NCUA
National Credit Union Administration

OFFICE OF
INSPECTOR GENERAL

Semiannual Report to the Congress

October 1, 2018–March 31, 2019

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Table of Contents

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, 2019. 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 audit division issued two significant reports. The first, IT equipment inventory, determined the NCUA did not adequately monitor, account, and dispose of all of its IT equipment. The NCUA did not follow its instruction to dispose of IT equipment "as promptly as possible" and two offices within the NCUA did not effectively communicate with each other regarding equipment disposition. We also found that the NCUA did not use existing procedures to remove disposed equipment from its financial systems and that its current financial system did not provide reliable information for inventory verifications because it was not a comprehensive asset management system. We identified $440,000 in funds that could have been put to better use. The second significant report issued was a material loss review of three failed credit unions resulting in an estimated $765.5 million loss to the Share Insurance Fund. We determined the credit unions failed due to significant concentration of loans collateralized by taxi medallions, unsafe and unsound lending practices, and weak Board and management. We discuss both the IT equipment inventory audit and material loss review in more detail in the semiannual report.

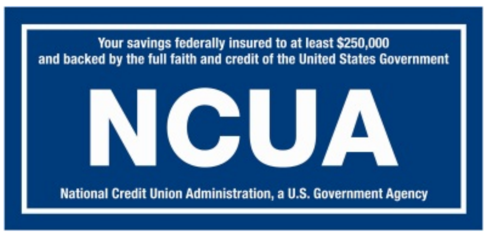
On the investigative side, the Office of Investigations opened three cases during the reporting period, including one case where we are assisting the Department of Justice Office of Inspector General. We also continued to work on an investigation that we opened near the close of the last reporting period. Two of the cases involve contract issues, one involves an NCUA applicant, and the last involves an NCUA employee. We closed the NCUA applicant case with no action taken, but management recently advised that it will provide additional information to us, which may result in re-opening the case. You will find details about these cases later in this report.

As Board Member Metsger departs NCUA, I would like to thank him for his support of the OIGs work over the last five plus years. Additionally, I welcome Rodney Hood and Todd Harper as the newest NCUA Board Members and look forward to working with them. The NCUA Board and management are responsive to all OIG recommendations and strive to implement corrective actions expeditiously. I look forward to working with them in our ongoing efforts to promote economy and efficiency in agency programs and operations.

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.



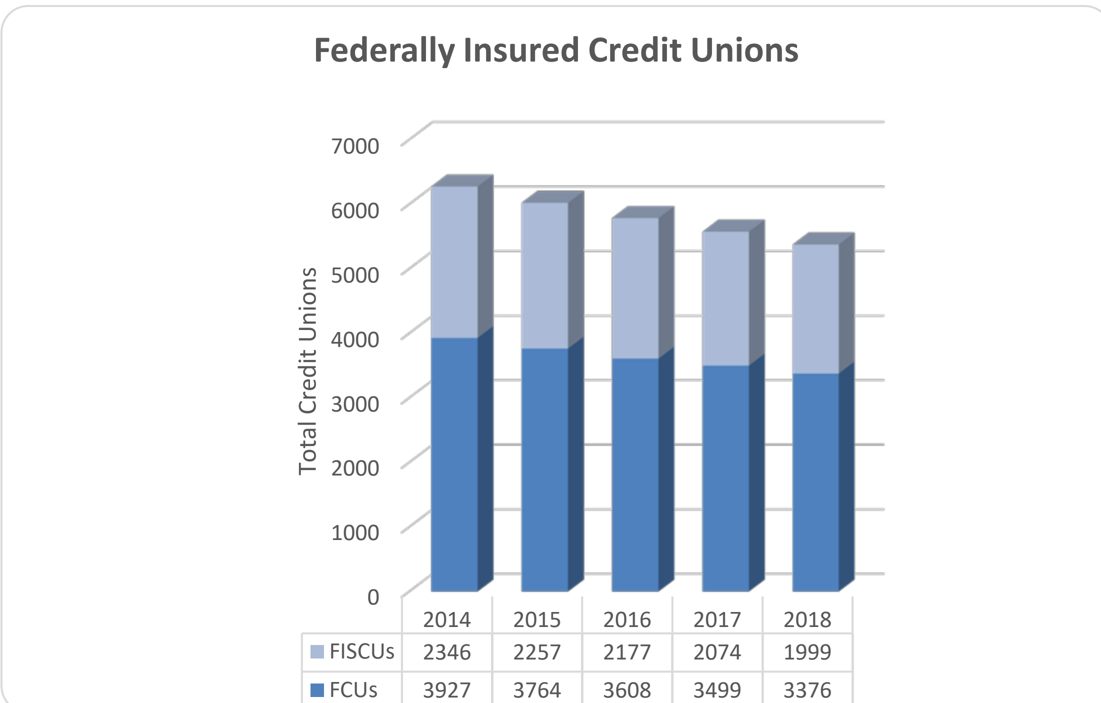
The Office of Inspector General Mission

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.

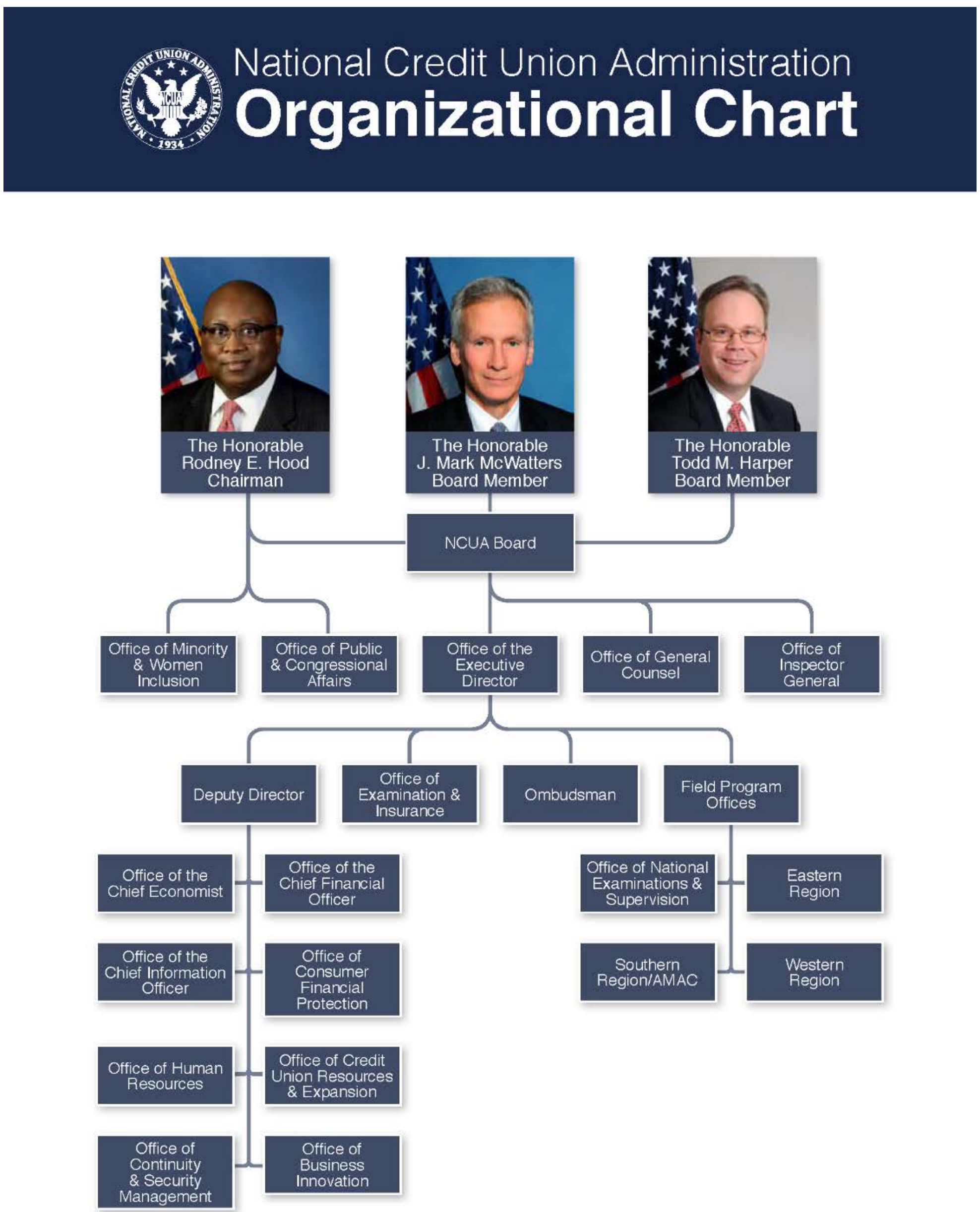
Introduction

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, 2018, the NCUA was supervising and insuring 3,376 federal credit unions and insuring 1,999 state-chartered credit unions, a total of 5,375 institutions. This represents a decline of 123 federal and 75 state-chartered institutions since December 31, 2017, for a total decrease of 198 credit unions nationwide, primarily as a result of consolidation consistent with long-running industry trends.

