



Semiannual Report to the Congress

October 1, 2014 – March 31, 2015





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A MESSAGE FROM THE INSPECTOR GENERAL

On behalf of the Office of Inspector General (OIG) of the National Credit Union Administration (NCUA), I am pleased to present our Semiannual Report to the NCUA Board and the Congress highlighting our accomplishments and ongoing work for the six-month period ending March 31, 2015. Our work reflects the legislative mandate of the *Inspector General Act of 1978, as amended*, to promote the economy, efficiency, and effectiveness of NCUA programs and operations, and protect against fraud, waste, and abuse. The audits and investigations highlighted in this report demonstrate our commitment to that cause as well as our goal of enhancing public confidence in the regulatory process.

In today's ever changing world of technology and cyber threats, it is more important than ever to be vigilant regarding security of data. In October 2014, an NCUA examiner lost an unencrypted external flash drive provided by a credit union manager that contained the names, addresses, social security numbers, and account numbers belonging to approximately 1,600 credit union members. The flash drive did not include passwords or PINS. Also, there was no indication of any unauthorized access to members' accounts or attempts to gain improper access as a result of the incident. Because of our ongoing oversight of the agency's progress in monitoring its own and credit unions' efforts to assess and mitigate cybersecurity threats, my office undertook the following actions in response to this incident:

1. An audit to determine whether NCUA has adequate controls in place to protect the security, confidentiality and integrity of electronic sensitive, confidential, and personally identifiable information during the examination process; and
2. A review examining the agency's decision not to publicly announce, on the NCUA website, the loss of the flash drive and how the agency could improve if a similar loss or an actual breach incident were to occur in the future.

With regard to the audit, we have initiated that project and it is ongoing. With regard to the review, we conducted a Management Advisory Review and issued a final report on March 2, 2015. That report made three recommendations to improve NCUA breach notification policies. NCUA is taking immediate corrective action to address these recommendations.

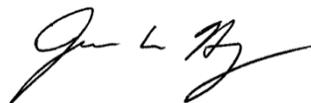
Another audit my office conducted during this period in the data security area was an audit of NCUA's mobile security devices such as iPhones and iPads used by employees and contractors. We found that NCUA allowed employees and contractors to connect their personally-owned mobile devices to the NCUA Exchange server to access agency email, calendar, and contacts. While mobile handheld devices provide many productivity benefits, they also pose new risks to an organization's security. We determined that the controls associated with managing and securing personal mobile devices operating within the NCUA environment did not provide adequate protections over NCUA information, data, and resources. Based on the significant risks associated with this practice, we issued a management letter to the NCUA Office of the

Executive Director in November 2014, recommending that the agency cease this practice immediately. In response, the agency immediately prohibited this practice and also disconnected this service. Furthermore, we made two recommendations where NCUA could improve the security policies and controls associated with its agency-issued mobile devices to help the agency better protect its information, data, and resources.

These are just two examples of the work my office is conducting to keep up with the risks in an ever-changing technology environment to help NCUA meet its mission. We discuss each of the above reports in more detail in the body of this report. In addition to these two critical projects, we also issued reports on the following: Independent Evaluation of the NCUA's Compliance with the Federal Information Security Management Act (FISMA) 2014; Review of NCUA's Efforts to Promote Equal Opportunity and Achieve Diversity in Senior Management; Financial Statement Audits of NCUA's Central Liquidity Facility, Community Development Revolving Loan Fund, Operating Fund, Share Insurance Fund and Temporary Corporate Credit Stabilization Fund; and Review of NCUA's Purchase and Travel Cards Programs.

On the investigative side, the Office of Investigations (OI) opened four cases during the reporting period, the majority stemming from complaints alleging non-criminal employee/manager misconduct. The OI closed five cases during the reporting period: four cases that were opened in the previous reporting period and one that was opened in the present reporting period. In total, the OI issued five Reports of Investigation and the one Management Advisory Review report mentioned earlier.

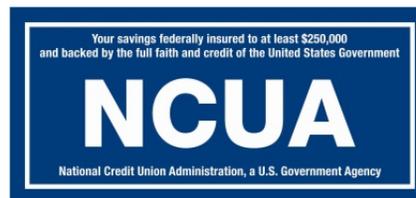
The NCUA Board and management have been very receptive to our reports and investigations. Management has made every effort to address our audit recommendations and implement corrective action related to our audit recommendations on a timely basis. The OIG continues to be dedicated to accomplishing its mission of conducting independent audits, investigations, and reviews to help the NCUA accomplish its mission, improve its effectiveness, and prevent and detect fraud, waste, and abuse.



James W. Hagen
Inspector General

THE NATIONAL CREDIT UNION ADMINISTRATION MISSION

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



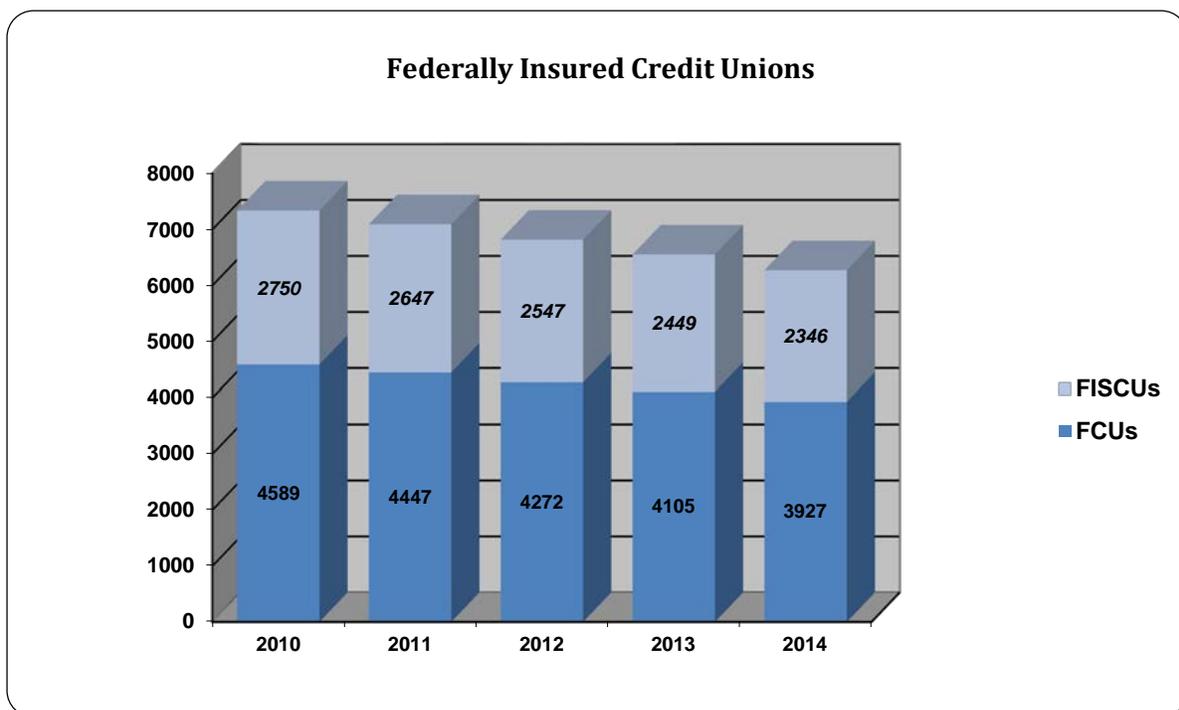
THE OFFICE OF INSPECTOR GENERAL MISSION

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

We accomplish our mission by conducting independent audits, investigations, and other activities, and by keeping the NCUA Board and the Congress fully and currently informed of our work.

