



**NCUA**  
National Credit Union Administration

**OFFICE OF  
INSPECTOR GENERAL**



# **Semiannual Report to the Congress**

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April 1 – September 30, 2018

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# A Message from the Inspector General

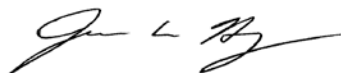
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On behalf of the Office of Inspector General (OIG) of the National Credit Union Administration (NCUA), I am pleased to present our Semiannual Report to the NCUA Board and the Congress highlighting our accomplishments and ongoing work for the 6-month period ending September 30, 2018. This year we mark the 40<sup>th</sup> anniversary of the Inspector General Act and the creation of the original 12 Offices of Inspector General. Our office was created in 1989. Since that time we have been part of a community that has grown to include 73 statutory Inspectors General who collectively oversee the operations of nearly every aspect of the Federal government. Every six months we provide Congress with a report detailing our independent oversight of the NCUA during the reporting period. This report is our 59<sup>th</sup> semiannual report. In the years to come, we look forward to continuing our efforts to provide independent and effective oversight of the NCUA and working with the Council of Inspectors General on Integrity and Efficiency on important issues that cut across our government.

During this reporting period, as a member of the Council of Inspectors General on Financial Oversight (CIGFO), our Office of Audit worked on a joint review with other inspectors general for financial regulators culminating in a report entitled, “Top Management and Performance Challenges Facing Financial Regulatory Agencies.” At NCUA, we identified the significant risks facing NCUA as follows: cybersecurity, interest rate risk, growing performance disparities between large and small credit unions, changing demographics, increasing competition and continuing consolidation, resolving troubled credit unions, and maintaining the equity ratio of the National Credit Union Share Insurance Fund.

On the investigative side, the Office of Investigations opened two cases and closed five cases during the reporting period. Four of the five cases closed involved NCUA officials/employees. The employee in one of the cases received a reprimand and was required to reimburse the NCUA. In the other three cases, no action was taken. The fifth case involved a former NCUA credit union examiner who pled guilty to bribery in connection with receiving a loan from a credit union. He was sentenced to probation and was ordered to pay criminal penalties and assessments. You will find more details about these cases later in this report.

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.



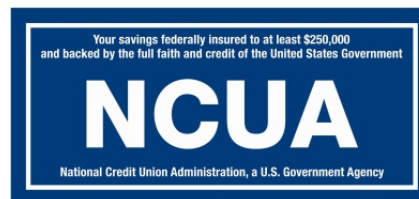
James W. Hagen  
Inspector General



## The National Credit Union Administration Mission

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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

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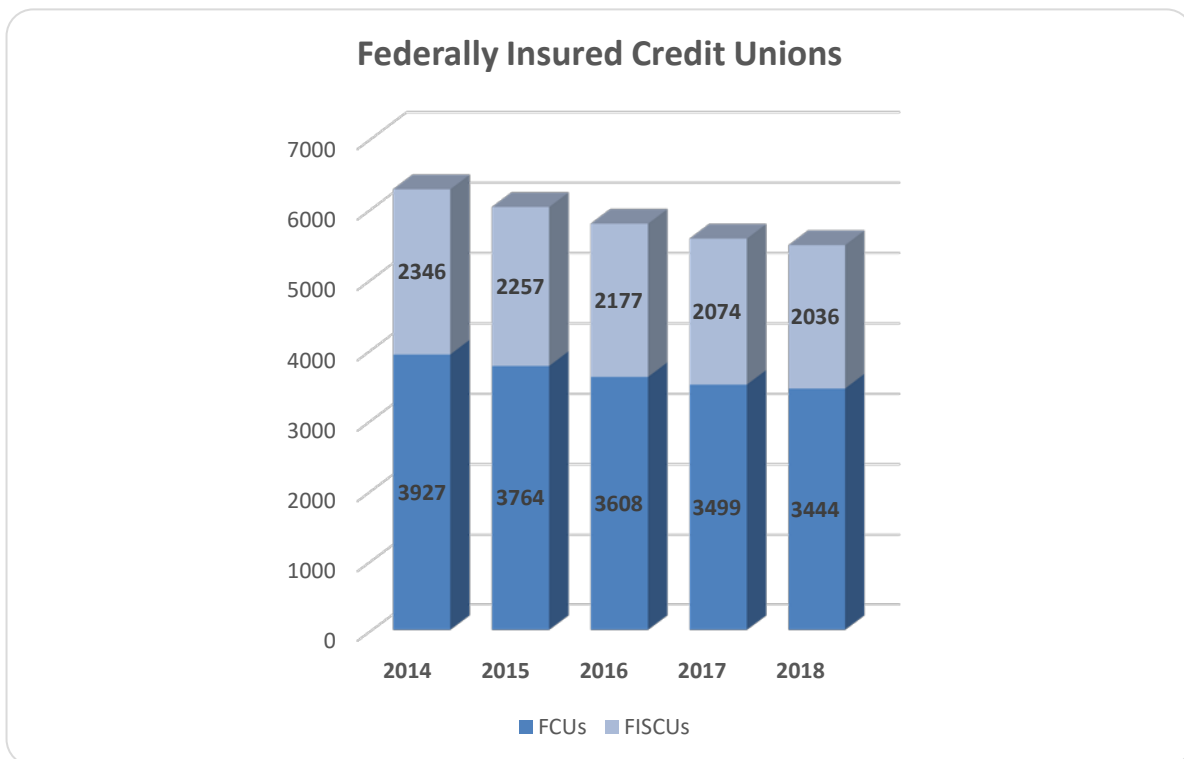
The Office of Inspector General (OIG) promotes the economy, efficiency, and effectiveness of NCUA programs and operations, and detects and deters fraud, waste, and abuse, thereby supporting the NCUA’s mission of monitoring and promoting safe and sound federally insured credit unions.