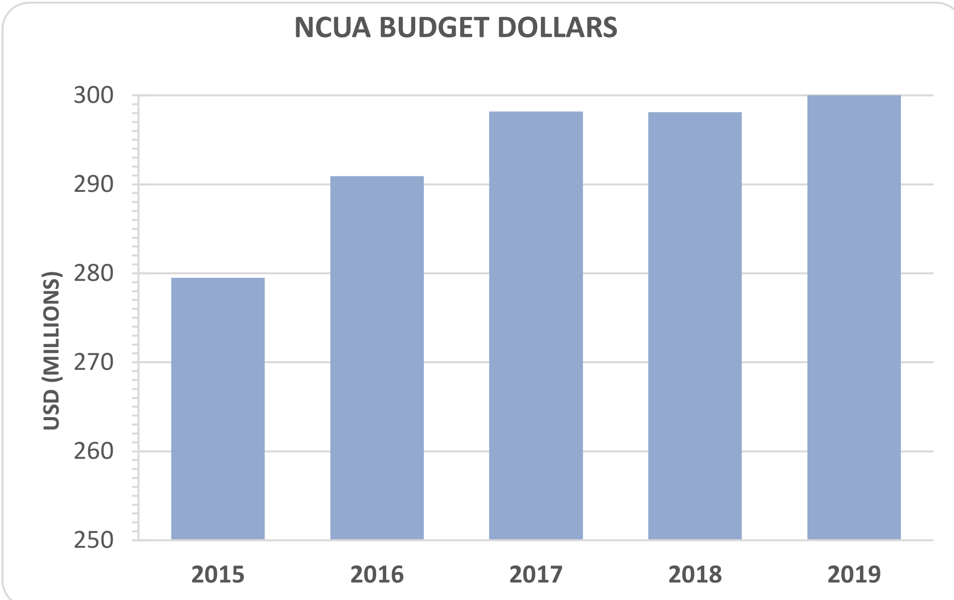


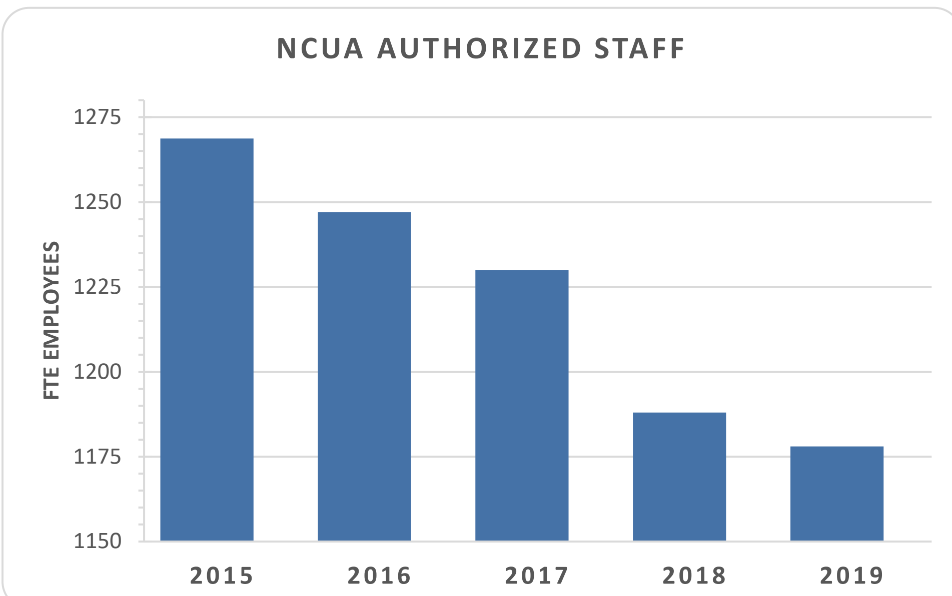
NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve 6-year terms. Terms are staggered, so that one term expires every 2 years. Currently, there is a vacancy on the Board. The Board is responsible 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 Alexandria, Virginia central office, and regional offices in Alexandria, Virginia (Eastern); Austin, Texas (Southern); and Tempe, Arizona (Western). The NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. In January 2019, The NCUA completed planned consolidation of regional operations and closed its Albany, New York and Atlanta, Georgia regional offices. Please refer to the NCUA's organizational chart below.



The NCUA's Board adopted its 2019 operating budget of 304,398,000 on November 15, 2018. The full time equivalent (FTE) staffing authorization for 2019 is 1,178 representing a decrease of 10 FTE from 2018.





NCUA Highlights

Risk-Based Capital Rule to Become Effective in 2020; Asset Threshold Raised

On October 18, 2018, the NCUA Board unanimously approved two items:

- A supplemental final rule that amends the agency's 2015 risk-based capital rule to delay the effective date of the rule until January 1, 2020 and raise the asset threshold for a complex credit union from $100 million to $500 million.
- A proposed rule to clarify, update, and simplify federal credit union bylaws.

Risk-Based Capital Rule to Become Effective in 2020

Federally insured credit unions subject to the agency's risk-based capital rule will have an additional year to prepare under a supplemental final rule approved by the Board.

The supplemental final rule moves the effective date of the risk-based capital rule approved in October 2015 to January 1, 2020. The amendments in this final rule also become effective at the same time. During the 1-year delay, the NCUA's current prompt corrective action requirements remain in effect.

The rule raises the current $100 million asset threshold for defining a complex credit union to $500 million. As a result, an additional 1,026 federally insured credit unions—based on December 31, 2017, Call Report data—will be exempt from the rule. Only 531 complex credit unions will be subject to the rule when it goes into effect, and more than 98 percent of all complex credit unions will be considered well capitalized.

NCUA Awards $2 Million in Grants to 203 Low-Income Credit Unions

On October 31, 2018, the NCUA awarded $2 million in grants to help 203 low-income credit unions improve digital services and security, increase outreach to underserved communities, and train employees.

Grant awards ranging from $1,300 to $20,000 were made to credit unions in 42 states and the District of Columbia. Forty-four credit unions are first-time grant recipients. Twenty-eight are minority depository institutions. A total of 243 credit unions made grant requests of $2.5 million in this year's grant round.

The NCUA made awards in three categories:

- Digital services and security: 141 grants totaling $1,251,670;

- Leadership development: 40 grants totaling $350,760; and
- Underserved outreach: 22 grants totaling $397,570.

The NCUA's Office of Credit Union Resources and Expansion administers grant funding provided by the Community Development Revolving Loan Fund, which offers grants and loans to credit unions serving low-income communities. Since 2001, Congress has provided the NCUA with $20.8 million for these grants.

Board Approves 2019-2020 Budgets

On November 15, 2018, the NCUA Board unanimously approved the NCUA's operating, capital, and Share Insurance Fund budgets for 2019 and 2020. The combined budgets for 2019 will be $334.8 million, a 1.1 percent increase from the 2019 funding levels approved by the Board at its November 2017 meeting. The combined budgets for 2020 will be $343.9 million, a 2.7 percent increase from 2019.

Operating budgets for both years assume 1,178 full-time equivalent positions.

