselor to the Acting Administrator/Deputy Administrator, advising the senior executive team on policy, budget, and appropriations issues and on public and congressional affairs.



Previously, Ms. Bradfield held various public and private sector positions as a principal with a strategic communications and public affairs firm; as an advisor to the Commissioner/Chairman of the U.S. Election Assistance Commission; and as a lobbyist for the National Rifle Association. She also served as a legislative assistant to former Rep. J.C. Watts, Jr. (R-OK), where she handled a broad range of legislative topics, including banking committee issues.

Ms. Bradfield holds a bachelor's degree in history from the University of Oklahoma.

NCUA Changes Appeals Process for Regulations and for Supervisory Actions

On October 19, 2017, the NCUA Board unanimously approved:

- A final rule designed to enhance due process and provide consistency with other federal financial institutions regulators in the supervisory appeals process.
- A final rule designed to provide uniform, comprehensive procedures to govern the agency's regulatory appeals process.

Appeals Process for Agency Decisions Revised

The process of appealing agency decisions to the NCUA Board is intended to be more efficient, consistent, and transparent under a final rule (new Part 746, Subpart B) approved by the Board.

Several current NCUA regulations include an embedded appeals process, but the new rule will replace those provisions with a uniform, comprehensive set of procedures that will apply in cases in which a decision by a regional director or other program office director is appealed to the Board.

The new rule will affect appeals of decisions in areas including chartering and field of membership, investment authority, conversions and mergers, creditor claims in liquidations, and share insurance determinations. Certain areas, such as formal enforcement actions, prompt corrective action, and material supervisory determinations, would not be covered under the new rule. The new rule became effective January 1, 2018.

Agency Seeks to Enhance Due Process in Supervisory Review Committee Appeals

The Board approved a final rule (new Part 746, Subpart A) that is intended to increase due process in appeals of material, examination-related supervisory determinations.



Changes in the appeals process include:

- Expansion of the number of material supervisory determinations that can be appealed to the agency's Supervisory Review Committee;
- Creation of an optional intermediate level of review before an appeal goes to the Committee; and
- Changes in the nature and composition of the Committee.

Under the new rule, an appeal at any level would not affect, delay, or impede any formal or informal supervisory or enforcement action in progress. Likewise, it would not affect NCUA's authority to take any supervisory or enforcement action against a federally insured credit union. This new rule became effective January 1, 2018.



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, 2017, quarterly call reports submitted by all federally insured credit unions found that key financial indicators are positive.

Key Financial Indicators Favorable

December 31, 2017, quarterly statistics for major balance sheet items and key ratios show the following for the nation's 5,573 federally insured credit unions: assets grew 6.7 percent; net worth to assets ratio increased slightly from 10.89 to 10.96 percent; and the loan to share ratio increased slightly from 79.5 percent to 82.6 percent. The delinquency ratio decreased from .83 percent to .81 percent. Credit union return on average assets increased from .76 percent to .78 percent.

Savings Shifting to Regular Shares

Total share accounts increased 9.15 percent. Regular shares increased 7.22 percent. Regular shares comprise 36.35 percent of total share accounts; share certificates comprise 18.30 percent; money market shares comprise 22.39 percent; share draft accounts comprise 14.53 percent; IRA/KEOGH accounts comprise 6.70 percent; nonmember deposits comprise .88 percent; and all other share accounts comprise .85 percent.

Loan Volume Increasing

Loans increased 10.15 percent, resulting in an increase in total loans by \$88.17 billion. Total net loans of \$948.51 billion comprise 68.79 percent of credit union assets. First mortgage real estate loans are the largest single asset category with \$390.44 billion accounting for 40.79 percent of all loans. Other real estate loans of \$82.46 billion account for 8.61 percent of all loans. Used car loans of \$200.44 billion were 20.94 percent of all loans, while new car loans amounted to \$132.15 billion or 13.81 percent of total loans. Unsecured credit card loans totaled \$57.53 billion or 6.01 percent of total loans, while all other unsecured loans totaled \$40.76 billion or 4.26 percent. Leases receivable and all other loans were \$53.50 billion or 5.59 percent of total loans.



Legislative Highlights

Legislation Introduced to Create Special Inspector General for Financial Institution Crime and Material Loss Reviews

On March 14, 2018, Senator Elizabeth Warren (D-Mass.) introduced the Ending Too Big to Jail Act, S. 2544. The bill would expand the authority of the Special Inspector General for the Troubled Asset Relief Program, which was created as a result of the Emergency Economic Stabilization Act of 2008 and which is due to sunset when TARP funds and commitments are no longer outstanding. Among the duties of the proposed Special IG would be to conduct, supervise, and coordinate investigations of fraud in or impacting financial institutions, including credit unions. The bill provides that the Special IG shall work with the IG associated with the entity in question with a view toward avoiding duplication of effort and ensuring comprehensive oversight of financial institutions. The bill also proposes that the Special IG would have exclusive authority to perform material loss reviews and the authority to promulgate regulations related to those reviews.

Legislation Introduced to Provide Testimonial Subpoena Authority to IGs

On February 2, 2018, Representative Steve Russell (R-Okla.) introduced the IG Subpoena Authority Act, H.R. 4917, which was voted out of the House Committee on Oversight and Government Reform on February 6, 2018, by a unanimous voice vote. H.R. 4917 would amend the IG Act to provide IGs with the authority to subpoena testimony (other than from federal employees, who are otherwise required to cooperate with IGs). IGs have had the power to subpoena documents since enactment of the IG Act in 1978.

Legislation Introduced to Publicize IG Open Recommendations

On November 30, 2017, Senator Heidi Heitkamp (D-ND) introduced the Inspector General Recommendation Transparency Act, S. 2178, which was amended on February 14, 2018. The bill would require IGs to include descriptions of open recommendations in their semiannual reports to Congress (as we already do in our reports) and to post the recommendations to a database on the Council of the Inspectors General on Integrity and Efficiency (CIGIE) website. CIGIE already manages a Web site that includes reports by OIGs throughout the federal government, <https://oversight.gov>. However, the website does not include a database of open recommendations. Also, OIGs posting their reports to the website is optional; S. 2178 would make posting required (for otherwise publicly available reports).



Senate Passes the Saving Federal Dollars through Better Use of Government Purchase and Travel Cards Act

On August 3, 2017, the Senate passed S. 1099, “The Saving Federal Dollars through Better Use of Government Purchase and Travel Cards Act.” The bill was received in the House and referred to the House Committee on Oversight and Government Reform (HOCR) on August 4, 2017.

The Act aims to increase the use of data analytics to manage government charge card programs. The bill provides that the Office of Management and Budget (OMB), when promulgating guidance on sharing information related to charge card oversight, must consider the recommendations made by IGs or best practices identified by IGs. The bill also requires OMB to develop a plan to create a library of data analytics tools and data sources for use by federal agencies, including use by IGs.

New Whistleblower Protection Law

On October 26, 2017, the Dr. Chris Kirkpatrick Whistleblower Protection Act of 2017, Pub. L. No. 115-73, was enacted. The Act adds accessing the medical records of employees or applicants for employment to the definition of prohibited personnel practices if the access is part of or otherwise in furtherance of another prohibited personnel practice. The Act also requires that for the first prohibited personnel practice committed by a supervisor, the agency head or designee shall propose no less than a 3-day suspension, and for a second prohibited practice, removal. Furthermore, agency heads must consult their IGs and the U.S. Office of Special Counsel regarding informing new employees of their rights and remedies regarding whistleblower protection, and regarding required training for supervisors on how to respond to a complaint alleging a violation of whistleblower protection.