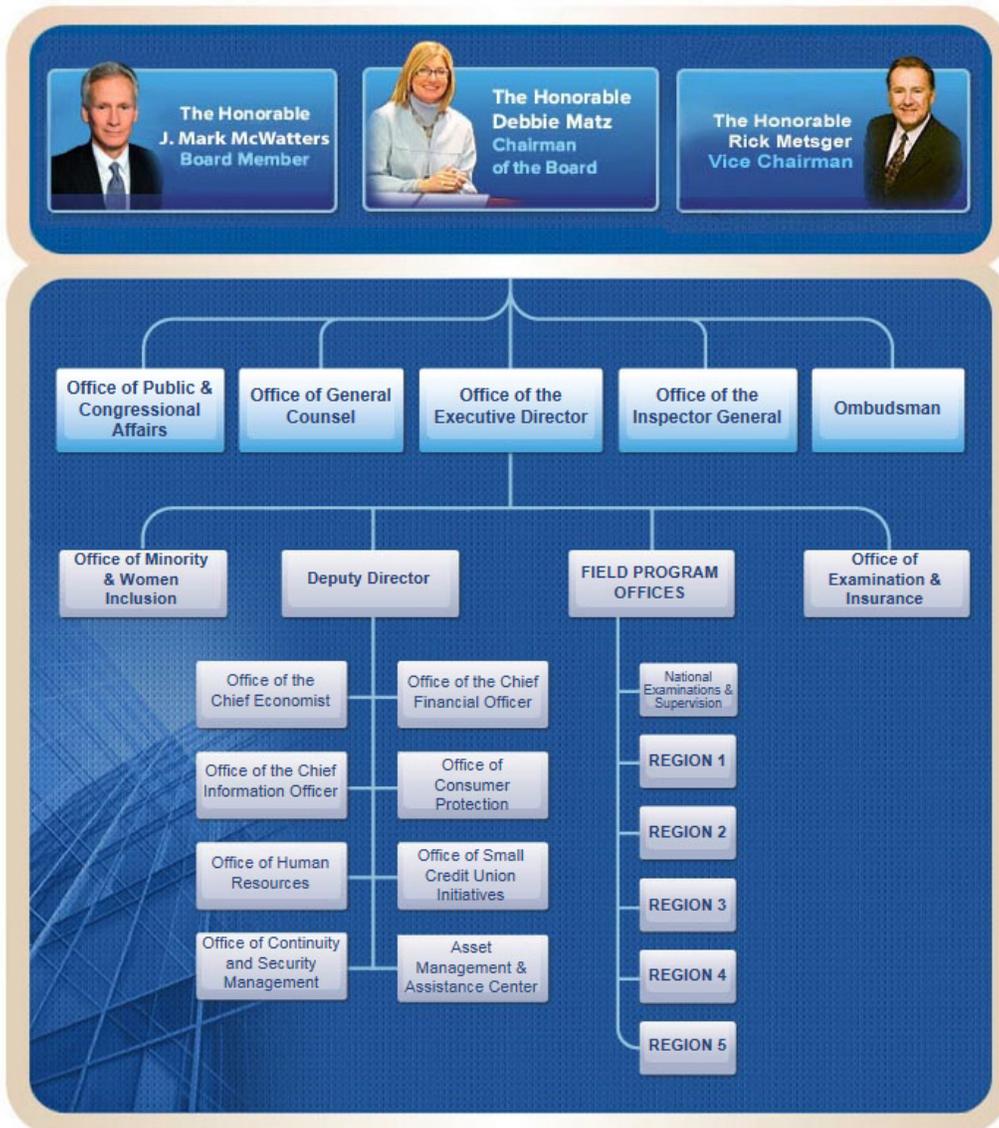
INTRODUCTION

The NCUA was established as an independent, federal regulatory agency on March 10, 1970. The agency is responsible for chartering, examining, supervising, and insuring federal credit unions. It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. The NCUA is funded by the credit unions it supervises and insures. As of December 31, 2014, the NCUA was supervising and insuring 3927 federal credit unions and insuring 2346 state-chartered credit unions, a total of 6,273 institutions. This represents a decline of 178 federal and 103 state-chartered institutions since December 31, 2013, for a total decline of 281 credit unions nationwide, primarily as a result of mergers and liquidations.

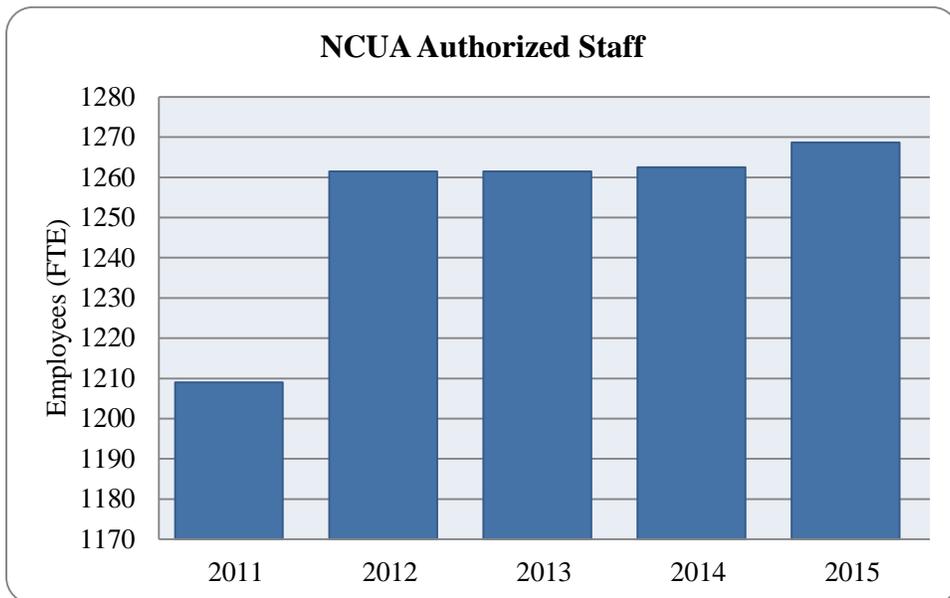
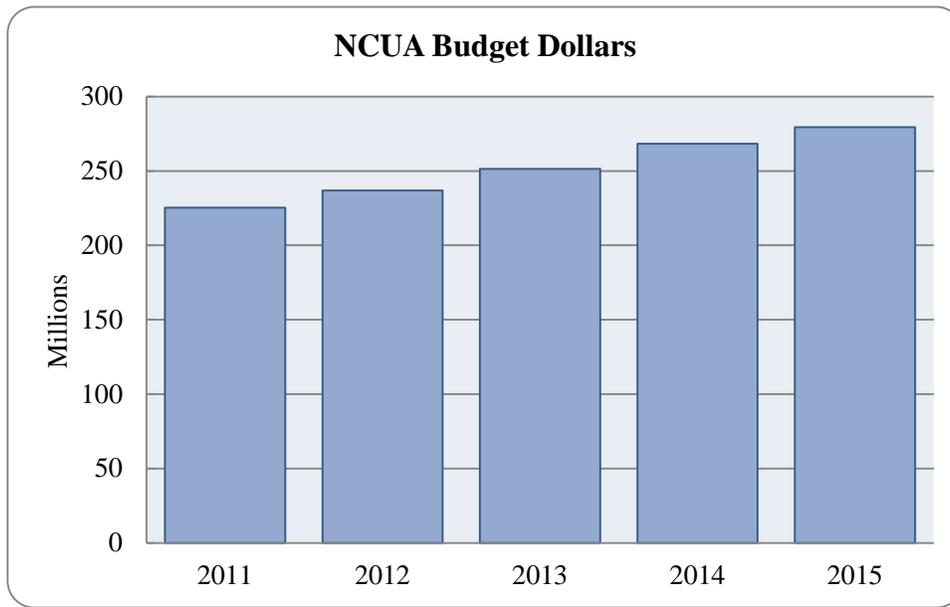


The NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one term expires every two years. The Board is responsible for the management of the NCUA, including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

The NCUA executes its program through its central office in Alexandria, Virginia and regional offices in Albany, New York; Alexandria, Virginia; Atlanta, Georgia; Austin, Texas; and Tempe, Arizona. The NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer to the NCUA organizational chart below.



The NCUA Board adopted its 2015 budget of \$279,477,779 on November 20, 2014. The Full-Time Equivalent (FTE) staffing authorization for 2015 is 1,268.7 representing an increase of six FTE from 2014.



NCUA HIGHLIGHTS

Proposed Fixed-Assets Rule Cuts Red Tape

On March 19, 2015, NCUA announced that Federal credit unions would gain relief from current limits on fixed assets under a proposed rule (Part 701.36) approved by the Board.

The latest step in NCUA's Regulatory Modernization Initiative, the proposed rule would eliminate the current five-percent aggregate limit on investments in fixed assets for federal credit unions with assets of at least \$1 million and provide other relief.

In addition to eliminating the current five-percent cap, the proposed rule would:

- Eliminate provisions in the current rule relating to waivers from the aggregate limit.
- Simplify the rule's partial occupancy requirements by establishing a single six-year period and removing the current 30-month requirement for partial occupancy waiver requests.
- Move oversight of federal credit union fixed-assets ownership from regulation to the supervisory process.

Once the rule is finalized, NCUA plans to send a Letter to Federal Credit Unions with supervisory guidance to define credit union responsibilities and examiner expectations.

NCUA Proposes \$100 Million Threshold for Regulatory Relief

On February 19, 2015, the NCUA Board approved a proposed rule (Part 791) and policy statement to update the definition of a "small entity" under the Regulatory Flexibility Act to include federally insured credit unions with assets of up to \$100 million.

Under the proposal, 745 more credit unions would receive special consideration for reduced regulatory compliance requirements or exemptions in future NCUA rulemakings. The higher asset threshold commits the Board to specifically review the economic impact on small credit unions during future rulemakings. The Regulatory Flexibility Act generally requires federal agencies to determine and consider the effect of proposed and final rules on small entities.

Under the proposed definition for a "small entity," approximately 4,869 federally insured credit unions would receive special consideration for regulatory relief. In all, the proposal would cover 77 percent of federally insured credit unions with 11 percent of the system's assets.

In proposing the \$100 million asset ceiling, the NCUA Board analyzed a broad range of metrics, including: deposit, asset and membership growth rates; the ratio of operating costs to assets; merger and liquidation trends; and operating expenses. In addition to providing potential regulatory relief, the proposal would make more federally insured credit unions eligible for assistance from NCUA's Office of Small Credit Union Initiatives, at no cost.

Permanent Funds Earn Clean Audit Opinion

On February 18, 2015, the Office of Inspector General released the annual audited financial reports for NCUA's four permanent funds. All four funds received unmodified, or "clean," audit opinions for 2014.

The audited financial reports by the independent auditor, KPMG LLP, cover the National Credit Union Share Insurance Fund, the Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund.

With more than \$11.9 billion in total assets as of Dec. 31, 2014, the Share Insurance Fund protects individual deposits up to \$250,000 for more than 98 million consumers at 6,350 federally insured credit unions. The complete financial reports are available online [here](#).

NCUA to Stream Open Board Meetings Live

In February 2015, NCUA began making open meetings of the NCUA Board available through online live video streaming.

"This is a significant step forward in terms of agency transparency," NCUA Board Chairman Debbie Matz said. "Anyone interested in seeing and hearing NCUA Board meetings live will now be able to log in, follow the open Board discussions and get an immediate sense of how regulations and other policy decisions are made. Public education is part of NCUA's mission and part of the credit union system's philosophy, and I hope credit union stakeholders will take advantage of this opportunity to be virtually 'in the room' watching the policy process move forward."

NCUA will provide a new registration link for each Board meeting. The agency will continue to post video archives of open Board meetings on its [website](#).

Board Approves Coverage of Costs Associated with Credit Union Data Breach

On January 15, 2015, the NCUA Board approved payment of up to \$50,000 for costs associated with a data breach at Palm Springs Federal Credit Union of Palm Springs, California. NCUA will pay the credit union for activities such as credit report monitoring for members, credit union staff time associated with the breach, and legal fees. As of January 2015, the related costs associated with the data breach were approximately \$36,000. Payments will come from NCUA's existing operating funds. In the event costs ultimately exceed \$50,000, subsequent Board action is required.

As a result of a failure to follow longstanding agency policies on securing sensitive data, an examiner lost a thumb drive during an examination of Palm Springs Federal Credit Union. The thumb drive did not include passwords or PINs. NCUA has received no indication of any unauthorized access to members' accounts or attempts to gain improper access.

The agency is taking appropriate action with staff involved in the incident and is reinforcing training on protecting sensitive information and reviewing regulations, policies and procedures in this area. NCUA is also moving quickly to consider and adopt additional safeguards to protect electronic data.

NCUA Further Boosts Budget Transparency

On December 16, 2014, NCUA stated there would be further enhanced transparency around NCUA's budget and operations. The enhanced transparency included an online posting of each individual office budget for each NCUA Board Member.

“In November, I committed to expanding the information and data made available to assist the public in understanding the budget process,” Chairman Matz said. “For 2015, NCUA has already released more detailed information on the overall budget, office budgets, contracting and the budget process. By making public information about the budgets of each Board Member, we are now taking the next step in furthering our commitment to budget disclosure and public awareness.”

As part of the 2015 budget process, NCUA has increased transparency for the agency's Operating Budget. Posted on NCUA's website, this information is available in the [2015 Operating Budget Board Action Memorandum](#). Similarly, the Board has provided more information in the [2015 Corporate Stabilization Fund Board Action Memorandum](#).

Credit Unions Will Not Pay a 2014 Share Insurance Fund Premium

On October 23, 2014, the NCUA announced that the Share Insurance Fund ended the third quarter of 2014 with a net income of \$24.6 million and an equity ratio of 1.30 percent. The equity ratio is calculated on an estimated insured share base of \$895.7 billion and reflects the capitalization deposit adjustment billed in September.