The NCUA Board adopted the budget plan after providing credit union stakeholders with a description of the proposed budgets at its October 17 public briefing and considering their comments.

NCUA, State Regulators Launching Alternating Examination Pilot Program

On January 1, 2019, the NCUA and six state credit union regulators launched an alternating examination pilot program for a select group of federally insured, state-chartered credit unions.

The pilot will evaluate three alternating examination program approaches:

- *Alternating lead*—the NCUA and state regulators conduct joint examinations of federally insured, state-chartered credit unions, alternating which agency serves as lead each cycle.
- *Alternating with limited participation*—the NCUA and state regulators alternate conducting examinations with some involvement from the other agency.
- *Alternating*—the NCUA and state regulators alternate conducting examinations independently.

The pilot program, based on recommendations in the 2016 Exam Flexibility Initiative report, will run for one full alternating cycle, approximately 3 years. It will help the NCUA and state regulators determine how an alternating examination program could improve coordination and make the best use of federal and state resources.

The pilot program is the result of ongoing work by a joint NCUA-State Supervisor working group comprised of representatives from the NCUA, several state regulators, and the National Association of State Credit Union Supervisors. The working group studies ways to improve supervisory efficiencies, maintain a sound supervisory program, and reduce the burden on federally insured, state-chartered credit unions.

Board Lowers Share Insurance Fund Normal Operating Level to 1.38 Percent

The NCUA Board unanimously approved three items on December 13, 2018:

- Lowering the normal operating level of the National Credit Union Share Insurance Fund to 1.38 percent from 1.39.
- Posting the final report of the agency's Regulatory Reform Task Force in the *Federal Register*.
- A final rule making technical amendments to agency regulations.

Board Lowers Normal Operating Level

The new normal operating level of the Shared Insurance Fund of 1.38 percent, down from the previous level of 1.39 percent set in 2017, represents the equity ratio set by the NCUA Board based on forecasted needs. The agency intends to review the normal operating level annually.

New Year, New Look for NCUA Regions

The NCUA begins the year with a new regional structure, part of an agency-wide reorganization that began in 2017. The agency completed its headquarters reorganization in 2018 and went from five to three regional office effective January 7, 2019.

The three regions and their directors are:

Eastern Region, Regional Director Jane Walters
The Eastern Region includes Connecticut, Delaware, the District of Columbia, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, and West Virginia.

Southern Region, Regional Director Keith Morton
The Southern Region includes Alabama, Arkansas, Florida, Georgia, Indiana, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, and the U.S. Virgin Islands.

The agency's Asset Management and Assistance Center, also headed by Mr. Morton, realigned its servicing business model and moved to a financial supervisory structure as part of the reorganization.

Western Region, Regional Director Cherie Freed
The Western Region includes Alaska, Arizona, California, Colorado, Guam, Hawaii, Idaho, Illinois, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington, Wisconsin, and Wyoming.

New Rule Covers Private Flood Insurance

On February 12, 2019, five federal regulatory agencies issued a joint final rule to implement provisions of the Biggert-Waters Flood Insurance Reform Act of 2012 requiring regulated institutions to accept certain private flood insurance policies in addition to National Flood Insurance Program policies.

The rule, which takes effect July 1, 2019:

- Implements the Biggert-Waters Act requirement that regulate lending institutions accept private flood insurance policies that satisfy criteria specified in the Act;
- Allows institutions to rely on an insurer's written assurances in a private flood insurance policy stating the criteria are met;
- Clarifies that institutions may, under certain conditions, accept private flood insurance policies that do not meet the Biggert-Waters Act criteria; and
- Allows institutions to accept certain flood coverage plans provided by mutual aid societies, subject to agency approval.

Regulations implementing the federal flood insurance statues prohibit regulated lending institutions from making loans secured by improved real property located in special flood hazard areas unless the property has adequate flood insurance coverage.

NCUA's Four Funds Receive Clean 2018 Audit Opinions

On February 15, 2019, the NCUA four funds received an unmodified, or "clean," audit opinions for 2018, according to audited financial statements released by the OIG.

The financial statements, audited by the independent auditor KPMG LLP (KPMG) under the direction of the OIG, cover the Share Insurance Fund, the agency's Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund.

The Share Insurance Fund, which held $15.8 billion in assets on December 31, 2018, protects the deposits of more than 115 million members at about 5,400 federally insured credit unions.

Board Approves Share Insurance Equity Distribution in 2019

On March 7, 2019, the Board approved a $160.1 million equity distribution from the Share Insurance Fund that will be paid to eligible credit unions in the second quarter of 2019.

A financial institution that filed a quarterly Call Report as a federally insured credit union for at least one reporting period in calendar year 2018 will be eligible for a *pro rata* distribution. The eligibility criteria for credit unions to receive an equity distribution is detailed in a final rule approved by the NCUA Board in February 2018.

Based on the total of insured shares reported in the fourth quarter Call Reports, the equity ratio of the Share Insurance Fund was 1.39 percent at the end of 2018, which is above the Board approved normal operating level of 1.38 percent. To reduce the equity ratio to the approved normal operating level, a $160.1 million distribution is required.

The NCUA Board will continue to monitor the health and risk exposure of the Share Insurance Fund, and will evaluate the normal operating level each year to determine its appropriate level, based on an analysis of data and trends as they evolve overtime.

Senate Confirms Hood and Harper to NCUA Board

On March 14, 2019, the U.S. Senate confirmed Rodney E. Hood and Todd M. Harper as NCUA Board members and they were worn in on April 8. Mr. Hood was named as Board Chairman and replaced Board Member Rick Metsger, whose term expired in August 2017. Mr. Hood's term will run until August 2023. Mr. Harper fills the vacancy created when former Chairwoman Debbie Matz retired in 2016. Mr. Harper's term will end in April 2021.

Federally Insured Credit Union Highlights

Credit unions complete and submit quarterly call reports that contain financial and statistical data to the NCUA. Based on data compiled from the federally insured credit union call reports, the NCUA produces a quarterly credit union data summary report and a quarterly financial trend report. The quarterly data summary report provides an overview of credit union financial performance and includes listings of summarized accounts, selected performance indicators, performance by asset category, as well as balance sheet and income statement details. The financial trends report presents year-to-date financial trends in various chart formats. An NCUA OIG staff assessment of the December 31, 2018 quarterly data summary and financial trend reports found that key financial indicators were positive.

Key Financial Indicators Favorable

The December 31, 2018 quarterly data summary report provided a comparison of the fourth quarter 2018 data to the same quarter in the previous year. For major balance sheet items and key ratios, the report presented the following four-quarter percentage changes for the nation's 5,375 federally insured credit unions: assets increased by 5.4 percent; net worth ratio increased from 10.95 to 11.3 percent; and the loan to share ratio increased from 82.6 percent to 85.6 percent. The delinquency ratio decreased from .81 percent to .71 percent. Credit union return on average assets increased from .78 percent to .92 percent.

Savings Trend to Regular Shares

Total shares and deposits grew 5.2 percent, or $60.26 billion, increasing the balance to $1,219.73 billion. Regular shares accounted for 35.23 percent of total shares and deposits or $429.72 billion. Money market shares comprised 21.47 percent or $261.91 billion. Share certificates represented 19.53 percent or $238.18 billion. Share drafts accounted for 15.57 percent or $189.92 billion. IRA/KEOGH accounts comprised 6.36 percent or $77.55 billion; non-member deposits comprised .97% or $11.85 billion; and all other shares comprised .87% or $10.59 billion of total shares and deposits.

Loan Volume Increasing

Total loans increased 9.01 percent, or $86.29 billion, bringing the balance to $1,043.59 billion. Total net loans of $1,034.33 billion comprised 71.16 percent of credit union assets. First mortgage real estate loans accounted for the largest single asset category with $426.33 billion or 40.85 percent of total loans. Used vehicle loans of $218.47 billion represented 20.93 percent, while new vehicle loans amounted to $147.48 billion or 14.13 percent. Other real estate loans of $88.19 billion accounted for 8.45 percent. Unsecured credit cards totaled $61.84 billion or 5.93 percent, while all other unsecured loans totaled $43.58 billion or 4.18 percent. Leases receivable and all other loans represented $57.70 billion or 5.53 percent of total loans.