Congress Passes Whistleblower Protection Extension Act

On March 6, 2018, the House of Representatives passed the Whistleblower Protection Act of 2017, H.R. 4043, and on March 15, 2018, the Senate passed an amended version of the Whistleblower Protection Coordinator Act, S. 1869. Both bills require that OIGs’ semiannual reports to Congress report on any settlement agreements agencies enter into with employees who have engaged in whistleblower retaliation.

Legislation Introduced to Stop Improper Payments to Deceased People

On February 5, 2018, Senator Tom Carper (D-Del.) introduced S. 2374, the Stopping Improper Payments to Deceased People Act. The bill would amend the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) to improve detection and recovery of improper payments to deceased individuals and amend the Social Security Act to allow an agency, or the agency’s IG, to make an arrangement with the Commissioner of Social Security to receive information on deceased individuals. The bill also proposes to amend IPERIA by requiring OMB



to consult with CIGIE and agency heads when issuing guidance for agencies or components of agencies that operate or maintain a database of information relating to beneficiaries.

Consolidated Appropriations Act for 2018

On March 23, 2018, the Consolidated Appropriations Act for 2018, Pub. L. No. 115-141, was signed by the President. It funds the federal government through September 30, 2018. It also continues to keep the NCUA out of the appropriations process, apart from preserving an appropriation (in the amount of \$2 million for FY 2018) for the NCUA's CDRLF to provide technical assistance to low-income designated credit unions. The President's proposed budget had called for eliminating the CDRLF.

A bill earlier approved by the House Appropriations Committee would have subjected the NCUA to the annual appropriations process. Similarly, the Financial CHOICE Act, which was passed by the House of Representatives on June 8, 2017, would subject the NCUA, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Federal Reserve Board of Governors to the appropriations process.

Senate Passes the Economic Growth, Regulatory Relief, and Consumer Protection Act

On April 6, 2018, the Senate passed S. 2155, which would treat credit unions the same as banks when making loans for the purchase of one-to-four unit, non-owner occupied residential property loans. Without the legislative change, these loans are designated as member business loans for credit unions, which counts against the member business lending cap for credit unions imposed by the Federal Credit Union Act. In contrast, banks may treat these loans as real estate loans, for which there is no cap. Other provisions of the bill include exempting credit unions that originate fewer than 500 mortgage loans each year from Home Mortgage Loan Disclosure Act reporting requirements, and requiring the U.S. Department of Treasury to conduct a study on the risks that cyber threats might pose to financial institutions.

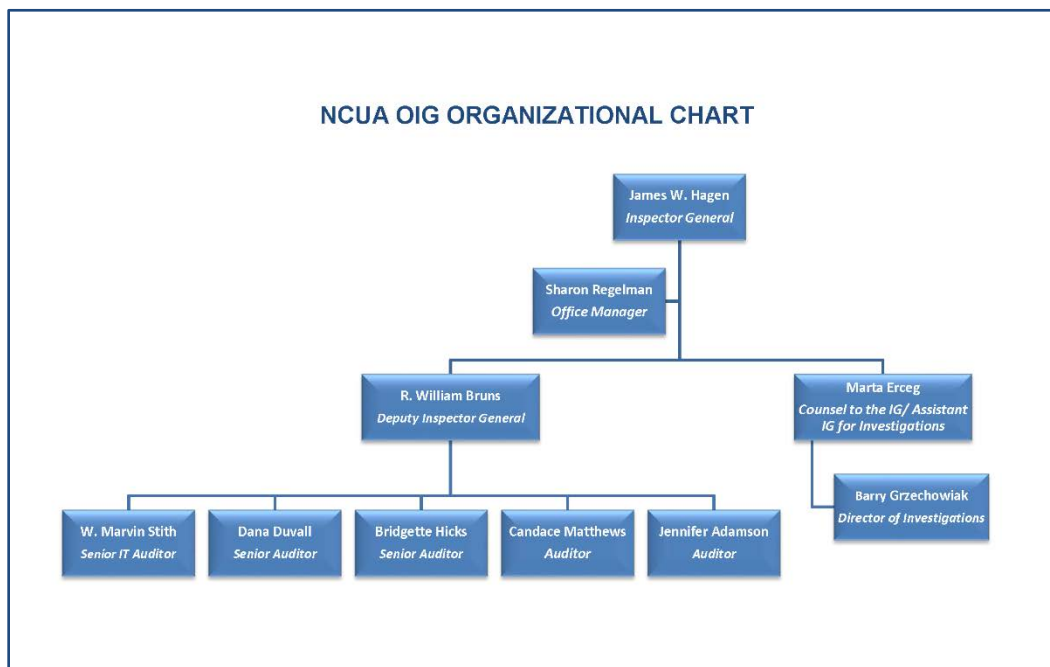


Office of Inspector General

The Office of Inspector General was established at the NCUA in 1989 under the authority of the Inspector General Act of 1978, as amended. The staff consists of the Inspector General, Deputy Inspector General, Counsel to the Inspector General/Assistant Inspector General for Investigations, Director of Investigations, Senior Information Technology Auditor, two Senior Auditors, two staff Auditors, and an 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 and prevent and detect 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

OIG-17-09 – Audit of the NCUA’s Compliance Under the Digital Accountability and Transparency Act of 2014 (DATA Act), issued November 7, 2017
<https://www.ncua.gov/About/Pages/inspector-general/audit-reports/Documents/inspector-general-data-act-report-2017.pdf>

The DATA Act required Federal agencies to report financial and payment data in accordance with data standards established by the Department of Treasury and the OMB. In addition, the DATA Act required agency Inspectors General to review statistical samples of the data submitted by agencies and report on the completeness, timeliness, quality, accuracy, and use of the data standards by the agency by November 8, 2017. The IG community provided Congress with the first of three required reports in November 2017, with subsequent reports following on a 2-year cycle, in November 2019 and November 2021. The NCUA OIG is a participant in this IG community effort and issued its first DATA Act report prior to the November 8, 2017, due date.

OIG-17-10 – FY 2017 Independent Evaluation of the NCUA’s Compliance with FISMA 2014, issued November 8, 2017, <https://www.ncua.gov/About/Pages/inspector-general/audit-reports/Documents/inspector-general-fisma-compliance-2017.pdf>

The OIG contracted with and supervised the independent public accounting firm CliftonLarsonAllen LLP (CLA) to independently evaluate the NCUA’s information systems and security program and controls for compliance with the Federal Information Security Modernization Act of 2014 (FISMA).

In resolving prior year issues and recommendations, CLA determined that the NCUA has continued to strengthen its information security program during Fiscal Year (FY) 2017. Regarding its prior year findings, the NCUA made significant progress by addressing and closing the 2 remaining recommendations from the FY 2015 FISMA report; addressed and closed 17 of the 23 recommendations from the FY 2016 FISMA report, on or ahead of its planned timelines; and is in the process of addressing the 6 remaining recommendations from the FY 2016 FISMA report that the NCUA planned for completion after October 2017.

In this year’s FISMA review, the OIG identified areas for improvement in risk management, identify and access management, information security continuous monitoring, and security training. We made eight new recommendations, which should help the NCUA continue to improve the effectiveness of its information security program.