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

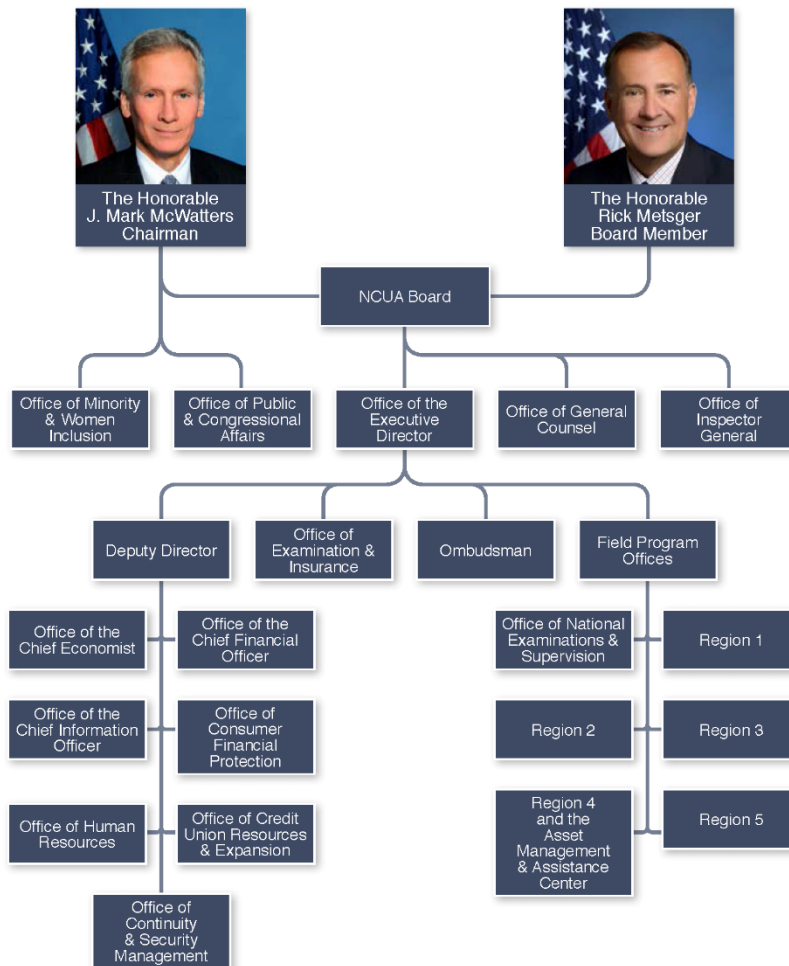
The NCUA was established as an independent, federal regulatory agency on March 10, 1970. The agency is responsible for chartering, examining, supervising, and insuring federal credit unions. It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. The NCUA is funded by the credit unions it supervises and insures. As of June 30, 2018, the NCUA was supervising and insuring 3,444 federal credit unions and insuring 2,036 state-chartered credit unions, a total of 5,480 institutions. This represents a decline of 5 federal and 38 state-chartered institutions since December 31, 2017, for a total decrease of 43 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 (SIF), the NCUA Operating Fund, the Central Liquidity Facility (CLF), and the Community Development Revolving Loan Fund (CDRLF).

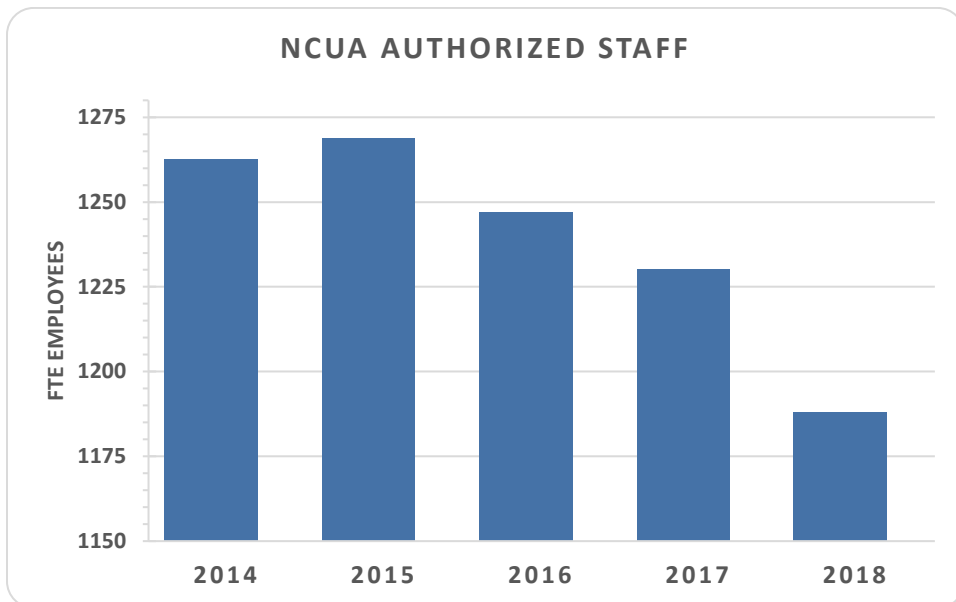
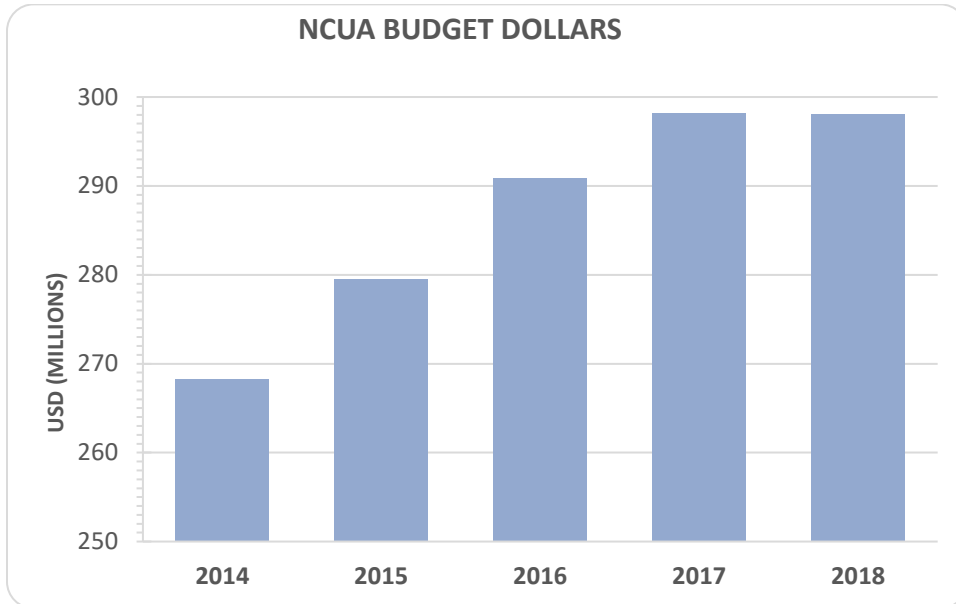