Legislative Highlights

Senate Introduces Bill to Amend IG Audit Requirement regarding Enhanced Personnel Security Program

On January 28, 2019, Senator Burr (R-NC) introduced the "Damon Paul Nelson and Matthew Young Pollard Intelligence Authorization Act for Fiscal Years 2018 and 2019," S. 245, which was referred to the Select Committee on Intelligence, of which Senator Burr is Chairman. Section 711 of the bill would amend 5 U.S.C. § 11001(d)'s requirement for an IG audit of an agency's enhanced personnel security program by mandating an IG "review" instead of an audit. Currently, the IG is required to conduct an audit of the NCUA's enhanced personnel security program within 2 years of the program's implementation.

Senate Reintroduces Bill to Reduce Improper Payments

On February 7, 2019, Senator Carper (D-DE) introduced the "Payment Integrity Information Act of 2019," S. 375, which was reported out of the Senate Homeland Security and Governmental Affairs Committee without amendment. The bill is substantially similar to a bill introduced during the 115th Congress, S. 2948. The bill would require agencies to strengthen their reviews to determine whether a program's spending is at risk for improper payments, including requiring agencies to identify new methods for estimating and detecting improper payments to contractors; devise and implement a plan to eliminate known vulnerabilities; and require agencies to coordinate with each other in developing and using data analysis procedures. The bill also would require the Office of Management and Budget and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) to issue guidance for annual reporting on agencies' compliance.

House Introduces Restoring the Public Trust Act

On January 22, 2019, Representative Lieu (D-CA) introduced the "Restoring the Public Trust Act," H.R. 706. The bill contains a number of other proposals relating to prohibiting the use of public office for private gain, and also addresses CIGIE's legislative priority that Congress should be notified in advance of an agency head's decision to place an IG in paid or unpaid non-duty status. Currently, the IG Act requires the agency head to communicate in writing to Congress the reasons for removing or transferring an IG.

House Introduces Reining in Irresponsible Decorating Expenses Act

On February 14, 2019, Representative Bustos (D-IL) introduced the "Reining in Irresponsible Decorating Expenses Act," H.R. 1181. The bill would require written notice to the House and Senate Appropriations Committees before funds may be obligated or expended in excess of $5,000 to furnish or redecorate the office of any agency head (or other employee in a position that requires Senate confirmation). It further provides that if an IG finds a failure to comply with the notice requirement, the individual must pay the Treasury for any obligation or expense in excess of $5000 and that the individual may not exceed the $5000 limitation in certain circumstances, including if the individual is under investigation by the IG for corruption or spending-related misconduct.

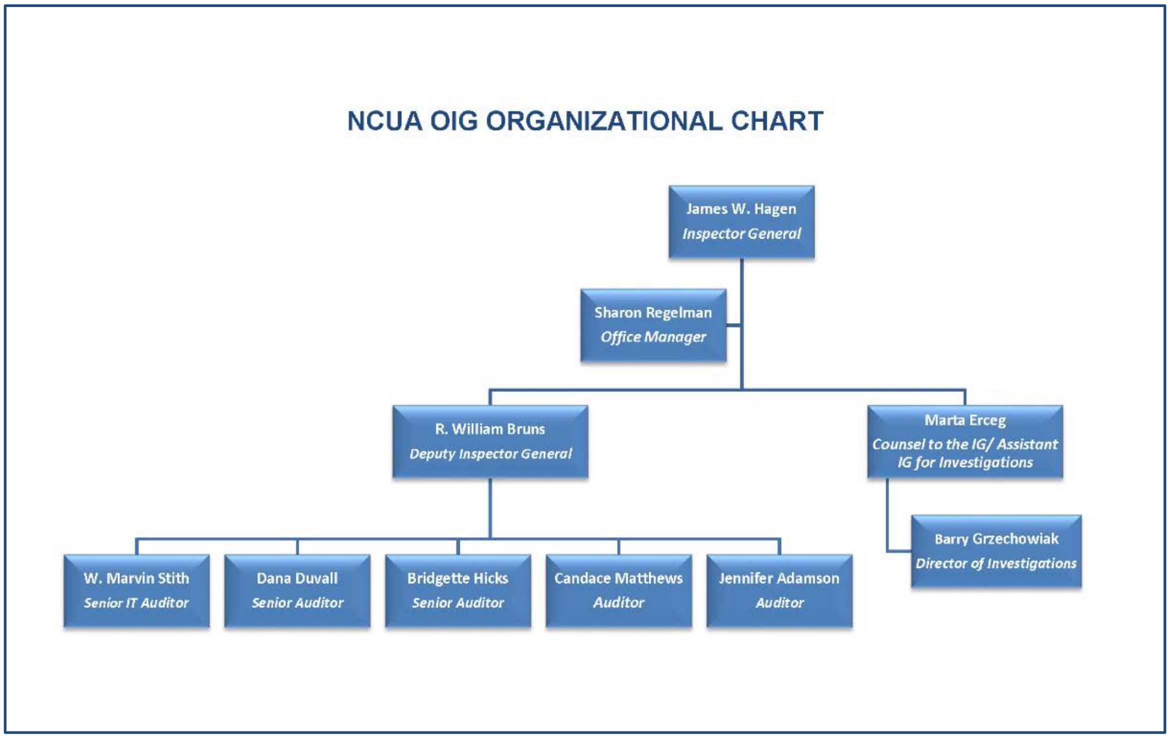
Office of Inspector General

The Office of Inspector General was established at the NCUA in 1989 pursuant to an amendment of the Inspector General Act of 1978. 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.

The OIG is also a member of the Council of the Inspectors General on Integrity and Efficiency (CIGIE). In response to a request by CIGIE, along with representatives from other OIGs, we participated in a panel discussion about records management and Freedom of Information Act (FOIA) issues at a November 29, 2018, meeting of the National Archives and Records FOIA Advisory Committee. We discussed our records management audit completed in the prior reporting period as well as reviews of political appointees' influence in the FOIA process. Our discussion of this work helped inform the FOIA Advisory Committee's efforts to examine the intersect between records management and FOIA.


NCUA OIG ORGANIZATIONAL CHART
James W. Hagen
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Sharon Regelman
Office Manager
R. William Bruns
Deputy Inspector General
Marta Erceg
Counsel to the IG/ Assistant IG for Investigations
Barry Grzechowiak
Director of Investigations
W. Marvin Stith
Senior IT Auditor
Dana Duvall
Senior Auditor
Bridgette Hicks
Senior Auditor
Candace Matthews
Auditor
Jennifer Adamson
Auditor

Audit Activity

Audit Reports Issued

OIG-18-07 *FY 2018 Independent Evaluation of the NCUA's Compliance with FISMA 2014*, issued October 31, 2018
https://www.ncua.gov/files/audit-reports/oig-audit-compliance-fisma-2018.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 FY 2018. Our audit also determined that NCUA management addressed and closed its six remaining recommendations from the FY 2016 FISMA report and addressed and closed seven of its eight recommendations from the FY 2017 FISMA report. In this year's FISMA review, we identified areas for improvement in information security continuous monitoring, configuration management, personnel security, and risk management. We made ten recommendations to management that should help the NCUA continue to improve the effectiveness of its information security program.

OIG-18-08 *Audit of the NCUA's Closing Package Schedule of Other Assets and Contributed Capital as of September 30, 2018*, issued November 16, 2018
https://www.ncua.gov/files/audit-reports/oig-audit-closing-package-schedule.pdf

The OIG contracted with and supervised the independent accounting firm KPMG to conduct the audit of the NCUA's closing package schedule, which includes other assets and contributed capital of the NCUA as of September 30, 2018, and related notes. KPMG issued an unmodified audit opinion with no reportable findings. This financial statement audit report is part of the FY 2018 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.