OIG-17-11 – Audit of the NCUA Closing Package Schedule of Other Assets and Contributed Capital as of September 30, 2017, issued November 15, 2017, <https://www.ncua.gov/About/Pages/inspector-general/audit-reports/Documents/oig-audit-ncua-closing-package-schedule.pdf>

The OIG contracted with and supervised the independent accounting firm KPMG’s audit of the NCUA’s closing package schedule, which includes other assets and contributed capital of the NCUA as of September 30, 2017, and related notes. KPMG issued an unmodified audit opinion with no reportable findings. This financial statement audit report is part of the FY 2017 Consolidated Financial Statements of the U.S. Government. The audit report included: (1) an opinion on the closing package schedule, (2) conclusions on internal controls over the closing package schedule, and (3) compliance with other matters specific to the closing package schedule. KPMG conducted the audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States and OMB Bulletin No. 15-02, Audit Requirements for Federal Financial Statements.

OIG-17-12 – FY 2017 Financial Statement Audit for Temporary Corporate Credit Union Stabilization Fund, issued November 15, 2017, <https://www.ncua.gov/About/Pages/inspector-general/audit-reports/Documents/oig-financial-statement-audits-tccusf-2017.pdf>

On September 28, 2017, the NCUA Board voted unanimously to close the TCCUSF effective October 1, 2017, ahead of its sunset date of June 30, 2021. As required by statute (12 U.S.C. § 1790e(h)), the TCCUSF’s remaining funds, property, and other assets were distributed to the Share Insurance Fund (SIF). Through the distribution, the SIF assumed the activities and obligations of the TCCUSF, including the NCUA Guaranteed Notes Program, all of which will be covered under future SIF reporting.

The OIG contracted with and supervised the independent accounting firm KPMG to conduct the FY 2017 NCUA financial statement audit of the TCCUSF, which comprised the balance sheets as of September 30, 2017, and December 31, 2016, and the related statements of net cost, changes in net position, and combined statements of budgetary resources for the periods then ended, and the related notes to the financial statements.

In its audit, KPMG found the NCUA’s financial statements presented fairly, in all material respects, the financial position of the NCUA’s TCCUSF in accordance with U.S. generally accepted accounting principles and found no deficiencies in internal control or no instances of noncompliance or other matters required to be reported under Government Auditing Standards or OMB Bulletin No. 17-03.

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OIG-17-13 – Fiscal Year 2016 Risk Assessments of the NCUA’s Charge Card Programs, issued December 21, 2017, <https://www.ncua.gov/About/Pages/inspector-general/audit-reports/Documents/oig-ncua-charge-card-risk-assessments-fy-2016.pdf>

The Government Charge Card Abuse Prevention Act of 2012 mandates that Inspectors General conduct periodic risk assessments of agency purchase and travel cards to develop a plan to determine the scope, frequency, and number of Inspector General audits or reviews of agency purchase and travel cards. The NCUA OIG conducted risk assessments of NCUA’s charge card program activity covering FY 2016 and determined that the programs posed a low risk of illegal, improper, or erroneous purchases and payments. Our risk assessments resulted in one recommendation for NCUA’s Purchase Card Program related to unauthorized purchases, which management immediately corrected, thus closing the recommendation.

OIG-18-01/02/03/04 – NCUA FY 2017 Financial Statement Audits for Share Insurance Fund, Operating Fund, Central Liquidity Facility, Community Development Revolving Loan Fund, <https://www.ncua.gov/About/Pages/inspector-general/audit-reports/Documents/inspector-general-financial-statement-audit-fy-2017.pdf>, issued February 15, 2018

NCUA OIG contracted with and supervised the independent accounting firm KPMG to conduct the NCUA 2017 financial statement audits of the Share Insurance Fund, Operating Fund, the CLF, and the CDRLF.

The Share Insurance Fund is a revolving fund managed by the NCUA Board to insure member share deposits in all Federal credit unions and state credit unions that are federally insured. The fund’s total assets for 2017 were \$16.7 billion, up from just over \$12.9 billion in 2016. KPMG issued an unmodified audit opinion on the Share Insurance Fund’s financial statements (OIG-18-01).

The 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 fund’s total assets for 2017 were \$110 million, up from \$89.9 million in 2016. KPMG issued an unmodified audit opinion on the Operating Fund’s financial statements (OIG-18-02).

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 CLF’s total assets for 2017 were \$293.5 million, up from \$273.8 million in 2016. KPMG issued an unmodified audit opinion on the CLF’s financial statements (OIG-18-03).

The CDRLF was established to stimulate economic activities in the communities served by low-income credit unions. The CDRLF’s total assets for 2017 were \$17.8 million, up from \$17.6 million in 2016. KPMG issued an unmodified audit opinion on the CDRLF’s financial statements (OIG-18-04).



OIG Evaluation – Setting the Normal Operating Level to 1.39 Percent, issued February 15, 2018
<https://www.ncua.gov/About/Pages/inspector-general/audit-reports/Documents/oig-evaluation-stabilization-fund-closure-setting-normal-operating-level.pdf>

The OIG received a request to determine the legality of the NCUA Board’s approval to transfer funds from the TCCUSF to the Share Insurance Fund and increase the Share Insurance Fund’s normal operating level (NOL) from 1.30 percent to 1.39 percent. Because the statutory provision applicable to this issue, 12 U.S.C. § 1790e(h), provided authority to the Board to close the TCUSF and transfer its funds to the Shared Insurance Fund, we focused our review on the Board’s rationale for setting the NOL at 1.39 percent.

In conducting our evaluation, we reviewed applicable legislation and NCUA management’s and the Board’s process and rationale for setting the NOL at 1.39 percent. In addition, we compared the NCUA’s rationale for recommending the most recent NOL for the Share Insurance Fund to the FDIC’s rationale when it recommended increasing the Deposit Insurance Fund’s Designated Reserve Ratio in 2011. Our evaluation concluded that the NCUA’s process and basis for recommending the NCUA Board set the NOL at 1.39 percent were reasonable.

OIG-18-05 – Audit of the NCUA’s Comprehensive Records Management Process, issued March 14, 2018, <https://www.ncua.gov/About/Pages/inspector-general/audit-reports/Documents/oig-audit-comprehensive-records-management-process.pdf>

The OIG conducted this self-initiated audit to assess the NCUA’s comprehensive records management process. The objectives of our audit were to determine: 1) whether the NCUA has a comprehensive records management framework, retention, and disposal system in place; and 2) whether the NCUA is in compliance with applicable records management policies, procedures, laws, and regulations. Our audit determined that the NCUA lacked a comprehensive records management program and needed to implement the steps that will correct the identified areas of weakness. In addition, we found that the depth and scope of the issues we identified were due in large part to management not making records management a priority due to competing priorities. We also concluded that those charged with governance over records management for the agency did not consistently follow applicable laws, regulations, and guidance to ensure the NCUA had a comprehensive records management program in place.

These laws, regulations, and guidance include the Federal Records Act of 1950, as amended, which requires the planning, controlling, directing, organizing, training, promoting, and other activities with respect to records creation, maintenance and use, and disposition, in order to achieve adequate and proper documentation of the policies and transactions of the federal government. In addition, in November 2011, the President signed Presidential Memorandum: Managing Government Records, which marked the beginning of an Executive Branch-wide effort to reform records management policies and practices. In August 2012, OMB and the National Archives and Records Administration (NARA) jointly issued M-12-18, Managing Government Records Directive (Directive), which focused on the implementation of the Presidential



Memorandum. The Directive created a robust records management framework to achieve the benefits outlined in the Presidential Memorandum.