The NCUA executes its program through its central office in Alexandria, Virginia and regional offices in Albany, New York; Alexandria, Virginia; Atlanta, Georgia; Austin, Texas; and Tempe, Arizona. The NCUA plans to close two of the regional offices, Region 1 (Albany) and Region 3 (Atlanta), in January 2019. The NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer to the NCUA’s organizational chart below.





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

### Stress Testing Rule Reduces Burdens, Allows Credit Unions to Conduct Tests

On April 19, 2018, the NCUA Board unanimously approved a final rule reducing regulatory burdens on federally insured credit unions with assets of \$10 billion or greater by removing certain capital planning and stress testing requirements.

The NCUA Board approved its capital planning and stress testing requirement which would provide a measure of regulatory relief under a final rule (Part 702) that became effective June 1, 2018.

The NCUA Board rule requiring capital planning and stress testing for federally insured credit unions with assets of \$10 billion or greater anticipated the possibility of covered credit unions being allowed to conduct stress tests once the NCUA had completed three stress tests.

Under the approved final rule, credit unions with assets of less than \$20 billion will continue to develop annual capital plans, but those plans will no longer be submitted to the NCUA each year by May 31. Credit unions with assets greater than \$20 billion will continue to submit plans that must be approved by the agency.

The NCUA will no longer be required to conduct supervisory stress tests. NCUA has reserved the right to conduct stress tests on covered credit unions if it deems such action necessary. Credit unions with assets of less than \$15 billion will no longer be subject to stress testing requirements. Credit unions with assets greater than \$15 billion will be required to conduct stress testing, though credit unions with assets greater than \$20 billion will be subject to a 5 percent minimum stress test capital ratio.

### Member Business Loan Definition Changes

The NCUA Board unanimously approved, by notation vote on May 30, 2018, a change to the member business lending rule (Part 723) that conforms with changes to the Federal Credit Union Act made by the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018, signed into law by President Trump on May 24.

The legislation revised the definition of a member business loan to exclude all loans secured by liens on 1-to-4-unit family dwellings, regardless of the occupancy status of the borrower. The Federal Credit Union Act and the NCUA's member business lending rule previously defined member business loans, for the purpose of the aggregate limit on those loans, to include loans





secured by liens on 1-to-4 unit family dwellings that were not the borrower's principal residence.

The final rule became effective June 5, 2018.

## **Field-of-Membership Rule Changes Provide More Flexibility and Consumer Choice**

On June 21, 2018, the NCUA Board unanimously approved two items:

- A final rule amending the agency's regulations governing its chartering and field-of-membership rules with respect to applicants for a community charter approval, expansion, or conversion.
- A final rule to provide members of federally insured credit unions with greater transparency when those credit unions seek voluntary mergers.

### Board Approves Field-of-Membership Rule Changes

Changes to the NCUA's field-of-membership regulations will provide more flexibility for credit unions, more consumer choices, and an opportunity for public comment in some instances under a final rule (Part 701) approved by the Board that became effective September 1, 2018.

Changes to the existing regulation include:

- An applicant for an original community charter, conversion, or expansion has the option of submitting a narrative, with sufficient supporting documentation, to establish the existence of the required well-defined local community;
- The agency will hold a public hearing on narrative applications where the proposed community's population exceeds 2.5 million; and
- For communities that are subdivided into metropolitan divisions, the Board will permit an applicant to designate a portion of the area as its community, regardless of division boundaries.

### Final Rule Provides Greater Transparency in Voluntary Mergers

Members of a federally insured credit union seeking voluntary merger will be better-informed about that merger and have more time to consider their votes under a final rule (Parts 701, 708a, and 708b) approved by the Board and effective on October 1, 2018.

The final rule will apply to all federally insured credit unions and will:

- Increase the minimum required time for notice to members before a merger vote to 45 days;



- Require the merging credit unions to disclose merger-related compensation increases above \$10,000 or 15 percent of compensation, whichever is greater, for certain employees and officials of the merging credit union;
- Clarify the contents and format of the members' notice to provide better information; and,
- Provide a method to communicate to the NCUA regarding the proposed merger.

## **\$736 Million Share Insurance Distribution Payments to Occur**

On July 17, 2018, the NCUA announced that it will pay dividends to more than 5,700 credit unions eligible for the \$735.7 million Share Insurance distribution. Statements were mailed out indicating the amounts the dividend recipients will receive.

The NCUA Board gave unanimous approval to the distribution at its February 2018 open meeting after it had previously voted at its September 2017 open meeting to close the Temporary Corporate Credit Union Stabilization Fund and transfer the Stabilization Fund's assets and obligations to the Share Insurance Fund, as required by law.

The Stabilization Fund was scheduled to expire in 2021.