OIG-19-01/02/03/04 *NCUA 2018 Financial Statement Audits—Share Insurance Fund, Operating Fund, Central Liquidity Facility, Community Development Revolving Loan Fund*, issued February 15, 2019
https://www.ncua.gov/files/audit-reports/inspector-general-financial-statement-audit-fy-2018.pdf

NCUA OIG contracted with and supervised the independent accounting firm KPMG to conduct the NCUA 2018 financial statement audits of the Share Insurance Fund, the 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 2018 were $15.8 billion, a decrease of $825.1 million from 2017. The decrease was primarily attributable to $735.7 million in distributions paid to credit unions in the third quarter of 2018. KPMG issued an unmodified audit opinion on the Share Insurance Fund's financial statements (OIG-19-01).

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 2018 were $136.5 million, up from $110 million in 2017. KPMG issued an unmodified audit opinion on the Operating Fund's financial statements (OIG-19-02).

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 2018 were $314.2 million, up from $293.5 million in 2017. KPMG issued an unmodified audit opinion on the CLF's financial statements (OIG-19-03).

The CDRLF was established to stimulate economic activities in the communities served by low-income credit unions. The CDRLF's total assets for 2018 were $18.6 million, up from $17.8 million in 2017. KPMG issued an unmodified audit opinion on the CDRLF's financial statements (OIG-19-04).

OIG-19-05 *Audit of the NCUA's Information Technology Equipment Inventory*, issued March 28, 2019
https://www.ncua.gov/files/audit-reports/oig-audit-information-technology-equipment-v2.pdf

The OIG conducted this self-initiated audit to assess NCUA's information technology (IT) equipment inventory. The objectives of our audit were to determine: 1) whether the NCUA has IT equipment inventory policies and procedures, and 2) whether the NCUA adequately monitors and accounts for its IT equipment from acquisition through final disposition. Our audit determined that although the NCUA has an instruction on the disposition of personal property, including the disposition of IT equipment, the instruction needed improvement, including broadening its application to the entire life cycle of IT equipment, not just its disposition. In addition, we determined procedures implementing the instruction were needed, including requiring employees to sign receipts when issued IT equipment and requiring performance plans for employees responsible for IT equipment inventory management to have that criterion reflecting that responsibility.

Our audit also determined that the NCUA did not adequately monitor, account, and dispose of all of its IT equipment. We found that the NCUA did not follow its instruction to dispose of IT equipment "as promptly as possible" and that two offices within the NCUA did not effectively communicate with each other regarding equipment disposition. We also found that the NCUA did not use existing procedures to remove disposed equipment from its financial systems and that its current financial system did not provide reliable information for inventory verifications because it was not a comprehensive asset management system. We determined that implementing a comprehensive asset management system could provide NCUA management with reliable information to support decision-making and evaluate the performance of its inventory management program. We identified $440,000 in funds that could have been put to better use. We made seven recommendations to address the issues identified in this report.

Audits in Progress

Audit of NCUA's State Supervisory Authority Examination Process

The State Supervisory Authority is the primary regulator for federally insured state chartered credit unions (FISCUs) whereas NCUA is responsible for managing risk to the Share Insurance Fund, and other circumstances, as applicable. Supervision includes, but is not limited to, examinations, follow-up examinations, onsite contacts, offsite contacts, offsite monitoring, and quarterly trend analysis. NCUA's FISCU examination program institutes standards for a high quality examination process. Each region maintains an operating agreement with each individual state. The operating agreements outline the method and procedures to monitor FISCUs for insurance risk.

Our objectives are to determine whether the NCUA provides shared oversight of FISCUs to assess their condition and address material risks that may negatively affect the Share Insurance Fund.

Audit of the NCUA's Consumer Complaint Program

The NCUA created the Office of Consumer Protection (OCP) in 2010 to establish an office with a sole focus on federal consumer protection matters. Due to agency reorganization, in 2016, OCP became the Office of Consumer Financial Protection and Access (OCFPA), and, in January 2018, was renamed the Office of Consumer Financial Protection (OCFP). The OCFP is located in the NCUA's headquarters in Alexandria, VA. OCFP's mission includes establishing, consolidating, and coordinating consumer protection functions within the agency. OCFP was delegated responsibility for answering inquiries from credit unions, their members, and consumers involving federal consumer protection and share insurance matters. The NCUA centralized its federal consumer protection inquiry and complaint processes within OCFP to provide accurate, consistent, and timely service in answering questions and resolving disputes about these matters.

Our objectives are to determine whether the NCUA processes consumer complaints: 1) efficiently and effectively; 2) in compliance with applicable laws, regulations, policies and procedures, and other requirements; and 3) uses consumer complaint information and trends data in operations.

Audit of the NCUA's Office of National Examinations and Supervision Oversight of Credit Union Cybersecurity Programs

Cybersecurity is the practice of defending computers and servers, mobile devices, electronic systems, networks, and data from cyberattacks. Cyberattacks use malicious code to alter computer code, logic, or data, resulting in disruptive consequences that can compromise data and lead to cybercrimes. NCUA indicates that credit unions rely on applications to ensure accurate, timely, and confidential processing of data. Vulnerabilities, particularly those associated with web-based applications, are increasingly the focus of attacks from external and internal sources for the purpose of committing fraud and identity theft.

Our objectives are to determine whether: 1) ONES supervision provides for adequate oversight of its credit unions' cybersecurity programs; and 2) assess whether the credit unions are taking sufficient and appropriate measures to protect the confidentiality, availability, and integrity of credit union assets and sensitive credit union data against cyber-attacks.

Audit of the NCUA's Examination Process and Oversight Authority of CUSOs and other (non-CUSO) Third-party Vendors

The NCUA's Office of Examination and Insurance is responsible for evaluating and reviewing Federally Insured Credit Unions' third party relationships with vendors. There are two general classes of vendors: CUSOs, and other (non-CUSO) third party vendors. Credit unions utilize the skills and resources of qualified third parties to expand service offerings, increase efficiencies, and manage processes and programs. These relationships pose various potential risks to credit unions, as they must relinquish a certain level of control over products and services to the third party vendor as an inherent part of the relationship. The potential for vendor systemic risk is significant given the interconnectedness of the credit union industry and credit unions' common use of vendors and CUSOs for services.

Out of four Federal Financial Institutions Examination Council banking agencies, the NCUA is the only one lacking examination authority over federal financial institution vendors. The NCUA has issued guidance regarding the due diligence credit unions should apply to third-party vendors. In addition, when NCUA deems a CUSO may pose an undue risk to the Share Insurance Fund, the agency performs a consensual review with CUSO management. However, due to lack of statutory vendor oversight and regulatory enforcement authority, the NCUA faces unique challenges for both CUSO and non-CUSO Vendors.

Our objectives are to determine whether: 1) the NCUA's examination process adequately assesses the risks imposed by CUSOs and third-party vendors on credit unions, and 2) the adequacy of the NCUA examiners' assessment of credit union management's due diligence over CUSOs and third-party vendors.

Material Loss Reviews

The Federal Credit Union Act requires the NCUA OIG to conduct an MLR of an insured credit union if the loss to the Share Insurance Fund exceeds $25 million and an amount equal to ten 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 Share Insurance Fund, and 2) assess the NCUA's supervision of the credit union. During this reporting period, the Share Insurance Fund sustained losses exceeding the statutory threshold. Accordingly, we conducted the following MLR.

OIG-19-06 *Material Loss Review of Melrose Credit Union, LOMTO Federal Credit Union and Bay Ridge Federal Credit Union,* issued March 29, 2019
https://www.ncua.gov/files/audit-reports/oig-material-loss-review-march-2019.pdf

The OIG contracted with Moss Adams LLP to conduct an MLR of three federally insured credit unions, Melrose Credit Union (Melrose), LOMTO Federal Credit Union (LOMTO), and Bay Ridge Federal Credit Union (Bay Ridge) (collectively "the Credit Unions"). LOMTO and Bay Ridge were federally chartered, and Melrose was chartered under the New York State Department of Financial Services. We reviewed the Credit Unions to: 1) determine the cause(s) of the Credit Unions' failure and the resulting estimated $765.5 million loss to the Share Insurance Fund; 2) assess NCUA's supervision of the Credit Unions; and 3) provide appropriate suggestions and/or recommendations to mitigate future losses.