OIG-18-06 – FY 2017 Risk Assessments of the NCUA’s Charge Card Programs, issued March 16, 2018, <https://www.ncua.gov/About/Pages/inspector-general/audit-reports/Documents/oig-audit-risk-assessments-ncua-charge-card-programs-2017.pdf>

The Government Charge Card Abuse Prevention Act of 2012 mandates that Inspectors General conduct periodic risk assessments of agency purchase and travel cards to develop a plan to determine the scope, frequency, and number of Inspector General audits or reviews of agency purchase and travel cards. The NCUA OIG conducted risk assessments of NCUA’s charge card program activity covering FY 2017.

We reviewed the NCUA’s charge card spending, number of cardholders, internal controls over these programs, and the results of program and transaction reviews. Based upon our risk assessments, we determined that the NCUA’s centrally billed purchase and travel card programs posed a low risk for illegal, improper, or erroneous purchases and payments. However, we determined that the NCUA’s individually billed travel card program posed a medium risk during our scope period due to internal control gaps. Because agency management addressed the identified risks, we did not perform an audit of the purchase card or travel card programs.

Audits in Progress

Audit of the NCUA’s Information Technology Inventory

The NCUA’s Office of the Chief Information Officer (OCIO) is responsible for ensuring NCUA staff and contractors are equipped with required IT equipment by procuring laptops, external monitors, hard drives, mobile devices (smartphones and smart tablets), and portable printers to fulfill the NCUA’s mission anywhere and anytime. OCIO and the Office of the Chief Financial Officer (OCFO) are responsible for IT equipment’s acquisition, receipt, and storage; distribution and inventory; transfer, loan, replacement, and return of equipment and disposition.

To account for this property, controls and accountability are essential. Proper controls provide physical oversight and surveillance of the property throughout its complete life cycle, taking into account the environment in which the property is located and its vulnerability to theft, waste, fraud, and abuse. The accountability of property provides for a complete audit trail for property transactions from receipt to final disposition, achieved by conducting a physical inventory of the equipment. The objectives of this audit are to assess the NCUA’s IT equipment inventory policies, procedures, and practices, including its system of controls, and determine whether the NCUA adequately monitors and accounts for its IT equipment from acquisition through final disposition. The audit could result in recommendations to NCUA management to improve its IT equipment inventory process going forward.



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 to the Share Insurance Fund (SIF) exceeds \$25 million or an amount equal to 10 percent of the total assets of the credit union at the time in which the NCUA Board initiated assistance or was appointed liquidating agent pursuant to the Act. When losses exceed this materiality threshold, we review the loss to (1) determine the cause(s) of the credit union's failure and the resulting loss to the SIF, and (2) assess the NCUA's supervision of the credit union. The Dodd-Frank Act further requires the OIG to assess all losses to the SIF under the \$25 million threshold to determine whether unusual circumstances exist to warrant conducting a full-scope MLR.

During this reporting period, the NCUA did not have a loss to the SIF greater than the \$25 million threshold. Therefore, the OIG did not conduct any full-scope MLRs. However, during the reporting period the SIF did sustain losses under the \$25 million threshold. Accordingly, we conducted limited-scope reviews of eight credit unions to determine whether unusual circumstances existed. Based on our findings, we determined not to conduct a full-scope MLR for any of these credit unions. We discuss these cases in detail beginning on page 25.

Significant Recommendations on Which Corrective Action Has Not Been Completed

Following is a list of OIG reports with significant unimplemented recommendations as of March 31, 2018. NCUA management has agreed to implement corrective action, but has yet to complete those actions. This information was supplied by the NCUA Office of the Executive Director and is monitored within the OIG's report recommendation tracking system.

Report Number, Title, and Date

OIG-13-09 Material Loss Review of El Paso Federal Credit Union, issued August 26, 2013

OIG-15-11 Review of NCUA's Interest Rate Risk Program, issued November 13, 2015

OIG-15-09 Audit of NCUA's Measures to Protect Electronic Credit Union Member Information During the Examination Process, issued June 8, 2015

Significant Recommendations Open and Brief Summary

1. **OIG-13-09, recommendation #3.** Update policies and procedures to require third party confirmations be obtained regularly for all accounts where the balance or activity is significant to the operations of the credit union.

Status: Open. In its formal response to the report, management agreed with the recommendation and planned during the next revision of the Supervisory Committee Guide to add guidelines requiring third-party confirmations as part of the non-opinion annual supervisory committee audit. Although management had planned to amend Appendix A of the Supervisory Committee Guide, management



indicated they are now revisiting this approach and plan to update Title 12, Chapter VII, Part 715 of the Code of Federal Regulations – Supervisory Committee Audits and Verification. Management has a target date of December 2018 for final implementation.

- 2. OIG-15-11, recommendation #1.** Modify the NCUA’s CAMEL Rating System by developing an “S” rating to better capture a credit union’s sensitivity to market risk (“S” for market risk Sensitivity) and to improve interest rate risk clarity and transparency.

Status: Open. Management targets final implementation by the end of 2018. Management noted that while progress has been made in assessing changes required in NCUA's systems, procedures, and examination guidance to add an "S" component, the change process will be complex. Management indicated that making this change involves regulatory changes followed by reprogramming multiple IT systems, data storage and retrieval , and revising examination policies and procedures. Management also noted that the largest change comes in the Automated Integrated Regulatory Examination System, which is scheduled for a rewrite that will carry into 2018.

- 3. OIG-15-09, recommendation #5.** Continue to pursue and implement the secure file transfer solution the NCUA is assessing to transfer sensitive, confidential, or personally identifiable electronic credit union member information.

Status: Open. Management indicated that OCIO’s testing of the Secure File Transfer Portal (SFTP) is complete and ready to be implemented within NCUA. In addition, OCIO plans to implement external SFTP using multi-factor identification and authorization for all NCUA partners by December 2018.

Summary of Audit Reports Over 6 Months Old with Unimplemented Recommendations

Following are summaries of six OIG audit reports over 6 months old having 13 unimplemented recommendations, including any associated cost savings as of March 31, 2018. For each of these reports, NCUA management has agreed to implement corrective action, but has yet to complete those actions. The OIG monitors this information within its report recommendation tracking system.

Brief Report Summary and Unimplemented Recommendations

- 1. OIG-13-09** – Material Loss Review of El Paso’s Federal Credit Union, issued August 26, 2013, Number of Unimplemented Recommendations: 1, Potential Cost Savings: \$0

We determined that El Paso’s Federal Credit Union failed due to management’s misappropriation of assets, specifically \$20 million in unrecorded nonmember share certificates, which was over four times the value of the credit union’s total assets. Our review identified issues such as management integrity, operational irregularities, internal control, and record keeping deficiencies. In addition, weak Board oversight and governance issues created an environment in which the omission of share



certificates from the books of the credit union could go undetected. We also determined the loss to the NCUA's Share Insurance Fund could have been mitigated had examiners identified several warning signs that we believe should have triggered further examination procedures designed to identify suspicious activity.

Unimplemented Recommendation

Recommendation #3 – Current procedures allow examiners to rely on bank statements provided by credit union personnel as primary evidence for account balances. Given the importance of this information and its susceptibility to fraud, particularly in cases where internal controls are weak, certain account balances should be independently verified. Therefore, we recommend NCUA management update policies and procedures to require third party confirmations be obtained regularly for all accounts where the balance or activity is significant to the operations of the credit union. In addition, NCUA management should require this as part of agreed-upon procedures in reviews conducted by external CPA firms.