## **Proposed Rule Would Exempt Over 1000 Credit Unions from Risk-Based Capital Rule And Delay Rule's Effective Date**

On August 2, 2018, NCUA unanimously approved five items:

- A proposed supplemental rule amending the agency's prompt action regulations to delay the effective date of the risk-based capital rule and raise the asset threshold defining a complex credit union.
- A \$675,000 operating fund budget transfer to pay for cybersecurity improvements and employee relocation costs associated with the agency's reorganization.
- Continuation of the current 18 percent annual interest rate limit for loans, with the exception of loans originated under the payday alternative loan program, through March 10, 2020.
- A final rule creating new suspension and debarment procedures to protect the federal government's interest in only doing business with presently responsible contractors.
- A proposed rule to add specificity and clarity to current regulations covering loans and lines of credit granted to members and to provide credit unions with regulatory relief.



## Proposed Risk-Based Capital Rule Has One-Year Delay, Raises Asset Threshold for Complex Credit Unions

Ninety percent of federally insured credit unions would be exempt from the NCUA’s risk-based capital rule, and covered credit unions would have an additional year to prepare, under a proposed supplemental rule (Part 702) approved by the Board.

The proposed rule would delay the current effective date of the risk-based capital rule approved in October 2015 to January 1, 2020. The current effective date is January 1, 2019. The proposed rule also would raise the current \$100 million asset threshold for defining a complex credit union to \$500 million. As a result, 90 percent of credit unions, based on December 31, 2017 Call Report data, would be exempt from the rule. Under the proposed rule, more than 98 percent of all complex credit unions would be considered well-capitalized.

## **NCUA Files Notice of Charges Against Former Melrose CEO**

On August 7, 2018, the NCUA Board filed administrative charges against the former chief executive officer, treasurer, and board member of Melrose Credit Union, with the Office of Financial Institution Adjudication, an executive body charged with overseeing the administration of administrative enforcement proceedings of Financial Institutions Reform Recovery and Enforcement Act of 1989 agencies, including the NCUA. The NCUA alleged that the former CEO breached his fiduciary duties to Melrose by placing his own interests above those of the credit union, that he engaged in unsafe or unsound practices, and that he violated applicable laws and regulations, and that these actions caused severe financial loss to Melrose.

The NCUA is seeking a prohibition order against the former CEO and is requesting he be ordered to pay restitution of at least \$3.5 million and a civil money penalty of \$1 million. A hearing will be scheduled before an Office of Financial Institution Adjudication administrative law judge.

## **Melrose Credit Union Closes; Teachers Federal Credit Union Assumes Members, Shares, and Some Loans and Other Assets**

On August 31, 2018, the NCUA liquidated Melrose Credit Union, Briarwood, New York. Teachers Federal Credit Union, Hauppauge, New York, assumed all of Melrose’s members and shares as well as some loans and other assets. In announcing this, the NCUA stated that new Teachers Credit Union members should not experience any interruption in service, and their accounts would remain federally insured by the Share Insurance Fund. The Share Insurance Fund has the backing of the full faith and credit of the United States, for individual accounts, all joint accounts combined and IRA and KEOGH retirement accounts up to \$250,000.

The NCUA decided to liquidate Melrose and discontinue its operations after determining the credit union was insolvent and had no prospect for restoring viable operations. The New York



State Department of Financial Services placed Melrose into conservatorship on February 10, 2017, and named NCUA as conservator.

Melrose is the fifth federally insured credit union liquidated in 2018.

## **Proposed Rule Would Change Appraisal Requirement Threshold, Exempt Some Transactions**

NCUA Board held an open meeting on September 20, 2018, and unanimously approved two items:

- A proposed rule amending the agency’s regulation requiring real estate appraisals for certain transactions.
- A request from the Texas Credit Union Department to revise its member business lending rule to provide parity with the NCUA’s rule following changes made in June 2018.

### Proposed Appraisal Rule

The NCUA Board approved publishing in the Federal Register Proposed Rule 722, which would amend the agency’s real estate appraisal requirements for certain transactions.

The proposed rule would:

- Increase the threshold for required appraisals in non-residential real estate transactions from the current \$250,000 to \$1 million;
- Reorganize the appraisal regulation to make it easier to determine when a written estimate or an appraisal is required; and
- Implement the Economic Growth, Regulatory Relief, and Consumer Protection Act by exempting from the appraisal requirement transactions involving real estate where the property is located in a rural area, is valued below \$400,000, and no state certified or licensed appraiser is available.



## 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 June 30, 2018 quarterly data summary and financial trend reports found that key financial indicators were positive.

### Key Financial Indicators Favorable

The June 30, 2018 quarterly data summary report provided a comparison of the second quarter 2018 data to the same quarter in the previous year. For major balance sheet items and key ratios, the report showed the following four quarter percentage changes for the nation's 5,480 federally insured credit unions: assets grew 5.8 percent; net worth to assets ratio increased from 10.80 to 11.01 percent; and the loan to share ratio increased from 79.7 percent to 83.0 percent. The delinquency ratio decreased from .75 percent to .67 percent. Credit union return on average assets increased from .77 percent to .90 percent.

### Savings Shifting to Regular Shares

Total share accounts increased 8.32 percent, or \$48.21 billion, bringing total shares and deposits to \$1,207.69 billion. Regular shares increased 11.87 percent. Regular shares comprised 36.98 percent of total share accounts or \$446.60 billion; share certificates comprised 18.20 percent or \$219.85 billion; money market shares comprised 21.73 percent or \$262.44 billion; share draft accounts comprised 14.86 percent or \$179.44 billion; and IRA/KEOGH accounts comprised 6.42 percent or \$77.53 billion.