We determined the Credit Unions failed due to significant concentration of loans collateralized by taxi medallions, unsafe and unsound lending practices, and weak Board and management oversight and inadequate risk management practices. As a result of our review, we made three recommendations to NCUA management. Two recommendations addressed strengthening oversight to more effectively capture concentration and other risks on an institution's balance sheet, while the third recommendation addressed credit union underwriting practices with respect to determining a borrower's ability to meet debt service requirements.

The Dodd-Frank Act further requires the OIG to assess all losses to the Share Insurance Fund under the material loss threshold to determine whether unusual circumstances exist to warrant conducting a full-scope MLR. During the reporting period, the Share Insurance Fund sustained one loss under the threshold. Accordingly, we conducted a limited scope review to determine whether unusual circumstances existed. We discuss this further on page 29.

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, 2019. 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.

Significant Recommendations Open and Brief Summary

1. **OIG-13-09** *Material Loss Review of El Paso Federal Credit Union*, issued August 26, 2013, 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 originally planned to amend Appendix A of the Supervisory Committee Guide, management indicated they will instead change Part 715 of NCUA Rules and Regulations, which is in process. Management indicated this proposed rule change will address confirmations for material accounts. Management anticipates taking this to an NCUA Board meeting for vote and after the notice and comment period, the Board would be in a position to finalize the rule change by December 2019. Management also indicated that the Supervisory Committee Guide will be decommissioned and replaced with reference materials to aid credit union supervisory committees in conducting audit procedures.

2. **OIG-15-11** *Review of NCUA's Interest Rate Risk Program*, issued November 13, 2015, 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 **S**ensitivity) and to improve interest rate risk clarity and transparency.

Status: Open. Management targets final implementation by the end of 2021. 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 is complex. Management indicated that adopting the "S" for the CAMEL rating systems involves public notice and comment, NCUA Board approval, and cohering regulation and system changes. Management noted that the agency is engaged in a multi-year effort to update its legacy systems – the Enterprise Solutions Modernization program. As part of this program, management is incorporating the ability to assign and capture the "S" component as an optional part of the CAMEL rating. Management expects to have this system change in place by mid-2020. This change will then provide the agency with the flexibility to adopt the "S" rating if the Board so chooses, and to capture the "S" rating for federally insured state-chartered credit unions in the states where the state regulators have adopted the "S" rating. At that time, management indicated, the NCUA Board will be in a position to consider the necessary policy changes.

3. **OIG-18-05** *Audit of the NCUA's Comprehensive Records Management Process*, issued March 14, 2018, recommendation #4. Establish a line of communication and regularly update National Archives and Records Administration (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.

Status: Open. In its formal response to the report, management agreed with the recommendation and indicated that they had already taken many efforts to expand communication with NARA and that the implementation of those efforts would be augmented with the hiring of a full time Records Officer and several records and information specialists. Most recently, management indicated they hired two additional staff during the third quarter of 2018 and that two additional vacancies remain open that will meet records-related needs. Management expects these positions to post by June 2019.

Summary of Audit Reports Over 6 Months Old with Unimplemented Recommendations

Following are summaries of five OIG audit reports over six months old having eight unimplemented recommendations, including any associated cost savings as of March 31, 2019. 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.

<u>Unimplemented Recommendation</u>

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-15-11** *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.

<u>Unimplemented Recommendations</u>

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.

3. **OIG-17-10** *FY2017 Federal Information Security Modernization Act Compliance*, issued November 8, 2017, Number of Unimplemented Recommendations: 1, Potential Cost Savings: $0

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

<u>Unimplemented Recommendation</u>

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.

4. **OIG-18-05** *Audit of the NCUA's Comprehensive Records Management Process*, issued March 14, 2018, Number of Unimplemented Recommendations: 3, Potential Cost Savings: $0

We determined that the NCUA lacked a comprehensive records management program and needed to implement the steps to correct the areas of identified 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 that 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.

Unimplemented Recommendations

Recommendation #1—Implement a change to the protocol of all Board briefings that occur as part of the Information Technology Prioritization Counsel 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 #4—Establish a line of communication and regularly update National Archives and Records Administration (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.

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, 2019. For these reports, NCUA management has agreed to implement corrective actions. The OIG monitors this information within its report recommendation tracking system.

1. **OIG-18-07** *FY2018 Federal Information Security Modernization Act Compliance*, October 31, 2018, Number of Open Recommendations: 10, Potential Cost Savings: $0

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

Open Recommendations

Recommendation #1—The Office of the Chief Information Officer update the *OCIO NCUA Information Systems Security Manual* to establish a timeframe within which System Owners document the system risk assessments and Plan of Action and Milestones after completing security control assessments.

Recommendation #2—The NCUA management ensure system owners for the GSS (the Office of the Chief Information Officer) and the IIS (Credit Union Resources and Expansion) address all control weaknesses from Security Control Assessments in their System Risk Assessments and Plans of Action and Milestones

Recommendation #3—The NCUA management ensure the system owners timely and adequately manage and maintain the completion dates within the Plan of Action and Milestones.

Recommendation #4—The Office of the Chief Information Officer ensure the Office of the Chief Information Officer (OCIO) National Credit Union Administration (NCUA) Information Systems Security Manual addresses documenting security impact analysis results and the level of detail required.

Recommendation #5—The Office of the Chief Information Officer ensure configuration management procedures address explicit review and discussion of the security impact analysis results prior to approving or denying system changes.

Recommendation #6—The Office of Continuity and Security Management complete its employee background re-investigations.

Recommendation #7—The Office of Continuity and Security Management work with the Office of Human Resources to improve the notification process for when employees transfer to new positions.

Recommendation #8—The Office of the Chief Information Officer enforce the policy to remediate patch and configuration related vulnerabilities within agency defined timeframes.

Recommendation #9—The Office of the Chief Information Officer implement a process to detect and migrate unsupported software to supported platforms before support for the software ends.

Recommendation #10—The Office of the Chief Information Officer implement a process to identify authorized software in its environment and remove any unauthorized software.

2. **OIG-19-05** *Audit of the NCUA's Information Technology Equipment Inventory*, issued March 28, 2019, Number of Open Recommendations: 7, Potential Cost Savings: $440,000

Our audit determined that although the NCUA has an instruction on the disposition of personal property, including the disposition of IT equipment, the instruction needs improvements, including broadening its application to the entire life cycle of IT equipment, not just its disposition. In addition, we determined that procedures implementing the instruction are needed, including requiring employees to sign receipts when they are issued IT equipment and requiring performance plans for employees responsible for IT equipment inventory management to have that criterion reflecting that responsibility.

Our audit also determined that the NCUA did not adequately monitor, account for, and dispose of all of its IT equipment. We found that the NCUA did not follow its instruction to dispose of IT equipment "as promptly as possible" and that two offices within the NCUA did not effectively communicate with each other regarding equipment disposition. We also determined that the NCUA did not use existing procedures to remove disposed equipment from its financial systems and that its current financial system did not provide reliable information for inventory verifications because it was not a comprehensive asset management system. We determined that the implementation of such a comprehensive asset management system could provide NCUA management with reliable information to support decision-making and evaluate the performance of the inventory management program. Our audit identified $440,000 in funds that could have been put to better use.

Open Recommendations

Recommendation #1—Finalize the draft handbook, Accountable Property Operations Handbook, and revise and/or cancel any other IT equipment inventory management related policies, procedures, and instructions that will be covered by the new handbook, as applicable.

Recommendation #2—Develop and incorporate a responsibility statement to the Record Receipt—Property Issued to Employee Form that all employees, contractors, and others who are issued IT equipment must acknowledge (electronically or in writing) issuance of NCUA equipment. Reflect this requirement in applicable IT equipment inventory management policies and procedures.

Recommendation #3—Ensure performance criteria are incorporated into performance plans for all employees who are responsible for managing the agency's IT equipment.

Recommendation #4—Implement a comprehensive asset management system that designated employees must update, within a specific number of days, upon acquisition, distribution, and disposition of IT equipment, in accordance with NCUA's instruction, handbook, and related documents.

Recommendation #5—Survey IT equipment at least annually to identify excess or exhausted equipment, and then sell, transfer, or donate within a specific timeframe, according to parameters established in NCUA's instruction, handbook, and related documents.

