



BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** July 31, 2014
FROM: Chief Financial Officer **SUBJECT:** FY 2014 Mid-Session Budget Review

ACTION REQUESTED: Board approval of the reprogrammed 2014 operating budget as documented in the Board Action Memorandum and attachment.

DATE ACTION REQUESTED: July 31, 2014

OTHER OFFICES CONSULTED: All Office Directors

VIEWS OF OTHER OFFICES CONSULTED: Budget analyses provided by all office directors are summarized in this Board Action Memorandum.

SUBMITTED TO THE INSPECTOR GENERAL FOR REVIEW: Yes

BUDGET IMPACT: The recommended actions will result in a net decrease of \$1.1 million to the FY 2014 Board-approved operating budget.

RESPONSIBLE STAFF MEMBERS: Chief Financial Officer Mary Ann Woodson

BACKGROUND: NCUA conducted its annual mid-session budget review. All offices are directed to promote stewardship of agency funds, increase efficiencies, and reduce line item budgets wherever possible. The review assessed the agency's budget at mid-year, projected spending through the end of the fiscal year, and requested Board approval of any adjustments to the original 2014 budget.

Projections for the remainder of 2014 support an operating budget reduction of \$1.1 million. These excess funds will be used to offset next year's budget requirements and reduce operating fees which are assessed to credit unions. The Board anticipates considering the 2015 budget in November.

BUDGET REPROGRAMMING: Total budgeted operating costs for the year ending December 31, 2014, are reduced by \$1.1 million for a revised total budget of **\$266,920,296**. Total staffing will increase by two full-time equivalents (FTE) and change to 1,264.5 FTE.

OVERVIEW: The following table summarizes the adjustments to the original 2014 operating budget. These changes require no new funds and represent a minor recalibration of less than one-half of one percent of the original budget.

Operating Budget	Board Approved Budget	Mid-Session Reprogramming	Revised Budget Needs
Employee Pay & Benefits	\$ 194,632,214	\$ (1,525,000)	\$ 193,107,214
Travel	28,514,578	(289,000)	\$ 28,225,578
Rent/Communications/Utilities	5,615,191	63,000	\$ 5,678,191
Administrative	15,393,236	143,000	\$ 15,536,236
Contracted Services	24,135,077	238,000	\$ 24,373,077
Total	<u>\$ 268,290,296</u>	<u>\$ (1,370,000)</u>	<u>\$ 266,920,296</u>
Capital Budget	<u>6,127,512</u>	<u>270,000</u>	<u>6,397,512</u>
	<u>\$ 274,417,808</u>	<u>\$ (1,100,000)</u>	<u>\$ 273,317,808</u>

1) Employee Pay and Benefits: Net decrease of \$1,525,000.

With pay and benefits accounting for 73 percent of NCUA's budget, vacant positions are the primary source of unused budgetary funds. Based on the current recruitment actions in progress, the projected year end budget savings are estimated to be approximately \$1.5 million. In addition, the monthly transit subsidy reimbursement benefit is projected to save up to \$90,000 since Congress reduced the monthly amount from \$245 to \$130 after the budget was approved.

There are two recommended personnel changes for the mid-session budget:

One full-time equivalent increase will be allocated to the Office of Inspector General (OIG) to support a substantial increase in the number of congressionally mandated requests to the OIG and an influx of mandatory audits from legislation such as the Dodd-Frank Act. Further, the OIG is now required to conduct mandatory annual audits in the areas of travel and purchase cards, risk assessment/data analysis of charge card use, a task force on climate change, agency compliance with energy conservation, and a review of NCUA management challenges and risk assessment of internal payments.

In addition, the new Office of Continuity and Security Management (OCSM) will be allocated a personnel security specialist to handle the increased workload associated with the changes in national requirements from the Office of Personnel Management (OPM) and the Director of National Intelligence.

On May 8, 2014, OPM issued the final report from the September 2013 audit of NCUA Personnel Security Program, and recommended seven areas for improvement. The recommendations primarily focused on strengthening NCUA's security information management in compliance with mandated reporting to OPM, and ensuring NCUA meets interagency requirements for reciprocity.