### Loan Volume Increasing

Loans increased 9.37 percent, or \$44.83 billion, bringing total loans to \$1,002.14 billion. Total net loans of \$992.96 billion, which included an allowance for loan and lease loss of \$9.2 billion, comprised 69.46 percent of credit union assets. First mortgage real estate loans accounted for the largest single asset category with \$410.61 billion or 40.97 percent of all loans. Other real estate loans of \$83.91 billion accounted for 8.37 percent of all loans. Used car loans of \$212.67 billion comprised 21.22 percent of all loans, while new car loans amounted to \$139.36 billion or 13.91 percent of total loans. Unsecured credit card loans totaled \$57.95 billion or 5.78 percent of total loans, while all other unsecured loans totaled \$41.0 billion or 4.09 percent. Leases receivable and all other loans represented \$56.65 billion or 5.65 percent of total loans.



## Legislative Highlights

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

On April 6, 2018, the Senate passed the Economic Growth, Regulatory Relief, and Consumer Protection Act, S. 2155, which amended the member business loan limit for credit unions to exempt any loan secured by a one-to-four unit residential property. Credit unions generally are limited to lending no more than 12.25 percent of their assets to member businesses, with loans of \$50,000 or less exempt from this ceiling. Before the legislative change, only loans secured by a property that was the member's primary residence were excluded from the definition of a member business loan.

Additionally, the statute exempts credit unions that originate fewer than 500 mortgage loans each year from Home Mortgage Loan Disclosure Act reporting requirements; exempts from appraisal requirements transactions involving real estate where the property is located in a rural area, is valued below \$400,000, and no state certified or licensed appraiser is available; requires the NCUA to hold public hearings on its draft annual budget; and requires the U.S. Department of Treasury to conduct a study on the risks that cyber threats might pose to financial institutions.

### Senate Passes Legislation to Publicize IG Open Recommendations

On May 23, 2018, the Senate passed the Inspector General Recommendation Transparency Act, S. 2178. The bill would require inspectors general 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).

### Bipartisan Bill Aims to Reduce Improper Payments

On May 24, 2018, Senator McCaskill (D-MO), with co-sponsors Senator Carper (D-DE) and Homeland Security and Government Affairs Committee Chairman Senator Johnson (R-WI), introduced the Payment Integrity Information Act of 2018, S. 2948. CIGIE provided comments on the bill, which 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 OMB and CIGIE to issue guidance for annual reporting on agencies' compliance.



## **Senate Appropriations Bill Calls for Inspector General Approval for Premium Air Travel**

On June 21, 2018, Senator Lankford (R-OK) introduced the Financial Services and General Government Appropriations Act of 2019, S. 3107, which would fund the Department of Treasury, the Executive Office of the President, the federal judiciary, the District of Columbia, and more than two dozen independent federal agencies, including providing \$2 million of funding for the NCUA's Community Development Revolving Loan Fund. The bill prohibits appropriations under it to be used for business class or first class air travel unless consistent with federal travel regulations, which allow such travel under certain circumstances, including exceptional security circumstances. The bill calls for written authorization by the agency head in the case of employee premium travel based on exceptional security circumstances, or in the case of such travel by the agency head, written authorization by the agency's inspector general. CIGIE shared concerns with congressional staff that the inspector general approval requirement could impact inspector general independence and also constitute a programmatic function that should be performed by agencies, not inspectors general.

## **House Bill to Require Political Appointees to Reimburse Government for Unlawful Use of Federal Funds**

On June 28, 2018, Representative Sinema (D-AZ) introduced the Cut the Perks Act, H.R. 6295. The bill is co-sponsored by three Republican and three Democratic representatives. The bill provides that if an inspector general and the Government Accountability Office (GAO) find that a political appointee made a personal request for an obligation or an expenditure of federal funds in willful violation of federal law, rule, or regulation, the political appointee shall reimburse the Government for the amount of the obligation or expenditure.

## **Senate Bill to Require Political Appointees to Reimburse Government for Misspending Federal Funds**

On August 28, 2018, Senator Carper (D-DE) introduced the Executive Branch Waste and Fraud Recovery Act, S. 3398. The bill would require an agency to seek recoupment when the agency's inspector general determines that a current or former political appointee at the agency directed the agency, or agency component over which the political appointee has authority, to spend federal funds in a manner that was unlawful or inconsistent with applicable regulations or agency policies or procedures.

## **House Passes Legislation to Provide Safe Harbor for Financial Institutions**

On June 25, 2018, the House passed the Cooperate with Law Enforcement Agencies and Watch Act of 2018, H.R. 5783, which provides that if a federal or state law enforcement agency requests



that a financial institution, including a credit union, keep a customer account open, the financial institution shall not incur any liability for maintaining the account.

## **House Bill to Require Study of Third Party Access to Consumer Financial Data**

On September 12, 2018, Representative Meeks (D-NY) introduced the Open Banking Study Act of 2018, H.R. 6789, which requires federal financial regulators, including the NCUA, to conduct an independent study of their regulated entities' processes for allowing third parties access to consumer-authorized financial data.

## **House Passes Legislation to Provide Testimonial Subpoena Authority to IGs**

On September 26, 2018, the House passed the IG Subpoena Authority Act, H.R. 4917, which would amend the Inspector General Act to provide inspectors general with the authority to subpoena testimony (other than from federal employees, who are otherwise required to cooperate with inspectors general). The bill was referred to the Senate Homeland Security and Government Affairs Committee on September 27. Inspectors general have had the power to subpoena documents since enactment of the Inspector General Act in 1978.