2. **OIG-15-09** – Measures to Protect Electronic Credit Union Member Information During the Examination Process, issued June 8, 2015, Number of Unimplemented Recommendations: 2, Potential Cost Savings: \$0

We determined the NCUA provides examiners with appropriate tools with which to securely receive electronic information from credit unions during the examination process. However, we also determined: 1) the NCUA does not require credit unions to provide sensitive, confidential, and personally identifiable credit union member information to NCUA staff in a protected manner; 2) the NCUA needs to improve its policies, procedures and training to help ensure NCUA staff take appropriate measures to protect sensitive, confidential, and personally identifiable electronic credit union member information during examinations; and 3) the NCUA needs to improve its guidance to require NCUA staff to use specific tools to transfer sensitive, confidential, and personally identifiable electronic credit union member information during examinations.

Unimplemented Recommendations

Recommendation #5 – Continue to pursue and implement the secure file transfer solution the NCUA is assessing to transfer sensitive, confidential, or personally identifiable electronic credit union member information.

Recommendation #7 – Enhance NCUA annual security awareness training to reinforce to NCUA staff the availability, use, and applicability of secure NCUA tools to transfer sensitive, confidential, or personally identifiable electronic credit union member information.

3. **OIG-15-11** - Review of NCUA's Interest Rate Risk Program, issued November 13, 2015, Number of Unimplemented Recommendations: 2, Potential Cost Savings: \$0



We determined the NCUA may not have been effectively capturing Interest Rate Risk (IRR) when assigning a composite CAMEL rating to a credit union. The NCUA currently assesses sensitivity to market risk under the "L" in its CAMEL rating. However, we determined that combining sensitivity to market risk with liquidity may understate or obscure instances of high IRR exposure in a credit union. The addition of an "S" rating to its CAMEL Rating System to capture and separately assess a credit union's sensitivity to market risk should improve the NCUA's ability to accurately measure and monitor interest rate risk.

Unimplemented Recommendations

Recommendation #1 – Modify the NCUA's CAMEL Rating System by developing an "S" rating to better capture a credit union's sensitivity to market risk and to improve interest rate risk clarity and transparency.

Recommendation #2 – Revise the current "L" in the NCUA's CAMEL Rating System to reflect only liquidity factors.

4. **OIG-16-08** – FY2016 Federal Information Security Modernization Act Compliance, issued November 10, 2016, Number of Unimplemented Recommendations: 6, Potential Cost Savings: \$0

The NCUA OIG identified the following seven information security program areas where the NCUA needs to make improvements: configuration management; incident response; contingency planning programs; account management, plan of action and milestones; oversight of contractor systems; and documenting program controls in its system security plan.

Because of concerns over publicly revealing information that could compromise the security of the agency's information technology infrastructure, there are five recommendations from the 2016 FISMA report that remain unimplemented that we will not make public. Of the six remaining unimplemented recommendations, following is the one remaining unimplemented recommendation that we can disclose:

Unimplemented Recommendation

Recommendation #20 – Enforce NCUA policy to ensure the agency appropriately and timely documents and updates POA&M [Plan of Action and Milestones] items to reflect the current status on an ongoing basis, and the agency tests, validates, and documents corrective actions in order to close POA&Ms.

5. **OIG-17-07** – Review of NCUA's Procurement Program, issued June 28, 2017, Number of Unimplemented Recommendations: 1, Potential Cost Savings: \$0

We determined that management's control framework over the procurement program was not appropriate, complete, or effective during the scope period of our audit, and that those charged with



governance and the authority to procure goods and services for the agency did not consistently follow applicable policies and procedures, laws, and regulations. In addition, we determined the manner in which the agency obtained those goods and services led to a high frequency of policy and internal rule exceptions.

Unimplemented Recommendation

Recommendation #3 – Implement a debarment and suspension program in accordance with NCUA’s Delegation of Authority for Procurement and Property Management PRO 16.

6. **OIG-17-08** – Audit of the NCUA Information Technology Examination Program’s Oversight of Credit Union Cybersecurity Programs, issued September 28, 2017, Number of Recommendations: 1, Potential Cost Savings: \$0

Unimplemented Recommendation

Recommendation #1 – Implement the Automated Cybersecurity Examination Tool and determine how it best fits into the NCUA’s Risk-Focused Examination program to ensure more comprehensive examinations of credit unions’ cybersecurity programs.

Recommendations for Corrective Action Made During the Reporting Period

Following is a summary of OIG audit reports issued during this reporting period with open recommendations, including any associated cost savings as of March 31, 2018. For these reports, NCUA management has agreed to implement corrective actions. The OIG monitors this information within its report recommendation tracking system.

OIG-17-10 – FY2017 Federal Information Security Modernization Act Compliance, issued November 8, 2016, Number of Open Recommendations: 8, Potential Cost Savings: \$0

The NCUA OIG identified the following information security program areas where the NCUA needs to make improvements: risk management, identify and access management, information security continuous monitoring, and security training.

Because of concerns over publicly revealing information that could compromise the security of the agency’s information technology infrastructure, there is one recommendation in this report that we did not make public. In addition, there are seven recommendations that were made public as follows:

Open Recommendations

Recommendation #1 – The Office of the Chief Information Officer ensure the NCUA maintains current authorizations to operate for all agency systems.

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Recommendation #2 – The Office of the Chief Information Officer ensure the NCUA accomplishes security assessment and authorization activities in accordance with National Institute of Standards and Technology standards.

Recommendation #3 – The NCUA complete the development and documentation of the Enterprise Architecture Plan in accordance with federal standards to include the Target or “To Be” architecture and the Sequencing Plan.

Recommendation #4 – The NCUA System Owners, in coordination with the Office of the Chief Information Officer, document and implement role-based account management procedures including but not limited to authorizing, creating, modifying, disabling, removing, logging and reviewing system accounts in accordance with the NCUA policy.

Recommendation #5 – The Office of the Chief Information Officer configure the session lock setting in accordance with the NCUA policy.

Recommendation #6 – The Office of the Chief Information Officer document and implement a validation process to confirm that all memorandums of understanding and interconnection security agreements are current.

Recommendation #8 – The Office of the Chief Information Officer coordinate with the Office of Human Resources to ensure all the NCUA network users have a Learning Management System account in order to receive notification of the required security training.



OIG-18-05 – Audit of the NCUA’s Comprehensive Records Management Process, issued March 14, 2018, Number of Open Recommendations: 5, Potential Cost Savings: \$0

We determined that the NCUA lacked a comprehensive records management program and needed to implement the steps to correct the identified areas of weakness. In addition, we found that the depth and scope of the issues we identified were due in large part to management not making records management a priority due to competing priorities. We concluded the NCUA did not have a comprehensive records management framework, retention, and disposal system in place. We also concluded that those charged with governance over records management for the agency did not consistently follow applicable laws, regulations, and guidance to ensure the NCUA had a comprehensive records management program in place.

Open Recommendations

Recommendation #1 – Implement a change to the protocol of all Board briefings that occur as part of the Information Technology Prioritization Council project evaluation to include a listing of all office projects and highlight those that are associated with a statutory or other legal requirement as well as the rating and ranking of each project.

Recommendation #2 – Assess and update the NCUA’s current annual records management staff training course to ensure it aligns with the NCUA’s records management policies and procedures.

Recommendation #3 – Ensure the Records Officer, Records and Information Specialists, and Records Liaisons receive continuous supplemental role-based training on the most current topics related to records management to ensure that offices receive the most up-to-date information possible.