Recommendation #6—Ensure the new instruction, handbook, and related documents provide a specific number of days for the removal of assets from the NCUA's financial system.

Recommendation #7—Consider in future contracts for IT equipment the ability to buy or lease assets on demand, which would reduce costs for equipment not needed.

3. **OIG-19-06** *Material Loss Review of Melrose Credit Union, LOMTO Federal Credit Union and Bay Ridge Federal Credit Union*, issued March 29, 2019, Number of Open Recommendations: 3, Potential Cost Savings: $0

Our audit determined the Credit Unions failed due to significant concentration of loans collateralized by taxi medallions, unsafe and unsound lending practices, weak Board and management oversight, and inadequate risk management practices.

Open Recommendations

Recommendation #1—Institute a formal process to regularly identify, analyze, and document concentration risk issues in credit unions or groups of credit unions, including but not limited to loan concentrations, that could potentially pose a significant risk to the share insurance fund. Additionally, the NCUA should consider developing appropriate thresholds for different concentrations that would require increased levels of risk mitigation and resources to minimize the risk to the Insurance Fund.

Recommendation #2—Revise examination quality control procedures to prioritize assessing and developing risk responses for credit unions with high levels of concentration risk. The procedures should require escalated review of repeat informal enforcement actions for unresolved recommendations. If the repeat actions represent safety and soundness concerns, require escalated enforcement action, including formal enforcement action, when warranted.

Recommendation #3—Include an update to the annual examination scope requirements that examiners review credit unions' lending procedures with respect to analyzing the ability of the borrower to meet debt service requirements. Ensure examiners address through the enforcement process any credit unions not sufficiently considering the borrower's ability to repay the loan due to undue reliance on the value of the collateral. If left unresolved, ensure the quality control procedures review the need for elevated enforcement action.

Report on Credit Union Non-Material Losses

The Dodd-Frank Act requires the OIG to perform a limited review when the Share Insurance Fund incurs a loss below the material loss threshold ($25 million plus 10 percent of the credit union's assets) in the preceding six months due to the failure of an insured credit union. The OIG must report on the results of the limited reviews and the timeframe for performing any subsequent in-depth reviews that we determine are necessary.

The report below covers the six-month period from October 1, 2018, to March 31, 2019. For non-material losses to the Share Insurance Fund, we determine: 1) the grounds identified for appointing the NCUA as the liquidating agent, and 2) whether any unusual circumstances existed that might warrant an in-depth review of the loss.

For each limited review, we perform procedures that include, but are 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 taken, planned, or considered involving credit union officials or others; and 5) analyzing supervisory history and other review methods.

We identified one credit union that incurred a non-material loss to the Share Insurance Fund between October 1, 2018, and March 31, 2019, and conducted a limited scope review of that credit union. The chart below provides detailed information about the credit union such as the liquidation date, the estimated loss to the Share Insurance Fund, and grounds for conservatorship, merger, or other factors. We determined that proceeding with an in-depth review of the loss was not warranted because we did not identify unusual circumstances in connection with the loss.

DECISIONS REGARDING LOSSES LESS THAN $25 MILLION					
OIG Decision[1]	**Credit Union**	**Region**	**Liquidation Date**	**Est. Loss to Share Insurance Fund**	**Grounds for Liquidation or Appointment**
Terminate	Radio, Television and Communication Federal Credit Union	East	10/12/18	$550,000	The failure was due to an off balance sheet pension fund liability, and operating concerns caused by negative earnings. Following the liquidation of Radio, Television and Communication Federal Credit Union, Palisades Federal Credit Union assumed all of the former credit unions assets and liabilities excluding the pension fund liability.

[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.

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 Farm Credit Administration (FCA) OIG completed our most recent peer review on January 24, 2019, for the 3-year period ending September 30, 2018. The FCA 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 the Government Accountability Office OIG, Office of Audit

The NCUA OIG completed a peer review of the GAO OIG. On September 5, 2018, we issued an external peer review report for the audit function of the GAO OIG for the three year period ended March 31, 2018. The GAO 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) and the Council of the Inspectors General on Integrity and Efficiency (CIGIE), 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 allegations of misconduct on the part of NCUA employees, former employees, applicants, and contractors. Investigations examine possible violations of applicable Federal laws and regulations as well as NCUA-specific policies. We receive allegations through our hotline, email, and directly from NCUA personnel.

We also receive complaints from credit union officials and their members regarding NCUA programs, employees, and contractors. 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, the Office of General Counsel, or the appropriate regional office for response, or close the matter if contact with OCFP, OGC, or the regional office indicates that the matter has already been appropriately handled.

During this reporting period, the Office of Investigations opened three investigations, including one case where we are assisting the Department of Justice Office of Inspector General. We also continued to work on an investigation that we opened near the close of the last reporting period. Two of the cases involve contract issues, one involves an NCUA applicant, and the last involves an NCUA employee. As the table below indicates, we did not close any investigations during the reporting period or refer any investigative subjects for prosecution, and there were no indictments or criminal informations that resulted from prior referrals.

Investigative Activity/Reports Issued During the Reporting Period	**Total Number**
(A) Investigative reports issued during the reporting period	0
(B) Persons referred to the Department of Justice for criminal prosecution during the reporting period	0
(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 cases where the subject is unknown, OI uses a subject matter title to designate, track, and, as appropriate, refer cases.

Investigations Conducted Involving a Senior Government Employee

No investigations involving a senior Government official were 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

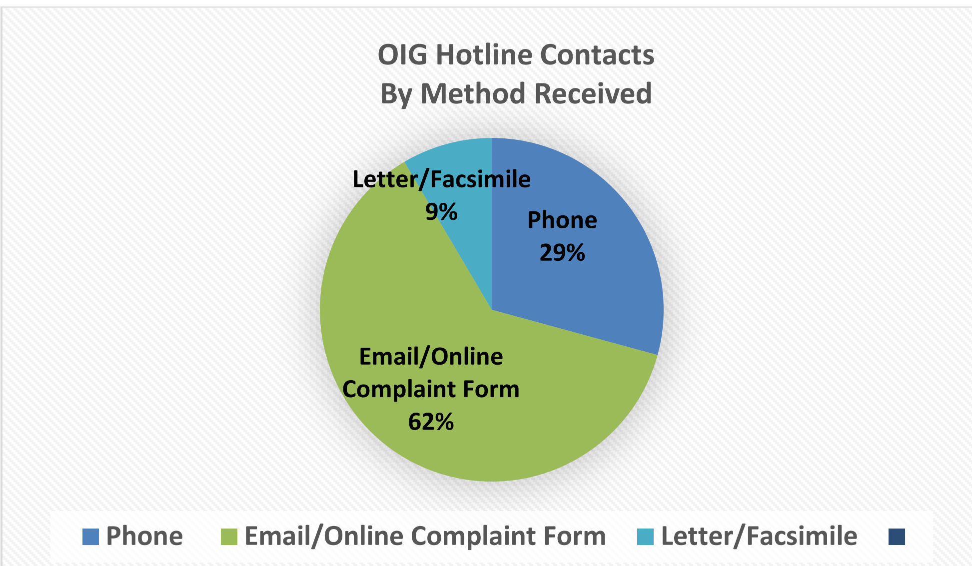
There were no attempts on the part of management to interfere with IG independence, including restricting communications between the OIG and Congress or using budgetary constraints designed to limit the capabilities of the OIG.

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, the 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 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.

During this 6-month period, we processed approximately 106 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	31
Email/Online Complaint Form	66
Letter/Facsimile	9
Total:	106

Reviews of Legislation, Regulations, and Policies

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. We made recommendations regarding the following NCUA policies during this reporting period:

Disposition of Agency-Owned and –Leased Personal Property

As a result of our audit examining the NCUA's IT inventory, we recommended that the NCUA revise its instruction on the disposition of personal property, including the disposition of IT equipment, to broaden its application to the entire life cycle of IT equipment, not just its disposition. We also recommended that the NCUA implement procedures to require employees to sign receipts when issued IT equipment and require performance plans for employees responsible for IT equipment inventory management to include that responsibility criterion.