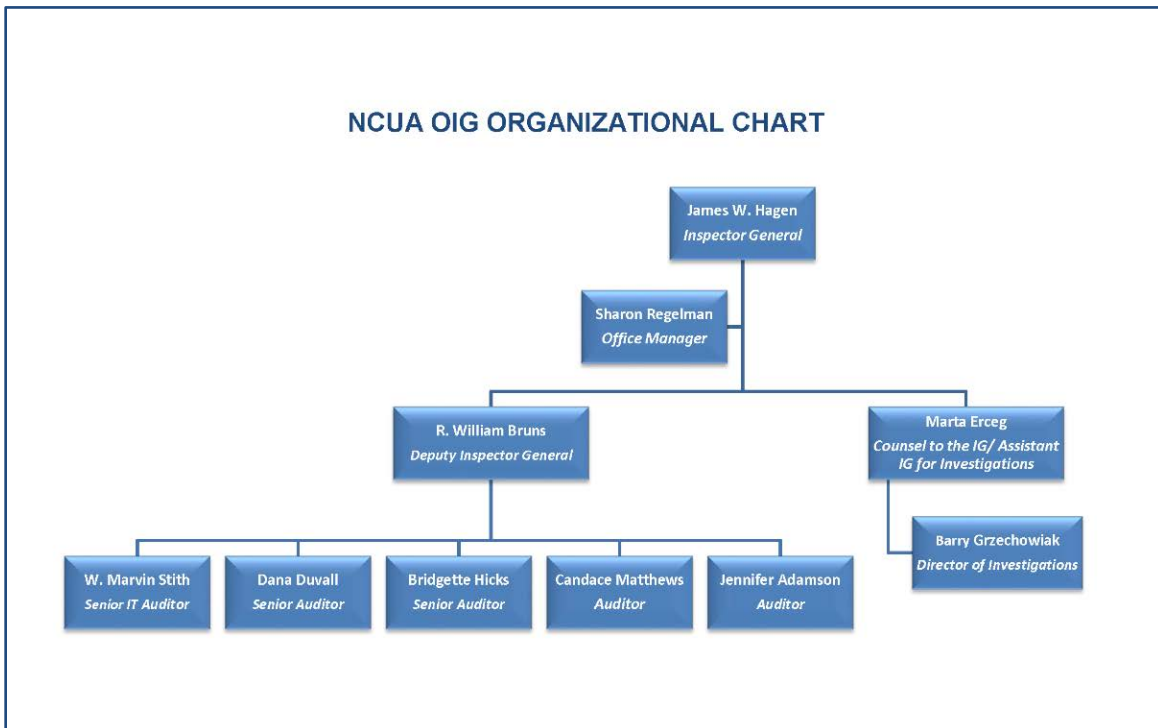


## Office of Inspector General

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

### 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.

#### **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.

### **FY 2018 Independent Evaluation of the NCUA’s Compliance with the Federal Information Security Modernization Act of 2014 (FISMA)**

During this reporting period, the NCUA OIG engaged CliftonLarsonAllen, LLP (CLA) to independently evaluate its information systems and security program and controls for compliance with the FISMA.

CLA is evaluating the NCUA’s security program through interviews, documentation reviews, technical configuration reviews, social engineering testing, and sample testing. The NCUA is being evaluated against standards and requirements for federal government agencies such as those provided through FISMA, National Institute of Standards and Technology Special Publications, and OMB memoranda. We anticipate issuing the IG FISMA Reporting Metrics by October 31, 2018, and final FISMA audit report in November 2018.

### **FY 2018 Financial Statement Audits**

The OIG has contracted the accounting firm of KPMG to conduct the 2018 financial statement audits of the NCUA Operating Fund, Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund. In addition to the financial statement audits, KPMG is providing audit assurance on the NCUA’s material line items and note disclosures (Closing Package) for the Audit of the U.S. Government’s Fiscal Year 2018 Consolidated Financial Statements.

- The NCUA Operating Fund was established as a revolving fund managed by the NCUA Board for the purpose of providing administration and service to the federal credit union system.



- The Share Insurance Fund was established as a revolving fund managed by the NCUA Board to insure member share deposits in all Federal credit unions and qualifying state credit unions.
- The Central Liquidity Facility was established as a mixed ownership government corporation managed by the NCUA Board to improve general financial stability by meeting the liquidity needs of credit unions.
- The purpose of the Community Development Revolving Loan Fund is to stimulate economic activities in the communities served by low-income credit unions. This in turn will result in increased income, ownership, and employment opportunities for low-wealth residents and other economic growth.

We expect to transmit our Governmentwide Financial Reporting System submission on the Closing Package by the required due date in November 2018, and issue the financial statement reports for the NCUA’s four permanent funds in February 2019.

## **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 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 Share Insurance Fund under the \$25 million threshold to determine whether unusual circumstances exist to warrant conducting a full-scope MLR. During the reporting period, the Share Insurance Fund did not sustain a loss under the \$25 million threshold. Accordingly, we did not conduct any limited scope reviews to determine whether unusual circumstances existed. We discuss this further on page 23.

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

Following is a list of OIG reports with significant unimplemented recommendations as of September 30, 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.

### **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 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 indicated Part 715 will be prescriptive without procedures and plans to complete a separate procedural guide in conjunction with the update to Part 715. Management has set a target date of December 2018 for final implementation.

- 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 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 undergoing a rewrite.

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

Status: Open. Management indicated they have distributed user guides, frequently asked questions, and a memorandum to NCUA staff on the use of the Secure File Transfer Portal (SFTP) for the storage and transfer of sensitive information. Management must still ensure that security awareness training is enhanced by including reminders regarding the availability and use of the secure transfer tool, i.e., the SFTP.

## **Summary of Audit Reports Over 6 Months Old with Unimplemented Recommendations**

Following are summaries of six OIG audit reports over 6 months old having 10 unimplemented recommendations, including any associated cost savings as of September 30, 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: 1, 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 Recommendation

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

We determined that required and optional components of NCUA’s IT examination program provide for significant oversight of federal credit union cybersecurity programs when compared to the National Institute of Standards and Technology (NIST) Cybersecurity Framework. In addition, we learned NCUA is in the process of adapting its IT examination program to incorporate an Automated Cybersecurity Examination Tool to specifically assess credit unions’ cybersecurity programs based on the NIST Cybersecurity Framework.

### 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.



- 5. 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.

#### Unimplemented Recommendation

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.