“With the Share Insurance Fund on a sound footing, NCUA will not charge federally insured credit unions a premium in 2014,” Chairman Matz said. “The number of troubled credit unions continues to decline, and insurance losses remain manageable. Prudent regulation and supervision of a credit union system that continues to be strong and stable have kept the Share Insurance Fund at the maximum equity ratio permitted by law.”

FEDERALLY INSURED CREDIT UNION HIGHLIGHTS

Credit unions submit quarterly call reports (financial and operational data) to the NCUA. An NCUA staff assessment of the December 31, 2014, quarterly call reports submitted by all federally insured credit unions found that key financial indicators are positive.

Key Financial Indicators Favorable

Looking at the December 31, 2014 quarterly statistics for major balance sheet items and key ratios shows the following for the nation's 6,273 federally insured credit unions: assets grew 5.7 percent; net worth to assets ratio increased from 10.77 to 10.97 percent; the loan to share ratio increased from 70.89 percent to 74.91 percent. The delinquency ratio decreased from 1.01 to .85 percent. Credit union return on average assets increased from .78 to .80 percent.

Savings Shifting to Regular Shares

Total share accounts increased 4.47 percent. Regular shares increased 7.89 percent. Regular shares comprise 33.79 percent of total share accounts; share certificates comprise 19.89 percent; money market shares comprise 23.07 percent; share draft accounts comprise 13.79 percent; and all other share accounts comprise 9.46 percent.

Loan Volume Increasing

Loans increased 10.91 percent resulting in an increase in total loans by \$67.15 billion. Total net loans of \$712 billion comprise 62.85 percent of credit union assets. First mortgage real estate loans are the largest single asset category with \$292 billion accounting for 41.02 percent of all loans. Other real estate loans of \$72 billion account for 10.10 percent of all loans. Used car loans of \$144 billion were 20.18 percent of all loans, while new car loans amounted to \$86 billion or 12.12 percent of total loans. Credit card loans totaled \$46 billion or 6.45 percent of total loans and other loans totaled \$72 billion for 10.13 percent of total loans.

LEGISLATIVE HIGHLIGHTS

NCUA E&I Director Fazio Testifies at Senate Banking Committee Hearing on Regulatory Relief

On February 10, 2015, NCUA Office of Examination and Insurance (E&I) Director Larry Fazio testified with other financial regulator witnesses at a Senate Committee on Banking, Housing, and Urban Affairs hearing on regulatory relief for credit unions and banks. Fazio's testimony noted the agency's efforts to scale regulations based on a credit union's size and complexity. Fazio also highlighted NCUA's support for several legislative proposals, such as field of membership reforms, member business lending, supplemental capital, and vendor authority. Chairman Shelby (R-AL) focused many of his questions on how regulators examine the costs and benefits during the rulemaking process. While other lawmakers expressed support for providing regulatory relief for credit unions and banks, no consensus emerged on how to do so. Also, several lawmakers expressed concerns that recently adopted rules under the Dodd-Frank Act were not subject to the current Economic Growth and Regulatory Paperwork Reduction Act.

On February 12, 2015, the Senate Banking Committee held a second hearing on the same topic. Witnesses from the Credit Union National Association (CUNA) and the National Association of Federal Credit Unions (NAFCU) testified. Their testimony largely focused on their legislative priorities, supportive of requiring additional cost-benefit analyses, and critical of NCUA's revised proposed risk-based capital rule. Both groups, however, expressed appreciation for the significant changes NCUA had effected in the revised proposal.

Paul Hastings, LLP Provides NCUA with Legal Opinion on Risk-Based Capital Proposal

Numerous commenters on NCUA's 2014 risk-based capital proposal claimed that, unlike the banking agencies, NCUA only has authority to designate a single risk-based requirement to be "adequately capitalized,"—without a higher tier to be "well-capitalized." In response, NCUA Chairman Matz determined not to move forward with a rulemaking until the agency received an independent legal opinion from an outside counsel. Chairman Matz ultimately chose Paul Hastings, LLP, based in Washington, D.C. to provide the opinion. In October 2014, a team from Paul Hastings presented an oral legal opinion to the NCUA Board. The independent oral opinion maintained that while certain parts of the Federal Credit Union Act are arguably ambiguous, it did support NCUA's proceeding with a two-tiered risk-based capital framework comparable to the banking agencies—with one threshold to be adequately capitalized and a second threshold to be well-capitalized. Subsequent to the oral opinion, the firm provided a privileged, substantive written opinion.

NCUA Responds to Senate Banking Letter on Cybersecurity Concerns

In a letter dated October 21, 2014, to NCUA, the Department of the Treasury, the Board of Governors of the Federal Reserve System (the Fed), the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC), then-Senate Banking Chairman Johnson (D-SD), and then-Ranking Member Crapo (R-ID) raised concerns and

questions about cybersecurity risks for financial institutions. NCUA's reply highlighted the agency's lack of vendor authority which affects the agency's ability to address cybersecurity threats. In addition to NCUA's response to the letter, Treasury circulated a joint-agency reply. That reply emphasized the need for a coordinated response to cybersecurity threats.

On December 10, 2014, the Senate Banking Committee held a hearing on cybersecurity. Witnesses came from Treasury, OCC (on behalf of the Federal Financial Institutions Examination Council (FFIEC)), the Department of Homeland Security, the Secret Service, and the Federal Bureau of Investigation. NCUA's written response to the October 21 letter was made part of the hearing record, as was the joint agency letter signed by NCUA, Treasury, the Fed, OCC, and FDIC. During the hearing, Senator Schumer (D-NY) mentioned several times the need for the 114th Congress to move legislation. All witnesses supported the need for Congress to pass legislation to address cybersecurity.

[Consumer Financial Protection Bureau Rule Change Allows Qualifying Credit Unions to Post Annual Privacy Notices Online](#)

On October 20, 2014, the CFPB issued a final rule to promote more effective privacy disclosures from financial institutions to their customers. Under the new rule, which was proposed in May 2014, credit unions can provide their required annual privacy notices by posting the information online if they meet certain eligibility criteria. The online posting is an alternative to the methods previously allowed, which included mailing or hand-delivering a printed notice. After meeting CFPB's eligibility requirements, credit unions that post their privacy notices online must meet the following standards:

- The credit union must provide the notice in a clear and conspicuous manner or in an account statement, coupon book, or a notice or disclosure that it is required or expressly and specifically permitted to issue under any other provision of law:
 - The notice must state that its privacy notice has not changed and must include a specific web address that takes the customer directly to the page where the privacy notice is posted; and
 - The notice must include a telephone number the customer may call to order a copy of the policy by mail.
- The credit union must post its current privacy notice continuously and in a clear and conspicuous manner on a page of its website on which the only content is the privacy notice and the customer need not give a login name or password; and
- The credit union must mail its current privacy notice within 10 calendar days of receiving a telephone request.