NCUA is experiencing both an increased number of personnel who require background investigations (an increased workload due to changes in national requirements) and an increased complexity of the work (public trust positions and national security positions that require an advanced level of skill to adjudicate for suitability for federal employment). NCUA personnel in public trust positions (i.e., credit union examiners and supervisory positions) must have reinvestigations in accordance with 5 CFR 731.106, which requires Agencies to ensure that reinvestigations are conducted and a determination made regarding continued employment of persons occupying public trust positions at least once every 5 years (versus every 15 years as the previous requirement).

Managing national security clearances requires expert knowledge of complex adjudicative standards, skills in management of sensitive information, and the tracking, monitoring, and identifying of potential indicators of insider threats to ensure NCUA appropriately safeguards classified national security information. These requirements are in accordance with Executive Orders 10577, 12333, 13467, and 13587, Code of Federal Regulations 731 and 732, 5 U.S.C. Section 3301 *Civil Service*, and 50 U.S.C. Section 3341, *Security Clearances*.

Addition of a personnel security specialist will ensure OCSM is adequately staffed to meet these requirements.

2) Travel: Net decrease of \$289,000.

Updated program and training requirements have resulted in travel savings. Additional savings resulted from travel expenses for the 2014 National Training Conference in Jacksonville, Florida, coming in under budget. Lastly, existing travel dollars were realigned among two regions to meet program needs.

3) Rent, Communications, and Utilities: Net increase of \$63,000.

NCUA incurred an unplanned, unbudgeted real estate brokerage fee associated with an early five-year lease negotiation for one of the retail tenants. The lease was scheduled to be re-negotiated in 2015. The benefit of signing this lease in 2014 is that NCUA is now guaranteed to continue receiving uninterrupted rental income from this tenant through 2019.

4) Administrative: Net increase of \$143,000.

The primary increase in the administrative budget line item is to support a new license agreement for NCUA's Incident Management System (IMS) at a cost of \$200,000. This critical system will improve how NCUA staff collect and aggregate operational status of credit unions during emergency events such as natural or man-made disasters. The IMS will improve timeliness and accuracy of information, while decreasing the number of hours that have been required to record information during emergencies.

Additional support for information technology operations associated with hardware and software warranties and agreements is required in the amount of \$113,000. This increase has two components: \$53,000 for warranty extension and \$60,000 related to email software. The one-year warranty extension is in lieu of purchasing laptop computers a year earlier for non-

bargaining unit employees. The email software is required by Microsoft to sync email across devices on the NCUA network.

Partially offsetting the new information technology expenses is a \$170,000 net decrease in NCUA's costs to support the Federal Financial Institutions Examination Council (FFIEC). This includes spending of \$80,000 to support FFIEC's cybersecurity preparedness initiative to assess threats to the financial services industry, offset by savings of \$250,000 related to FFIEC data collection.

5) Contracted Services: Net increase of \$238,000.

Prioritized projects recommended by the Information Technology Prioritization Council (ITPC) are included in the mid-session requirements in the amount of \$470,000. NCUA has several decades-old legacy systems that are no longer supported by commercial entities, and will need to be replaced in 2015. Replacement of these systems requires an initial investment in 2014 to facilitate implementation during the next one to three years.

To offset the funding needed for these critical requirements, central offices identified \$370,000 in contract savings to reallocate for ITPC priorities. This includes savings associated with the National Training Conference and reduced OIG material loss reviews.

The information technology projects requested include system planning and assessments to identify specifications and develop modernized solutions for:

- A secure file transfer capability to support enhanced data integrity and information security to further safeguard sensitive credit union data as well as other private information to meet federal standards;
- The current examination system used by federal and state examiners to document credit union examinations and supervision work;
- NCUA's personnel and administrative security processes which include investigation and adjudication data for NCUA employees, contractors and visitors; and
- NCUA's Systems, Applications, and Products in Data Processing (SAP) system, which is used for a variety of administrative purposes including budget formulation, travel voucher audits, and interfaces sending and receiving human resource data to other systems.