- 6. OIG-18-05** – Audit of the NCUA’s Comprehensive Records Management Process, issued March 14, 2018, Number of Unimplemented Recommendations: 4, 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 #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 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**

During the reporting period the OIG made no recommendations for corrective action.



## **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 six months on the results of the limited reviews and the timeframe for performing any subsequent in-depth reviews we determine are necessary.

This report on losses below the \$25 million threshold covers the six-month period from April 1, 2018 to September 30, 2018. For losses to the Share Insurance Fund under the MLR threshold, we determine: 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 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 received no reports of credit unions that incurred losses to the Share Insurance Fund under \$25 million between April 1, 2018, and September 30, 2018. Therefore, we did not conduct any limited scope reviews for the current reporting period.



## **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 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.

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	3
(B) Persons referred to the Department of Justice for criminal prosecution during the reporting period	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	1

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

During the reporting period, OI closed five investigations and issued three reports of investigation, as described below:

### Bribery

In 2017, the OIG obtained information that a former NCUA examiner may have used his position to improperly obtain a personal loan from a credit union, which he otherwise would not have been qualified to receive. In May 2018, the former examiner was charged in federal court in Arizona with one count of Bribery of a Public Official, 18 U.S.C. § 201(c)(1)(B), to which he pled guilty. In July 2018, he was sentenced to 24 months' probation and ordered to pay a \$100 special assessment and a fine of \$4,300. We did not issue a report in connection with this investigation, which we conducted jointly with the Office of Inspector General for the Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau (at the time of the investigation, the subject was an examiner with the Consumer Financial Protection Bureau).

### Conflict of Interest

During a previous reporting period, the OIG received information that while the NCUA Chairman owned American International Group (AIG) stock and warrants, he participated in a vote, as a member of the Financial Stability Oversight Committee (FSOC), to rescind FSOC's determination that material financial distress at AIG could pose a threat to U.S. financial stability. The investigation confirmed that the Chairman owned AIG stock and AIG warrants at the time of the FSOC vote on AIG. During the investigation, the Chairman stated that he believed at the time of the vote that his AIG holdings fell under the Office of Government Ethics (OGE's) *de minimis* exemption for publicly traded securities whose aggregate market value does not exceed \$15,000, and therefore his recusal from the FSOC vote was not required. OGE advised OIG and the Chairman that the exemption applied to the stock holdings, but not the warrants. The Chairman provided information to the OIG and OGE asserting that warrants are treated the same as stock by securities lawyers and accountants and that warrants are publicly traded instruments. The investigation was closed during the reporting period and no action was taken regarding the Chairman.

### Unauthorized Receipt of Expenses

During a previous reporting period, the OIG received a complaint alleging that the NCUA Chairman and his Chief of Staff (see below) misused NCUA funds for extravagant travel expenditures, including premium air travel and expensive meals, hotels, and representation expenses. While there was no violation of law, the investigation revealed that the Chairman was reimbursed with NCUA funds for alcohol expenses of approximately \$150, which were associated with three meals in 2016 and 2017, the period of our review. NCUA policy authorizes "representation funds" to reimburse NCUA Board members and their senior policy advisors (one



for each Board member) for food, beverages, and other expenses while conducting certain official agency functions, including business meetings with non-NCUA individuals. At the time of our investigation, the NCUA policy memorandum, however, did not permit reimbursement for alcohol expenses. The NCUA changed its policy after the investigation closed to allow for the reimbursement of alcohol expenses. Our investigation also found that reimbursement to the Chairman for premium air travel, UberBlack, and hotels did not violate NCUA policy. The investigation was closed during the reporting period and no action was taken with respect to the Chairman.

### **Unauthorized Receipt of Expenses**

Our investigation of the complaint about travel expenses revealed that the Chief of Staff was reimbursed with NCUA funds for alcohol expenses of nearly \$2,500, which were associated with 27 meals in our review period of 2016 and 2017, while there was no violation of law, NCUA policy did not permit reimbursement for alcohol. The investigation also found that reimbursement to the Chief of Staff for premium air travel, UberBlack, and hotels did not violate NCUA policy. The investigation was closed during the reporting period and no action was taken with respect to the Chief of Staff.

### **Unauthorized Receipt of Expenses**

During a previous reporting period, the OIG received information that an NCUA examiner may have committed travel voucher fraud in 2014 by claiming to have driven her car to training when in fact she had been a passenger in another examiner's car for a large portion of the trip. During the investigation, the examiner admitted to driving in the other examiner's car and submitting a reimbursement request for mileage for the entire trip. As a result, the examiner received a letter of reprimand and was ordered to reimburse the NCUA for the amount of funds she improperly received, \$796.

## **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.

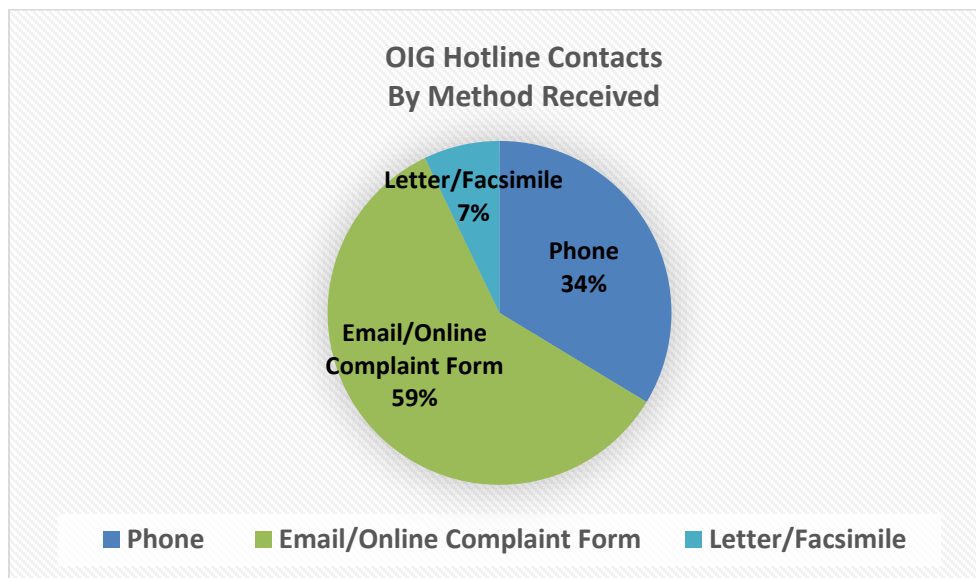
Moreover, there have been no incidents where the NCUA resisted or objected to OIG oversight activities. There have also been no restrictions or delays in our access to agency information.