Field of Membership Regulation Remains a Top Issue for Credit Unions

In emphasizing that modernization of field-of-membership regulations is critical for the long-term health of America’s credit unions, NCUA has invited credit unions to be engaged in a new initiative to change the definition of what constitutes a common bond. Behind this effort is the recognition that people are now more likely to define their common bonds by their social media connections as by where they live or work. NCUA is asking credit unions to be engaged for change and, at the CUNA’s recent Governmental Affairs Conference, welcomed suggestions from more than 100 credit union leaders attending a session on field-of-membership issues. Some of the suggestions from that session included:

- Simplifying field-of-membership processing;
- Modifying the meaning of “well-defined local community;”
- Allowing credit unions to serve additional rural and underserved communities;
- Allowing credit unions with multiple select employee groups to serve independent contractors; and
- Grandfathering select employee groups at credit unions that convert to community charters.

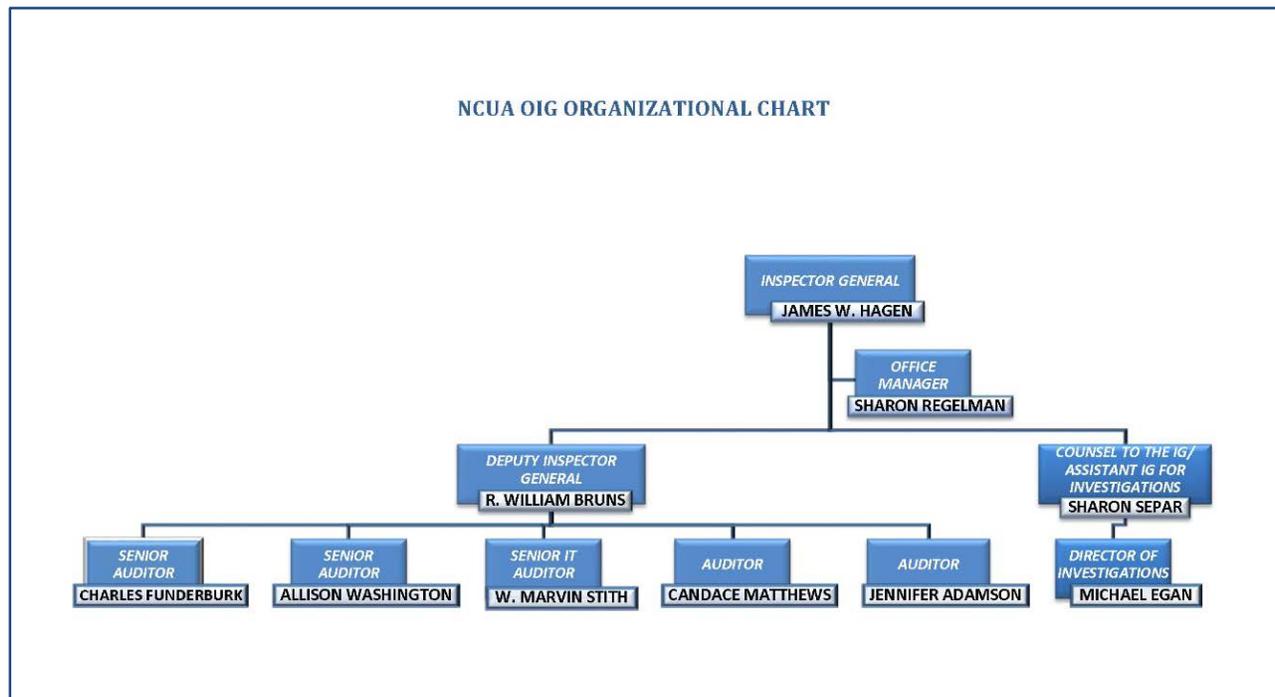
The agency has created a dedicated email address, FOMSuggestions@ncua.gov, to make it easier to submit more suggestions. Last year, Chairman Matz created a special internal [Field-of-Membership Working Group](#) to consider ideas for enhancing federal charters. The Working Group will review suggestions to help determine what steps NCUA can take administratively and what changes require Congress to amend the Federal Credit Union Act.

OFFICE OF THE INSPECTOR GENERAL

The Office of the Inspector General was established at the NCUA in 1989 under the authority of the Inspector General Act of 1978, as amended. The staff consists of the Inspector General, Deputy Inspector General, Counsel to the Inspector General/Assistant Inspector General for Investigations, Director of Investigations, two Senior Auditors, Senior Information Technology Auditor, Office Manager, and two vacant auditor positions that we are in the process of filling.

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

1. Conducting, supervising, and coordinating audits and investigations of all NCUA programs and operations;
2. Reviewing policies and procedures to ensure efficient and economic operations as well as preventing and detecting fraud, waste, and abuse;
3. Reviewing existing and proposed legislation and regulations to evaluate their impact on the economic and efficient administration of agency programs; and
4. Keeping the NCUA Board and the Congress apprised of significant findings and recommendations.



AUDIT ACTIVITY

OIG-14-08 – November 13, 2014

[Independent Evaluation of the NCUA’s Compliance with the Federal Information Security Management Act \(FISMA\) 2014](#)

The OIG engaged CliftonLarsonAllen LLP to independently evaluate NCUA’s information systems and security program and controls for compliance with the *Federal Information Security Management Act (FISMA)*, Title III of the *E-Government Act of 2002*.

In resolving prior year issues and recommendations, NCUA has continued to strengthen its information security program during Fiscal Year (FY) 2014. NCUA is also continuing to make progress in documenting its privacy program, which the agency indicated it is on track to complete by June 2015. Therefore, we are not including this open issue and recommendation this year. NCUA does not have any repeat findings from prior years.

This year we identified two findings in the areas of NCUA’s configuration management program and oversight of its contractor systems. We made three recommendations which would help NCUA continue to improve its information security program.

OIG-14-09 – November 26, 2014

[Review of NCUA’s Efforts to Promote Equal Opportunity and Achieve Diversity in Senior Management](#)

The OIG conducted a review of NCUA’s Office of Minority and Women Inclusion (OMWI) to determine whether agency internal operations and personnel practices have created a discriminatory workplace or otherwise systematically disadvantage minorities from obtaining senior management positions. The review was the result of the OIG receiving a letter on March 24, 2014, from Democratic members of the United States House of Representatives Committee on Financial Services, Subcommittee on Oversight and Investigations (Committee). The Committee members’ request noted that recent OMWI reports issued by the financial regulatory agencies suggested there might be disparities impeding internal upward mobility for minorities. Accordingly, the Committee requested that the NCUA OIG conduct this review to determine whether this is occurring at NCUA.

Our objective for this review was to assess NCUA’s personnel operations and other efforts to increase agency diversity, create a workplace free of systematic discrimination, and provide equal opportunity for minorities and women to obtain senior management positions.

Overall, we determined NCUA has a diverse workforce that meets or exceeds the national Civilian Labor Force benchmarks tied to the 2010 U.S. Census Data among most individual minority groups. However, we also determined there are areas where NCUA could improve in terms of both workforce diversity and the programs and initiatives that support a diverse and fair workplace. Specifically, we found an underrepresentation of females and Hispanics agency-

wide; an underrepresentation of minorities within NCUA's executive levels or Senior Staff Positions; and statistically significant race/ethnicity, age, and bargaining unit differences in NCUA's Performance Management Program. We also found during our review that in 2013, NCUA did not submit fully completed job applicant agency flow data to the U.S. Equal Employment Opportunity Commission. Additionally, we determined that NCUA is generally meeting its diversity requirements set forth in Section 342 of the Dodd-Frank Act, but there are areas for improvement. Specifically, that NCUA management needs to strengthen OMWI's operational practices, as well as update its Equal Employment Opportunity (EEO) policies and improve the manner in which employees gain access to view the policies online. We also determined NCUA needs to modernize its EEO case tracking system.