Recommendation #4 – Establish a line of communication and regularly update NARA specialists in order to advise them on the NCUA’s progress towards implementing a comprehensive records management system to ensure that NARA meets its congressional requirements regarding records management for the federal government.

Recommendation #5 – Fully utilize NARA’s Capstone approach, or a comparably developed approach, by storing email in an easily searchable, retrievable, and retainable format to ensure usability by the NCUA, and to ensure NARA can receive and access the records.



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

The Dodd-Frank Act requires the OIG to perform a limited review when the Share Insurance Fund incurs a loss below the \$25 million threshold due to the failure of 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 6-month period from October 1, 2017, to March 31, 2018. For all losses to the Share Insurance Fund under the MLR threshold, we determined (1) why the 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 5 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 scope reviews of eight credit unions that incurred losses to the Share Insurance Fund under \$25 million between October 1, 2017, and March 31, 2018. Based on those limited reviews, we determined that none of the losses warranted conducting additional work because we found no unusual circumstances, or we had already addressed the cause for the losses in recommendations to the agency in prior 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					
OIG Decision ¹	Credit Union	Region	Date Closed	Est. Loss to Share Insurance Fund	Grounds for Liquidation or Appointment
Terminate	Shreveport Federal Credit Union	III	10/2/2017	\$4,344,902	At-cost failure ² due to alleged fraud committed by multiple employees, including the former accounting manager and the CEO, underqualified staff, and inadequate board and supervisory committee oversight. Red River Employees Federal Credit Union of Texarkana, Texas assumed Shreveport Federal Credit Union's membership and most of its shares, loans, and other assets.
Terminate	New York State Employees Federal Credit Union	I	10/27/2017	\$73,137	At-cost failure due to loan losses and charge offs, noncompliance with Bank Secrecy Act regarding money services business (MSB) activities, and inadequate management practices rendering the credit union insolvent. Following the liquidation of New York State Employees Federal Credit Union, Palisades Federal Credit Union of Pearl River, New York assumed most of the former credit union's assets and all members, shares, and loans.
Terminate	Tri-Rivers Federal Credit Union	III	10/31/2017	\$375,000	At-cost failure due to high losses and critical undercapitalization related to inadequate lending policies and procedures placing the credit union in danger of insolvency with no reasonable prospects for recovery. NCUA approved an assisted supervisory merger of Tri-Rivers Federal Credit Union with Hope Federal Credit Union of Jackson, Mississippi.
Terminate	Eaton Employees Credit Union	IV	11/6/2017	\$100,000	At-cost failure due to sponsor closure, defaulting field of membership, and loss of management. The NCUA approved an emergency merger of Eaton Employees Credit Union into First Federal Credit Union of Cedar Rapids, Iowa.

¹ Criteria for each decision included: (1) dollar value 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, or indications of rating disagreements between the state regulator and the NCUA; and (5) other, such as apparent fraud, request by the NCUA Board or management, Congressional interest, or IG request.

² An at-cost failure involves an initial estimated or actual loss to the Share Insurance Fund whenever a credit union is resolved through either liquidation (with or without a purchase and assumption) or merger. NCUA Bulletin No. 4810.01B.

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OIG Decision	Credit Union	Region	Date Closed	Est. Loss to Share Insurance Fund	Grounds for Liquidation or Appointment
Terminate	Good Street Baptist Church Federal Credit Union	IV	12/1/2017	\$71,536	At-cost failure due to declining financial health resulting from poor quality loans, operating deficiencies, and inadequate management. The NCUA approved a merger of Good Street Baptist Church Federal Credit Union into Neighborhood Credit Union of Dallas, Texas.
Terminate	Riverdale Credit Union	III	12/4/2017	\$12,851,238	At-cost failure caused by alleged fraudulent activities committed by the former CEO, including the manipulation of loan delinquency ratios and charge offs in order to inflate income, poorly underwritten loans, unreliable and materially misstated financial statements, and safety and soundness concerns rendering the credit union insolvent. Following the involuntary liquidation, Jefferson Financial Credit Union of Metairie, Louisiana immediately assumed Riverdale Credit Union's membership, shares, loans, and most other assets.
Terminate	St. Elizabeth's Credit Union	IV	1/30/2018	TBD	At-cost failure due to material lending, record keeping, internal control, and management-related deficiencies, and improper accounting practices. Following the liquidation for St. Elizabeth's Credit Union, Northstar Credit Union of Warrenville, Illinois immediately assumed most of the former credit union's members, assets, and loans.
Terminate	First Jersey Credit Union	II	2/28/2018	\$9,300,000	At-cost failure due to loan charge offs and delinquencies, and a deteriorating taxi medallion loan portfolio rendering the credit union insolvent with no potential of recovery. USALLIANCE Federal Credit Union of Rye, New York assumed most of First Jersey Credit Union's assets, loans, and all member shares.



Peer Reviews

Government Auditing Standards require audit organizations that perform audits and attestation engagements of federal government programs and operations undergo an external peer review every 3 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 the NCUA OIG, Office of Audit

The Consumer Product Safety Commission (CPSC) OIG completed our most recent peer review on March 30, 2016, for the 3-year period that ended September 30, 2015. The CPSC 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 Architect of the Capitol OIG, Office of Audit

The NCUA OIG completed a peer review of the Architect of the Capitol (AOC) OIG. On September 4, 2015, we issued an external peer review report for the audit function of the AOC OIG for the three year period ended March 31, 2015. The AOC 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 (DOJ), OIG’s Office of Investigations (OI) conducts investigations of criminal, civil, and administrative wrongdoing involving the agency’s programs, operations, and personnel. Our investigative mission is to fight fraud, waste, and abuse while promoting efficiency and economy within the NCUA and its programs and operations. 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.

We also routinely receive complaints from credit union officials and their members involving NCUA programs and officials. We examine these complaints and determine if there is any indication of misconduct or wrongdoing by an NCUA employee or contractor. If not, we refer the complaint to the NCUA’s Office of Consumer Financial Protection (OCFP) or appropriate regional office for response, or close the matter if contact with OCFP or the regional office indicates that the matter has already been appropriately handled. The table below details OI’s investigative activity and reports issued during the reporting period.

INVESTIGATIVE ACTIVITY/REPORTS ISSUED DURING THE REPORTING PERIOD	TOTAL NUMBER
(A) Investigative reports issued during the reporting period	2 ³
(B) Persons referred to the Department of Justice for criminal prosecution during the reporting period	1 ⁴
(C) Persons referred to State and local prosecuting authorities for criminal prosecution during the reporting period	0
(D) Indictments and criminal informations during the reporting period that resulted from any prior referral to prosecuting authorities	0

With regard to the information provided in the table above, OI maintains a manual case tracking system. If investigative allegations involve a named suspect, then cases are designated and tracked by subject name. Cases referred to DOJ and/or state and local prosecuting authorities for criminal prosecution are also designated, referred, and tracked by subject name, if known. In

³ One of the reports was issued but not closed during the reporting period. We will provide a description of that investigation in our next semiannual report.

⁴ This referral related to the investigative report described in footnote 3.



cases where the subject is unknown, OI uses a subject matter title to designate, track, and, as appropriate, refer cases.

Investigations

During the reporting period, OI closed one investigation involving a senior NCUA employee, as described below.

Official Misconduct (Retaliation)

During the reporting period, we received a complaint alleging that an NCUA executive had retaliated against a credit union in issuing it a preliminary warning letter in response to the credit union attempting to appeal a joint examination report and a related NCUA rating. The investigation did not find any retaliation committed by the NCUA executive. The OIG issued a report of investigation and the investigation was closed during the reporting period.