## 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 98 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	58
Letter/Facsimile	7
<b>Total:</b>	<b>98</b>



## 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. We did not make any recommendations with regard to these items during this reporting period. OIG also responded to seven Freedom of Information Act requests and one Privacy Act request.

SUMMARY OF STATUTES AND REGULATIONS REVIEWED	
Legislation	Title
S. 2155	Economic Growth, Regulatory Relief, and Consumer Protection Act
S. 2178	Inspector General Recommendation Transparency Act of 2018
H.R. 4917	IG Subpoena Authority Act
S. 2948	Payment Integrity Information Act of 2018
S. 3107	Financial Services and General Government Appropriations Act of 2019
H.R. 6295	Cut the Perks Act
S. 3398	Executive Branch Waste and Fraud Recovery Act
H.R. 5783	Cooperate with Law Enforcement Agencies and Watch Act of 2018
H.R. 6789	Open Banking Study Act
Regulations	Title
83 Fed. Reg. 17901	Final Rule: Capital Planning and Supervisory Stress Testing
83 Fed. Reg. 17910	Final Rule: Accuracy of Advertising and Notice of Insured Status
83 Fed. Reg. 24651	Final Rule: Involuntary Liquidation of Federal Credit Unions and Claims Procedures
83 Fed. Reg. 25583	Proposed Rule: Payday Alternative Loans
83 Fed. Reg. 25881	Final Rule: Commercial Lending





<b>SUMMARY OF STATUTES AND REGULATIONS REVIEWED</b>	
83 Fed. Reg. 30289	Final Rule: Chartering and Field of Membership
83 Fed. Reg. 30301	Final Rule: Bylaws; Voluntary Mergers of Federally Insured Credit Unions
83 Fed. Reg. 30289	Proposed Rule: Risk-Based Capital Supplementary Rule
83 Fed. Reg. 39622	Proposed Rule: Loans and Lines of Credit to Members
83 Fed. Reg. 49692	Notice: NCUA Draft 2019-2020 Budget Justification
83 Fed. Reg. 49857	Proposed Rule: Real Estate Appraisals
<b>Letters to Credit Unions</b>	<b>Title</b>
18-01 (August 2018)	Examination Modernization Initiatives
18-02 (August 2018)	Examination Guidance for Bank Secrecy Act Customer Due Diligence and Beneficial Ownership Compliance
18-03 (September 2018)	Merger Rule Provisions Including the Member-to-Member Communications Process



<b>TABLE I: ISSUED REPORTS WITH QUESTIONED COSTS</b>	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.



<b>TABLE II: ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE</b>	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.



<b>TABLE III: SUMMARY OF OIG ACTIVITY DURING THE REPORTING PERIOD</b>		
<b>Part I – Audit Reports Issued</b>		
<b>Report Number</b>	<b>Title</b>	<b>Date Issued</b>
N/A	No audit reports were issued during this reporting period.	
<b>Part II – Audits in Progress (as of September 30, 2018)</b>		
Audit of the NCUA’s Information Technology Inventory		
Audit of NCUA’s State Supervisory Authority Examination Process		
Audit of the NCUA’s Consumer Complaint Program		
2018 Independent Evaluation of the NCUA’s Compliance with FISMA 2014		
2018 Financial Statement Audits for Share Insurance Fund, Operating Fund, Central Liquidity Facility, Community Development Revolving Loan Fund)		



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	29
5(a)(1)	Significant problems, abuses, and deficiencies	15
5(a)(2)	Recommendations for corrective action made during the reporting period	22
5(a)(3)	Significant recommendations on which corrective action has not been completed	17
5(a)(4)	Matters referred to prosecutive authorities	25
5(a)(5)	Summary of instances where agency refused or failed to provide requested information	28
5(a)(6)	List of audit reports issued during the reporting period	34
5(a)(7)	Summary of significant reports issued during the reporting period	N/A
5(a)(8)	Statistical table on audit reports with questioned costs	31
5(a)(9)	Statistical table on audit reports with recommendations that funds be put to better use	32
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	18
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	24
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	25
5(a)(18)	Description of metrics used for developing the investigative report statistical table	25
5(a)(19)	Investigations conducted involving a senior Government employee	26, 27



<b>INDEX OF REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT OF 1978, AS AMENDED</b>		
<b>Section</b>	<b>Reporting Requirement</b>	<b>Page</b>
5(a)(20)	Detailed description of any instances of whistleblower retaliation	27
5(a)(21)	Detailed description of any attempt by the Agency to interfere with the independence of the Office	27
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	26, 27



**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  
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**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*.<sup>1</sup> 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*.<sup>2</sup> 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

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<sup>1</sup> United States Governmental Accountability Office, *Government Auditing Standards*, dated December 2011

<sup>2</sup> 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.

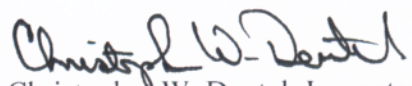
The enclosure to this report identifies the NCUA OIG offices that we visited and the audits that we reviewed.

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.



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.

<b>Reviewed Engagements Performed by NCUA OIG</b>		
<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
<b>Reviewed Monitoring Files of NCUA OIG for Contracted Engagements</b>		
<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