This report made five recommendations to NCUA management related to correcting the identified workforce diversity issues, and the programs and initiatives that support a diverse and fair workplace. NCUA management agreed to all recommendations, and is taking or has planned corrective action.

OIG-15-01 – January 28, 2015

Audit of the NCUA's Mobile Device Security Controls

The OIG conducted an audit to determine whether NCUA has adequate mobile device security controls to help protect NCUA information and information systems assets.

We determined that NCUA policies along with the agency's practices and controls associated with its NCUA-issued mobile devices, provide adequate security to protect NCUA information, data, and resources. However, we also determined NCUA could improve security of its mobile devices by addressing the following issues:

- NCUA's System Security Plan (SSP) does not adequately address mobile device security controls.
- NCUA could include additional or enhanced policies or controls in its SSP.

In addition, we determined that the controls associated with managing and securing personal mobile devices operating within the NCUA environment did not provide adequate protections over NCUA information, data and resources. Based on the significant security risks associated with this practice, the OIG issued a management letter to the NCUA Office of the Executive Director in November 2014 recommending the agency cease this practice immediately. In response, the agency immediately prohibited this practice and also disconnected this service. However, we recommended that NCUA take additional steps in an effort to address NCUA accounts that might still exist on previously connected inactive devices and to address NCUA documentation that users may have downloaded to active or inactive devices that had connected to NCUA's Exchange Server at any time.

Furthermore, we made two recommendations where NCUA could improve the security policies and controls associated with its agency-issued mobile devices, to help the agency better protect its information data and resources.

OIG-15-02/03/04/05 – February 17, 2015

[NCUA Financial Statements Audit 2014: Central Liquidity Facility, Community Development Revolving Loan Fund, Operating Fund, Share Insurance Fund](#)

Our contracting audit firm, KPMG LLP, issued opinions on the 2014 financial statements of the National Credit Union Administration Central Liquidity Facility, Community Development Revolving Loan Fund, Operating Fund, and the National Credit Union Share Insurance Fund. The auditors found that the financial statements presented fairly the financial position of the agency's funds as of December 31, 2014.

The Central Liquidity Facility (*OIG-15-02*) was established as a mixed ownership government corporation managed by the NCUA Board to improve general financial stability by meeting the liquidity needs of credit unions. The auditors issued an **unmodified opinion** on the Central Liquidity Facility's (CLF) financial statements. The CLF's total assets for 2014 were \$230 million, up from \$139 million in 2013.

The Community Development Revolving Loan Fund's (*OIG-15-03*) purpose is to stimulate economic activities in the communities served by low-income credit unions. This in turn will result in increased income, ownership and employment opportunities for low-wealth residents and other economic growth. The auditors issued an **unmodified opinion** on the Fund's financial statements. The fund's total assets for 2014 were \$16.9 million, unchanged from 2013.

The NCUA Operating Fund (*OIG-15-04*) was established as a revolving fund managed by the NCUA Board for the purpose of providing administration and service to the federal credit union system. The auditors issued an **unmodified opinion** on the Operating Fund's financial statements. The fund's total assets for 2014 were \$80.8 million, up from \$77.3 million in 2013.

The National Credit Union Share Insurance Fund (*OIG-15-05*) was established as a revolving fund managed by the NCUA Board to insure member share deposits in all Federal credit unions and qualifying state credit unions. The auditors issued an **unmodified opinion** on the Share Insurance Fund's financial statements. The fund's total assets for 2014 were 12 billion, up from \$11.6 billion in 2013.

OIG-15-06 – March 13, 2015

[2014 NCUA Financial Statement Audit of the Temporary Corporate Credit Union Stabilization Fund](#)

Our contracting audit firm, KPMG LLP, issued its opinion on the 2014 financial statements of the National Credit Union Administration Temporary Corporate Credit Union Stabilization Fund (TCCUSF). The auditors found that the financial statements presented fairly the financial

position of the agency fund as of December 31, 2014 and issued an **unmodified opinion** on the TCCUSF's financial statements.

The TCCUSF was created by Public Law 111-22, "Helping Families Save Their Homes Act of 2009," enacted May 20, 2009. The fund was established as a revolving fund in the Treasury of the United States under the management of the Board of Directors of the NCUA. The purposes of the TCCUSF are to accrue the losses of the corporate credit union system, and over time, to assess the credit union system for the recovery of such losses. The fund's net position for the period ending December 31, 2014 was \$238 million, up from a deficit of \$142 million in 2013. This is the first net positive position the fund has shown since inception.

OIG-15-07 – March 31, 2015

Review of NCUAs Purchase and Travel Card Programs

The OIG conducted this review as required by the *Government Charge Card Abuse Prevention Act of 2012*. Specifically, we conducted an audit of NCUA's individually billed accounts (IBA) travel card program because the agency's total spending in the prior year exceeded the Act's \$10 million threshold.

The objectives of this engagement were to 1) assess, identify, and analyze the risks of illegal, improper, or erroneous purchases and payments made through NCUA's purchase and travel card programs; 2) determine whether the results of our risk assessments justify performing an audit in compliance with Government Auditing Standards; and 3) coordinate with appropriate agency officials on a joint semiannual report to the Office of Management and Budget on any purchase card violations meeting the criteria established in the Act.

Overall, we determined that NCUA's three charge card programs pose a low risk of illegal, improper, or erroneous purchases and payments. Based upon this assessment, we did not perform an audit of the purchase card or centrally billed travel card programs. However, we did perform an audit of the individually billed travel card program.

We concluded that for IBA travel cards, 1.65 percent of the non-travel related Merchant Category Code (MCC) transactions were questionable. We also concluded that for Centrally Billed Account purchase cards, less than 1 percent of the non-travel related MCC transactions were questionable, and we found no exceptions related to Centrally Billed Account travel cards.

Although we noted minimal misuse of NCUA charge cards, we made two suggestions to NCUA management related to training and management reviews that we believe could help improve NCUA's Travel Card program. Management agreed with the suggestions and is in the process of taking corrective action.

AUDITS IN PROGRESS

Interest Rate Risk

The OIG is conducting an audit of NCUA's Interest Rate Risk (IRR) policy and program.

NCUA previously issued guidance on Asset and Liability Management (ALM) and IRR management through NCUA Letters to Credit Unions. Federally insured credit unions (FICUs) have relied on this guidance to manage their IRR. However, FICUs experienced increased exposure to IRR due to changes in balance sheet composition and increased uncertainty in the financial markets. This increase heightened the importance for FICUs to have strong policies and programs explicitly addressing the credit union's management of controls for IRR. Consequently, NCUA implemented 12 CFR Part 741, Interest Rate Risk Policy and Program, effective September 30, 2012. In this review, we will determine whether NCUA's IRR policy and procedures are having the desired effect of reducing interest rate risk for FICUs.

Financial Stability Oversight Council Interest Rate Risk

The Dodd-Frank Wall Street Reform and Consumer Protect Act authorized the Council of Inspectors General on Financial Oversight (CIGFO) to convene a working group of its members to evaluate the effectiveness and internal operations of the Financial Stability Oversight Council (FSOC). The NCUA is a member of this working group.