Whistleblower Retaliation

We did not receive any complaints of whistleblower retaliation from NCUA employees during the reporting period.

Attempts to Interfere with IG Independence

There were no attempts on the part of management to interfere with IG independence, including restricting communications between OIG and Congress or using budgetary constraints designed to limit the capabilities of OIG.

Moreover, there have been no incidents where the NCUA resisted or objected to OIG oversight activities. There have also been no restrictions or delays in our access to agency information.

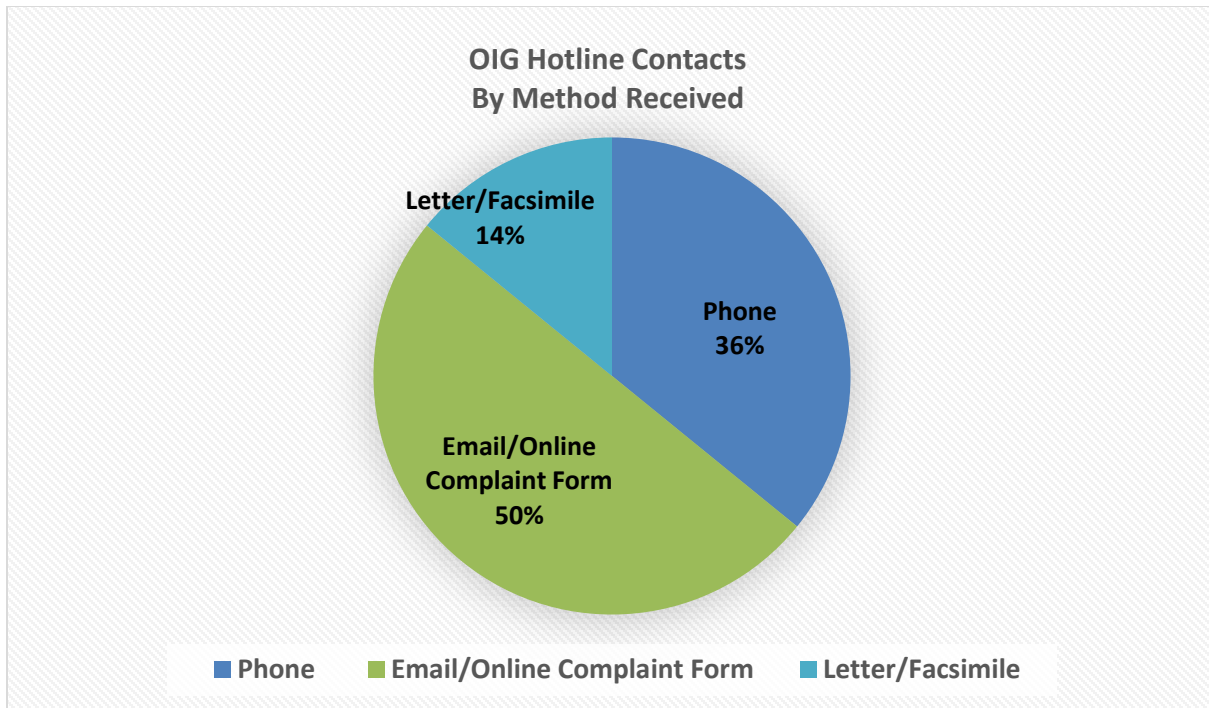
OIG Hotline

The OIG 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, OIG receives complaints from an off-site post office box, electronic mail, and facsimile messages. An electronic version of a hotline complaint form is located on the NCUA intranet. The electronic form offers a means for confidential employee and contractor communication with 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.

During this 6-month period, we processed approximately 92 hotline contacts, the majority of which were from consumers seeking assistance with problems encountered within their respective



credit unions. We referred most of these contacts to the OCFP’s Consumer Assistance Center for action. A small number of hotline contacts required additional action by OI to determine whether the matter warranted investigation by our office.



OIG HOTLINE CONTACTS	NUMBER
Phone	33
Email/Online Complaint Form	46
Letter/Facsimile	13
Total:	92



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, OIG reviewed 23 items, including proposed legislation, final and proposed regulations, and NCUA Letters to Credit Unions. OIG also responded to 16 Freedom of Information Act (FOIA) requests.

SUMMARY OF STATUTES AND REGULATIONS REVIEWED	
Legislation	Title
S. 2544	Ending Too Big to Jail Act
S. 2178	Inspector General Recommendation Transparency Act of 2017
S. 2155	Economic Growth, Regulatory Relief, and Consumer Protection Act
S. 1099	Saving Federal Dollars Through Better Use of Government Purchase and Travel Cards Act
Pub. L. No. 115-73	Dr. Chris Kirkpatrick Whistleblower Protection Act of 2017
H.R. 4043/S. 1869	Whistleblower Protection Extension Act of 2017/Whistleblower Protection Coordinator Act
H.R. 4917	IG Subpoena Authority Act
H.R. 10	Financial CHOICE Act of 2017
Regulations	Title
83 Fed. Reg. 7954	Final Rule: Requirements for Insurance; National Credit Union Share Insurance Fund Equity Distributions
83 Fed. Reg. 2029	Final Rule: Civil Monetary Penalty Inflation Adjustment
83 Fed. Reg. 12318	Final Rule: NCUA Suspension and Debarment Procedures
82 Fed. Reg. 60283	Final Rule: Emergency Mergers—Chartering and Field of Membership
82 Fed. Reg. 60290	Final Rule: Agency Reorganization
82 Fed. Reg. 55497	Final Rule: Corporate Credit Unions



SUMMARY OF STATUTES AND REGULATIONS REVIEWED	
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S. 2178	Inspector General Recommendation Transparency Act of 2017
S. 2155	Economic Growth, Regulatory Relief, and Consumer Protection Act
S. 1099	Saving Federal Dollars Through Better Use of Government Purchase and Travel Cards Act
Pub. L. No. 115-73	Dr. Chris Kirkpatrick Whistleblower Protection Act of 2017
H.R. 4043/S. 1869	Whistleblower Protection Extension Act of 2017/Whistleblower Protection Coordinator Act
H.R. 4917	IG Subpoena Authority Act
H.R. 10	Financial CHOICE Act of 2017
Regulations	Title
83 Fed. Reg. 7954	Final Rule: Requirements for Insurance; National Credit Union Share Insurance Fund Equity Distributions
83 Fed. Reg. 2029	Final Rule: Civil Monetary Penalty Inflation Adjustment
82 Fed. Reg. 50288	Final Rule: Appeals Procedures
82 Fed. Reg. 50270	Final Rule: Supervisory Review Committee: Procedures for Appealing Material Supervisory Determinations
82 Fed. Reg. 55644	Overhead Transfer Methodology
83 Fed. Reg. 4450	Proposed Rule: Involuntary Liquidation of Federal Credit Unions and Claims Procedures
83 Fed. Reg. 4518	Notice: Modernizing Data Collection for Supervision of Credit Unions
83 Fed. Reg. 12283	Notice of Proposed Rulemaking: Federal Credit Union Bylaws
Letters to Credit Unions	Title
17-09 (December 2017)	Supervisory Priorities for 2018
17-08 (December 2017)	Interagency Supervisory Guidance for Institutions Affected by a Major Disaster
17-07 (November 2017)	2017 Voluntary Credit Union Diversity Self-Assessment
17-06 (October 2017)	Real Estate Appraisal Waiver for Credit Unions Affected by Severe Storms and Flooding