In addition, \$100,000 is requested to meet growing demands for specialized audio visual expertise for NCUA webinars, video conferences and special events. For example, the number of educational webinars for small credit unions has increased and the number of participants has grown from approximately 1,000 in 2012, to nearly 9,000 in 2014. NCUA also needs to update its training, orientation, and other consumer protection media materials in the amount of \$38,000.

6) Capital Budget: Net increase of \$270,000.

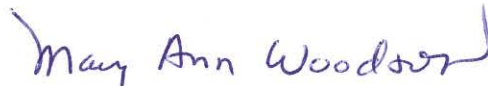
To comply with the higher-level security requirements mandated by federal statutory requirements, NCUA's electronic surveillance system requires specialized and dedicated

telecommunications equipment. The estimated cost of \$170,000 will be offset by \$100,000 savings related to Central Office conference room telecommunications equipment upgrades as well as other existing NCUA resources.

A portion of NCUA's retail space will be re-purposed as a dedicated training facility to support its exam program and maintain a highly skilled workforce. Building renovations and information technology infrastructure updates are needed before the facility can be utilized as a proper modern training environment. These capital costs are estimated to be \$200,000 and will be funded from existing NCUA resources.

RECOMMENDATION: It is recommended that the NCUA Board approve the following items:

1. Reprogram the fiscal year 2014 operating budget with a net decrease of \$1.1 million, resulting in a budget of \$266,920,296, as presented in Attachment 1.
2. Increase total full-time equivalent staff by two, resulting in an authorized level of 1,264.5, as presented in Attachment 1.
3. Reprogram the fiscal year 2014 capital acquisitions budget to result in an increase of \$270,000, as presented in Attachment 1.



Chief Financial Officer

Attachment

2014 MID-SESSION BUDGET

By Office	Mid-session			Full-Time Equivalents		
	Initial Budget	Reprogramming	Change	2014	Mid-session	Change
Office of the Board	\$ 2,907,078	2,907,078	-	12.00	12.00	-
Office of the Executive Director	\$ 1,685,595	1,685,595	-	6.00	6.00	-
Office of Continuity and Security Management	\$ 1,939,759	1,969,759	30,000	6.00	7.00	1.00
Office of Minority and Women Inclusion	\$ 2,500,763	2,500,763	-	11.00	11.00	-
Office of the Chief Economist	\$ 1,466,145	1,466,145	-	6.00	6.00	-
Office of Consumer Protection	\$ 9,370,881	9,120,881	(250,000)	42.00	42.00	-
Office of the Chief Financial Officer	\$ 21,673,898	20,141,898	(1,532,000)	39.00	39.00	-
Office of the Chief Information Officer	\$ 22,187,281	23,070,281	883,000	37.00	37.00	-
Office of National Examinations and Supervision	\$ 8,938,055	8,938,055	-	36.00	36.00	-
Office of Small Credit Union Initiatives	\$ 5,981,996	5,981,996	-	27.00	27.00	-
Office of Examination & Insurance	\$ 10,291,965	10,371,965	80,000	47.50	47.50	-
Office of General Counsel	\$ 6,297,796	6,297,796	-	28.40	28.40	-
Office of Inspector General	\$ 3,666,524	3,447,524	(219,000)	9.00	10.00	1.00
Office of Human Resources	\$ 14,221,131	13,821,131	(400,000)	41.00	41.00	-
Office of Public and Congressional Affairs	\$ 1,593,601	1,631,601	38,000	7.00	7.00	-
Region I - Albany	\$ 27,508,828	27,508,828	-	171.00	171.00	-
Region II - Capital	\$ 29,903,077	29,903,077	-	176.00	176.00	-
Region III - Atlanta	\$ 28,607,889	28,607,889	-	173.00	173.00	-
Region IV - Austin	\$ 30,245,007	30,445,007	200,000	178.60	178.60	-
Region V - Tempe	\$ 31,095,447	30,895,447	(200,000)	171.00	171.00	-
Asset Management & Assistance Center	\$ 6,207,580	6,207,580	-	38.00	38.00	-
Total	\$ 268,290,296	266,920,296	(1,370,000)	1,262.50	1,264.50	2.00

Capital Budget	\$ 6,127,512	6,397,512	270,000			
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