We are participating in this review to assess the extent to which FSOC is overseeing IRR to the financial system. The Federal Housing Finance Agency is leading the working group with participation from other CIGFO members, including NCUA OIG. The working group's results will be incorporated into a consolidated report to FSOC. The audit could result in recommendations for FSOC to improve its oversight of IRR.

Measures to Protect Electronic Credit Union Information during the Examination Process

In October 2014, an NCUA examiner lost an unencrypted, external flash drive provided by a credit union manager, containing the names, addresses, social security numbers, and account numbers belonging to approximately 1,600 credit union members. The flash drive did not include passwords or PINS. There was no indication of any unauthorized access to members' accounts or attempts to gain improper access as a result of the incident.

Based on this incident we started an audit to determine whether NCUA has adequate controls in place to protect sensitive, confidential, or personally identifiable electronic credit union information during examinations.

Restitution Orders

The OIG is currently conducting a review of NCUA's Restitution Orders. Restitution is the monetary amount established by a court in a Judgment and Commitment Order that a party convicted of violating a law must pay to render a victim whole. The Mandatory Victim Restitution Act of 1996 (18 U.S.C §3363A) requires an order of restitution that fully compensates the victim for the loss of, or damage to, the victim's property. When fraud is committed, resulting in the failure of a credit union, NCUA is determined to be the victim. At the time of sentencing, the presiding judge will order the defendant to pay an award of restitution to make the National Credit Union Share Insurance Fund (NCUSIF) whole. NCUA's Asset Management and Assistance Center (AMAC) assists the Department of Justice and state attorneys general in collection efforts.

Our objective for this review is to (1) Determine whether AMAC has effective policies, procedures and resources in place to recover money owed from restitution orders, and (2) assess the internal controls of AMAC's restitution order program.

Significant Audit Recommendations on Which Corrective Action Has Not Been Completed

As of March 31, 2015, below is a list of OIG reports with significant unimplemented recommendations where management has agreed to implement corrective action but has yet not completed those actions. This information is based on (1) information supplied by NCUA Office of Examination and Insurance and (2) the OIG's report recommendation tracking system.

Report Number, Title, and Date

OIG-10-20 OIG Capping Report on Material Loss Reviews, November 23, 2010
OIG-12-14 Material Loss Review of Eastern New York FCU, November 19, 2012
OIG-13-05 Material Loss Review of Telesis Community CU, March 14, 2013

Significant Recommendations Open and Brief Summary

1. Recommendation: *OIG-10-20, recommendation #5*. Determine whether to propose and/or change regulatory guidance to establish limits or other controls for concentrations that pose an unacceptable safety and soundness risk and determine an appropriate range of examiner response to high risk concentrations.

Status: Open. NCUA agreed with the OIG, provided training to examiners, and issued a Supervisory Letter to credit unions advising them how to evaluate and manage concentration risk. In addition, in January 2014, the NCUA Board issued a proposed rule (the Original Proposal) to amend NCUA's PCA regulations, part 702 of the Rules and Regulations (RR). The proposed rule incorporated risk based capital requirements. The 125-day comment period ended on May 28, 2014. NCUA received 2,053 comments.

The NCUA Board reviewed the comments and determined that it was appropriate to issue a second proposed rule. On January 15, 2015, NCUA issued proposed changes to Part 702 of the RR. The Board requested comments on this second proposed rule regarding risk-based capital. Based largely on comments received on the Original Proposal, the Board proposed many improvements to the Original Proposal. The changes incorporate risk based capital requirements including revised risk weights for mortgages, investments, member business loans, CUSOs, and corporate credit unions. The rule includes higher capital requirements for credit unions with very high concentrations of real estate loans and commercial loans. The rule is currently in the 90 day comment period. NCUA's estimated implementation date is December 31, 2015.

2. Recommendation: *OIG-12-14, recommendation #2*. Review current examination procedures over Credit Union Service Organizations (CUSO) to not only ensure regulatory compliance, but most importantly, to determine whether current procedures are adequate to identify the degree of risk the CUSO poses to the affiliated credit union.

Status: Open. NCUA has developed a CUSO Registry that is on track to be operational by December 31, 2015. NCUA also continues to seek vendor authority comparable to the other FFIEC agencies and recently met with the staff of two Senators that have shown interest in initiating or supporting this type of legislation. NCUA has also met with representatives of the OMB and shared the need for vendor authority. In addition, NCUA developed a CUSO working group that has submitted to NCUA's National Exam Committee an updated chapter to the Examiner's Guide that includes examination procedures and checklists for the examiner staff. NCUA plans to distribute the revised procedures for the regions to test and will incorporate any feedback. NCUA plans to have the stand alone review procedures finalized and distributed for use by December 31, 2015.

3. Recommendation: *OIG-13-05, recommendation #1*. We recommend NCUA management identify and amend, as applicable, NCUA Rules and Regulations to require a higher level of risk based net worth for credit unions with higher levels of concentration or other risks in their member business loan portfolio.

Status: Open. NCUA issued proposed changes to Part 702 of the RR on January 15, 2015. The proposed changes incorporate risk based capital requirements including revised risk weights for mortgages, investments, member business loans, CUSOs, and corporate credit unions. The rule includes higher capital requirements for credit unions with very high concentrations of real estate loans and commercial loans. The rule is currently in the 90 day comment period. NCUA's estimated implementation date is December 31, 2015.

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

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

This report on losses below the \$25 million threshold covers the six-month period from October 1, 2014, to March 31, 2015. For all losses to the Share Insurance Fund under the MLR threshold, we determined (1) why NCUA initiated assistance; and (2) whether any unusual circumstances existed that might warrant an in-depth review of the loss.

For each limited review, we performed procedures that included, but were not limited to (1) obtaining and analyzing the regulator's supervisory memoranda and other pertinent documents; (2) preparing a schedule of CAMEL ratings assigned to the institution through full scope or other examinations during the five years preceding the failure; (3) conducting interviews as needed; (4) inquiring about any investigative actions that were taken, planned, or considered involving credit union officials or others; and (5) analyzing supervisory history and other review methods.

We conducted limited reviews of five failed credit unions that incurred losses to the Share Insurance Fund under \$25 million between October 1, 2014, and March 31, 2015. Based on those limited reviews, we determined that none of the losses warranted conducting additional work because no unusual circumstances presented themselves in our review; or we had already addressed the reasons identified for failure in recommendations to the agency in previous MLR reports.

The chart below provides details on the five credit union losses to the Share Insurance Fund below the \$25 million threshold. It provides details on the credit union, such as the date of failure, the estimated loss to the Share Insurance Fund, and grounds for conservatorship, merger, or other factors. The chart also provides our decision whether to terminate or proceed with a full-scope MLR of the credit union.