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

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: 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 DURING THE REPORTING PERIOD		
Part I – Audit Reports Issued		
Report Number	Title	Date Issued
OIG-17-09	Audit of the NCUA’s Compliance Under the Digital Accountability and Transparency Act of 2014 (DATA Act)	11/7/2017
OIG-17-10	FY 2017 Independent Evaluation of the NCUA’s Compliance with FISMA 2014	11/8/2017
OIG-17-11	Audit of the NCUA Closing Package Schedule of Other Assets and Contributed Capital as of Sept. 30, 2017	11/15/2017
OIG-17-12	FY 2017 Financial Statement Audit (TCCUSF)	11/15/2017
OIG-17-13	Fiscal Year 2016 Risk Assessments of the NCUA’s Charge Card Programs	12/21/2017
OIG-18-01/02/03/04	FY 2017 Financial Statements	2/15/2018
OIG-18-05	Audit of the NCUA’s Comprehensive Records Management Process	3/14/2018
OIG-18-06	FY 2017 Risk Assessments of the NCUA’s Charge Card Programs	3/16/2018
Part II – Audits in Progress (as of March 31, 2018)		
Audit of the NCUA’s Information Technology Inventory		



INDEX OF REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT OF 1978, AS AMENDED		
Section	Reporting Requirement	Page
4(a)(2)	Review of legislation and regulations	34
5(a)(1)	Significant problems, abuses, and deficiencies	15
5(a)(2)	Recommendations for corrective action made during the reporting period	24
5(a)(3)	Significant recommendations on which corrective action has not been completed	20
5(a)(4)	Matters referred to prosecutive authorities	31
5(a)(5)	Summary of instances where agency refused or failed to provide requested information	32
5(a)(6)	List of audit reports issued during the reporting period	38
5(a)(7)	Summary of significant reports issued during the reporting period	15
5(a)(8)	Statistical table on audit reports with questioned costs	36
5(a)(9)	Statistical table on audit reports with recommendations that funds be put to better use	37
5(a)(10)(A)	Summary of each audit report over six months old for which no management decision has been made	N/A
5(a)(10)(B)	Summary of each audit report over six months old for which no management comment was returned within 60 days	N/A
5(a)(10)(C)	Summary of each audit report over six months old for which there are unimplemented recommendations	21
5(a)(11)	Significant revised management decisions	N/A
5(a)(12)	Significant management decisions with which the OIG disagreed	N/A
5(a)(14)(A)(B)	Results of any peer review conducted during the reporting period, or if no peer review was conducted, a statement identifying the date of last peer review	30
5(a)(15)(16)	Peer reviews conducted by another OIG during the reporting period, and any outstanding recommendations from any current or prior peer review	N/A
5(a)(17)	Statistical table on investigative reports issued during the reporting period	31
5(a)(18)	Description of metrics used for developing the investigative report statistical table	31
5(a)(19)	Investigations conducted involving a senior Government employee	32



INDEX OF REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT OF 1978, AS AMENDED		
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5(a)(10)(B)	Summary of each audit report over six months old for which no management comment was returned within 60 days	N/A
5(a)(20)	Detailed description of any instances of whistleblower retaliation	32
5(a)(21)	Detailed description of any attempt by the Agency to interfere with the independence of the Office	32
5(a)(22)(A)	Detailed description of any inspection, evaluation, and audit that was closed and was not disclosed to the public	N/A
5(a)(22)(B)	Detailed description of any investigation involving a senior Government employee that was closed and was not disclosed to the public	32



**Peer Review of the Audit Operations of
the National Credit Union Administration
Office of the Inspector General**

**ISSUED:
March 30, 2016**



**U.S. CONSUMER PRODUCT SAFETY COMMISSION
BETHESDA, MD 20814**

Christopher W. Dentel
Inspector General

Tel: 301 504-7644
Fax: 301 504-7004
Email: cdentel@cpsc.gov

System Review Report

March 30, 2016

Mr. James Hagen, Inspector General
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Dear Mr. Hagen:

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 year ended September 30, 2015. 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*.¹ The elements of quality control are described in *Government Auditing Standards*. The NCUA OIG is responsible for establishing and maintaining a system of quality control that is designed to provide NCUA OIG with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements 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 the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*.² 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 NCUA OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audits and attestation engagements, collectively referred to as "audits," and administrative files to test for conformity with professional standards and compliance with NCUA OIG's system of quality control. The

¹ United States Governmental Accountability Office, *Government Auditing Standards*, dated December 2011

² CIGIE *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*, dated September 2014

audits selected represented a reasonable cross-section of the NCUA OIG audit organization, with emphasis on higher-risk audits. Prior to concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with the 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 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 audits. 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.

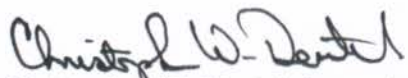
The enclosure to this report identifies the NCUA OIG offices that we visited and the audits that we reviewed.

In our opinion, the system of quality control for the audit organization of the NCUA OIG in effect for the year ended September 30, 2015, has been suitably designed and complied with to provide the NCUA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The NCUA OIG has received an External Peer Review rating of *pass*.

As is customary, we have issued a letter dated March 30, 2016 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 audits performed by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring of audits 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 the 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.

We made certain comments related to NCUA OIG's monitoring of audits performed by IPAs that are included in the above referenced letter dated March 30, 2016.

A handwritten signature in black ink that reads "Christopher W. Dentel". The signature is written in a cursive style with a large, prominent "C" at the beginning.

Christopher W. Dentel, Inspector General

Enclosure

ENCLOSURE

Scope and Methodology

We tested compliance with NCUA OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 2 of 10 audit reports issued during the period October 1, 2014, through September 30, 2015. We also reviewed the internal quality control reviews performed by NCUA OIG.

In addition, we reviewed NCUA OIG's monitoring of audits performed by IPAs where the IPA served as the auditor during the period October 1, 2014, through September 30, 2015. During the period, NCUA OIG contracted for the audit of its agency's fiscal year 2014 financial statements. The NCUA OIG also contracted for certain other audits that were to be performed in accordance with *Government Auditing Standards*.

We visited NCUA's offices located Alexandria, VA.

Reviewed Engagements Performed by NCUA OIG		
<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
14-09	11/26/2014	Review of NCUA's Efforts to Promote Opportunity and Achieve Diversity in Senior Management
15-09	6/8/2015	NCUA Measures to Protect Credit Union Member Information during the examination process
Reviewed Monitoring Files of NCUA OIG for Contracted Engagements		
<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
14-08	11/13/2014	Independent Evaluation of NCUA's Compliance with the Federal Information Security Management Act (FISMA) 2014
15-02/03/04/05	2/17/2015	FY2014 Financial Statement Audits for Central Liquidity Facility, Community Development Revolving Loan Fund, Operating Fund and share Insurance fund



Office of Inspector General

March 22, 2016

Christopher W. Dentel
Inspector General
U.S. Consumer Product Safety Commission
Bethesda, Maryland 20814

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

Dear Mr. Dentel:

We appreciate the work conducted by your staff in reviewing the quality control process for the audit function at the National Credit Union Administration Office of Inspector General. We agree with your opinion that the system of quality control for the audit function has been suitably designed and complied with to provide reasonable assurance of performing and reporting in conformity with professional standards in all material aspects. We have no additional comments on the final System Review draft report provided. Thank you for your efforts in completing this review.

Sincerely,

A handwritten signature in black ink, appearing to read "James W. Hagen".

James W. Hagen
Inspector General