External Meetings and Conferences Approval

We recommended that this new instruction require employees to consult with the NCUA's Designated Agency Ethics Official if they receive a request from an external organization, such as a trade organization or consumer group, to participate in a conference or meeting when the external organization will pay for their travel, meals, or conference fees, or if there are other circumstances that might raise ethics concerns.

Acquisition Policy Manual

We recommended that the NCUA revise its acquisition manual to require that the Contracting Officer and others involved in the contracting process report promptly to the OIG any reasonable belief or allegation that an NCUA employee, contractor, subcontractor, or potential contractor may have engaged in any activity involving criminal or civil violations or other misconduct, and further cooperate in any OIG investigation, audit, review, or inquiry. We also recommended that the NCUA add a requirement to all its contracts that contractors must timely disclose in writing to the OIG, with a copy to the Contracting Officer, when the contractor has credible evidence that an employee of the contractor or subcontractor has committed a violation of criminal or civil law, and a requirement that contractors cooperate fully with the OIG, including disclosing complete and accurate information through interviews and production of records, and that these requirements be included by the contractor in its subcontracts.

In addition to reviewing NCUA-related legislation, regulations, and policies, we also reviewed draft legislation and legislative priorities concerning OIGs that were developed by the Council of the Inspectors General on Integrity and Efficiency. A recent list of legislative priorities we provided input on includes providing inspectors general statutory authority to subpoena testimony from non-Federal employees. Federal employees, such as NCUA employees, already are required to cooperate with OIGs in investigations, audits, and other work. Providing OIGs statutory testimonial subpoena authority is important because OIG oversight can be substantially hampered if contractors or others outside of agencies refuse to cooperate in OIG investigations and audits.

Another important legislative priority for OIGs is to create a specific exemption under the Freedom of Information Act for sensitive information relating to a federal agency's information security program or practices. This is important because OIGs' FISMA reviews and other IT-related work contain sensitive information that, if released, could jeopardize information security.

During the reporting period, OIG reviewed the following NCUA regulations and letters to credit unions but we did not make any recommendations with regard to these items. OIG also responded to 12 Freedom of Information Act requests.

List of NCUA Regulations and Letters Reviewed	
Regulations	Title
83 Fed. Reg. 49857	Proposed Rule: Real Estate Appraisals
83 Fed. Reg. 56640	Proposed Rule: Credit Union Bylaws
83 Fed. Reg. 59318	Proposed Rule: Fidelity Bonds
83 Fed. Reg. 5957	Proposed Rule: Supervisory Committee Audits
Letters to Credit Unions	Title
18-CU-02	Requests to Serve a Well-Defined Local Community Using the Narrative Approach
18-FCU-03	Operating Fee Schedule Adjusted for 2019
18-CU-04	Sharing Bank Secrecy Act Resources
18-CU-05	Voluntary Credit Union Diversity Self-Assessment
19-CU-01	Supervisory Priorities for 2019
19-01	CFPB Announces Annual Adjustment Under Fair Credit Reporting Act
19-02	CFPB Announces Asset-Size Threshold Adjustments Under HMDA and TILA
19-03	HMDA Data Collection Requirements for 2019
19-04	Submission of 2018 HMDA Data

List of NCUA Regulations and Letters Reviewed	
19-05	CFPB Issues Reference Tool for 2019 HMDA Data Collection
19-06	CFPB Releases FAQs for Complying with TRID Rule Change
19-07	CFPB Publishes 2019 Lists of Rural and Underserved Counties and Updates Website Tool
19-08	CFPB Releases Small Entity Compliance Guide Summarizing the Payday, Vehicle Title, and Certain High-Cost Installment Loans Rule
19-09	CFPB Issues Technical Specifications and Resources for Prepaid Product Agreements
19-10	FFIEC Issues 2019 HMDA Getting It Right Guide

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.	1	$440,000	0
Subtotals (A + B)	1	$440,000	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.	0	0
(ii) Dollar value of recommendations not agreed to by management.	0	0
(D) For which no management decision was made by the end of the reporting period.	0	0
(E) For which no management decision was made within six months of issuance.	0	0

Recommendations that "Funds to be put to Better Use" are those OIG recommendations that funds could be used more efficiently if management took actions to reduce outlays, de-obligate funds from programs/operations, avoid unnecessary expenditures noted in pre-award reviews of contracts, or any other specifically identified savings.

TABLE III: SUMMARY OF OIG ACTIVITY DURING THE REPORTING PERIOD

Part I—Audit Reports Issued

Report Number	Title	Date Issued
OIG-18-07	FY 2018 Independent Evaluation of the NCUA's Compliance with FISMA 2014	10/31/18
OIG-18-08	Audit of the NCUA’s Closing Package Schedule of Other Assets and Contributed Capital as of September 30, 2018	11/16/18
OIG-19-01/02/03/04	FY 2018 Financial Statements	2/15/19
OIG-19-05	Audit of the NCUA’s Information Technology Equipment Inventory	3/28/19
OIG-19-06	Material Loss Review of Melrose Credit Union, LOMTO Federal Credit Union, and Bay Ridge Federal Credit Union	3/29/19

Part II—Audits in Progress *(as of March 31, 2019)*

Audit of NCUA’s State Supervisory Authority Examination Process
Audit of the NCUA’s Consumer Complaint Program
Audit of the NCUA’s Office of National Examinations and Supervision Oversight of Credit Union Cybersecurity Programs
Audit of the NCUA’s Examination Process and Oversight Authority of CUSOs and other (non-CUSO) Third-party Vendors

INDEX OF REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT OF 1978, AS AMENDED

APPENDIX A

OFFICE OF

INSPECTOR GENERAL

Peer Review Report

Peer Review of the National Credit Union Administration Office of Inspector General's Audit Organization

Issued January 24, 2019

FARM CREDIT ADMINISTRATION

Table of Contents

Farm Credit Administration

Office of Inspector General
1501 Farm Credit Drive
McLean, Virginia 22102-5090

January 24, 2019

James Hagen
Inspector General
National Credit Union Administration
1775 Duke Street, Suite 4206
Alexandria, VA 22314

System Review Report

Rating

In our opinion, the system of quality control for the audit organization of the NCUA OIG in effect for the year ended September 30, 2018, 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 rating of *pass, pass with deficiencies, or fail.* The NCUA OIG has received an External Peer Review rating of *pass*.

We conducted this review in accordance with the objective, standards, testing, and limitations set forth below.

Objective

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, 2018. A system of quality of control encompasses the 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*. The NCUA OIG is responsible for establishing and maintaining a system of quality control that is designed to provide the 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.

Standards and Guidance

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*. 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 audits and administrative files to test for conformity with professional standards and compliance with the NCUA OIG's system of quality control. We selected the only performance audit conducted within the scope and the monitoring file of the most recently issued report within the scope. Prior to concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with the NCUA OIG's management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

Independent Public Accountant Monitoring

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 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.

Testing and Limitations

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.

Enclosure 1 to this report identifies the NCUA OIG office that we visited and the audits we reviewed.

Wendy R. Laguarda

Wendy R. Laguarda
Inspector General
Farm Credit Administration

Enclosure

Enclosure 1

Scope and Methodology

We tested compliance with the NCUA OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of the audit report issued during the period October 1, 2015 through September 30, 2018. We also reviewed the internal quality control reviews performed by the NCUA OIG. In addition, we reviewed the NCUA OIG's monitoring of audits performed by Independent Public Accounting Firms (IPAs) where the IPA served as the auditor for the review.

We visited the Alexandria, VA office of the NCUA OIG.

Reviewed Audits performed by the NCUA OIG:

Report Title	Report Date
Audit of the NCUA's Comprehensive Records Management Process	March 2018
Audit of NCUA's Procurement Program	June 2017

Reviewed Monitoring Files of the NCUA OIG for Contracted Audits:

Report Title	Report Date
NCUA's 2017 Financial Statement Audits for the Share Insurance Fund, Operating Fund, Central Liquidity Facility, and Community Development Revolving Loan Fund	February 2018
FY 2017 Independent Evaluation of the NCUA's Compliance with the Federal Information Security Modernizations Act of 2014	November 2017