DECISIONS REGARDING LOSSES LESS THAN \$25 MILLION					
OIG Decision**	Credit Union	Region	Date Closed	Estimated Loss to NCUSIF	Grounds for Liquidation or Appointment
Terminate	County & Municipal Employees Credit Union	IV	10/10/2014	\$12.0M	Insolvent with no prospect of recovery due to management's involvement in an auto dealer referral program. Loan portfolio deterioration caused by its sharply deteriorated financial condition caused the required ALLL funding to severely negate any prospects for positive earnings.
Terminate	Metropolitan Church of God Credit Union	I	12/03/2014	\$11K	Insolvent with no prospect of recovery due to management's inability to correct the credit union's continued financial deterioration.
Terminate	American Bakery Workers Federal Credit Union	II	1/30/2015	\$1.53M	Insolvent with no prospect of recovery due to management's inability to correct weak loan underwriting practices that resulted in a rising level of non-performing loans and net operating losses, which caused the credit union to become critically undercapitalized.
Terminate	New Mexico Correctional Employees Federal Credit Union	IV	2/01/2015	\$2.5K	Insolvent with no prospect of recovery due to management's inability to correct identified weaknesses including increased loan delinquency, charge-offs, and the inability to generate new loan and loan interest income.
Terminate	North Dade Community Development Federal Credit Union	III	3/31/2015	\$23K	Insolvent with no prospect of recovery due to management's inability to correct the credit union's weak financial condition and negative earnings.

***Criteria for each decision included: (1) dollar value and/or percentage of loss; (2) the institution's background, such as charter type and history, geographic location, affiliations, business strategy; (3) uncommon cause of failure based on prior MLR findings; (4) unusual supervisory history, including the nature and timing of supervisory action taken, noncompliance with statutory examination requirements, and/or indications of rating disagreements between the state regulator and NCUA; and (5) other, such as apparent fraud, request by NCUA Board or management, Congressional interest, or IG request.*

Peer Reviews - October 1, 2014 through March 31, 2015

Government Auditing Standards require audit organizations that perform audits and attestation engagements of federal government programs and operations undergo an external peer review every three years. The objectives of an external peer review include a review of an audit organization's system of quality control to determine not only the suitability of the design, but also whether the audit organization is in compliance with its quality control system so as to provide reasonable assurance the audit organization conforms to applicable professional standards.

External Peer Review of NCUA OIG Office of Audit

The Peace Corps OIG completed our most recent peer review on February 4, 2013, for the three-year period ended December 31, 2012. The Peace Corps OIG issued its report entitled System Review Report and rendered the opinion that the system of quality control for the NCUA OIG, Office of Audit, was suitably designed and complied with, thus providing reasonable assurance the system of controls conformed with applicable professional standards in all material respects. As a result, we received a peer rating of pass. In addition, we have no outstanding recommendations from this external peer review. A copy of this report is included herein as Appendix A.

External Peer Review of National Labor Relations Board OIG Office of Audit

The NCUA OIG completed a peer review of the National Labor Relations Board (NLRB) OIG. On October 31, 2011, we issued an external peer review report for the audit function of the NLRB OIG for the three year period ended September 30, 2011. The NLRB received a rating of pass and has no outstanding recommendations related to the peer review report.

INVESTIGATIVE ACTIVITY

In accordance with professional standards and guidelines established by the United States Department of Justice, the NCUA OIG, Office of Investigations (OI) conducts investigations of criminal, civil, and administrative wrongdoing involving the agency's programs, operations, and personnel. Our investigative mission is to fight fraud, waste, and abuse while promoting efficiency and economy within the NCUA and its programs and operations. In this regard, we investigate referrals and allegations of misconduct on the part of NCUA employees, former employees, and contractors. Investigations may involve possible violations of regulations involving Federal employee responsibilities and conduct, agency policies, Federal criminal law, and other statutes and regulations. Finally, we have a robust training program within the agency that encompasses integrity awareness briefings and orientation presentations regarding the role of the OIG within the agency and how to report wrongdoing to the OI.

Additionally, we routinely receive complaints from credit union officials and their members, which involve NCUA employee program responsibilities. We examine these complaints and determine if there is any indication of misconduct or wrongdoing by an NCUA employee. If not, we refer the complaint to the NCUA Office of Consumer Protection (OCP) or appropriate regional office for response, or close the matter if contact with the OCP or the regional office indicates that the matter has already been appropriately handled.

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

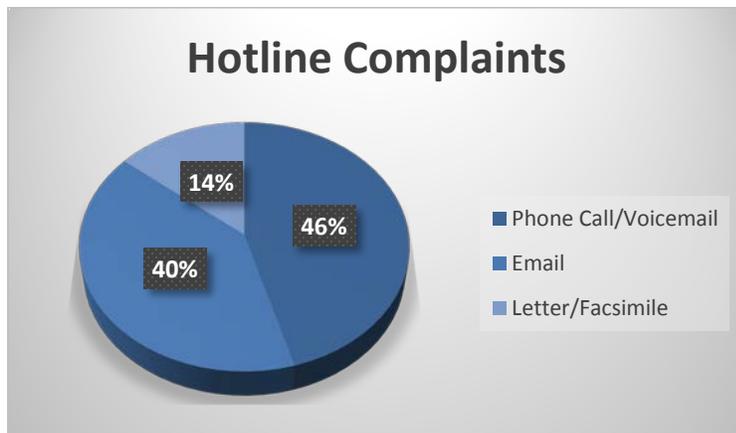
OIG Hotline Contacts

The OIG has and maintains a 24-hour toll free hotline to enable employees and citizens to call in and provide information about suspected fraud, waste, and abuse, or mismanagement involving agency programs or operations. Additionally, the OIG receives complaints from an off-site post office box, electronic mail, and facsimile messages. The OI has also developed an electronic version of a hotline complaint form, located on the NCUA intranet. The electronic form offers an additional venue for confidential employee and contractor communication with the OIG. All information received from any of these sources is referred to as a hotline contact. Our Office Manager, under the direction of the Director of Investigations, administers the OIG hotline program.

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

In recent years, however, the OIG Hotline has also become a valuable repository for reports of potential cases of fraud in credit unions. While the OIG does not, in most cases, have

jurisdiction to investigate fraudulent activity that takes place in credit unions, it analyzes the information obtained through the Hotline and refers potential cases of fraud to the appropriate regional office, the Office of Examination and Insurance, and the Office of General Counsel for immediate review and action. Moreover, the OIG relays general information from these referrals at new employee and supervisor training sessions to alert NCUA employees about the need for heightened fraud awareness.



Phone Call/Voicemail	71
Email	63
Letter/Facsimile	<u>22</u>
Total:	156

INVESTIGATIONS

Employee Misconduct (Unprofessional Conduct)

In the previous reporting period, the OIG received allegations from agency employees concerning misconduct on the part of two senior NCUA managers. The investigation revealed that both managers exhibited unprofessional conduct in their dealings with subordinate staff members. The OIG issued a Report of Investigation. The case was closed during this reporting period.

Employee Misconduct (Appearance of Partiality)

During the previous reporting period, the OIG received a complaint alleging lack of impartiality and/or a conflict of interest on the part of an NCUA senior manager whose family member is employed by an outside vendor which had business dealings with NCUA. Because the investigation developed no evidence that the manager improperly directed work to the outside vendor, there was no violation of 5 CFR § 2635.502(a). Nevertheless, the evidence developed during the investigation showed that there was an appearance of partiality on the manager's part.

The OIG issued a Report of Investigation. At the time this reporting period closed, the OIG was awaiting notice of agency action, if any.

Employee Misconduct (Use of Public Office for Private Gain)

The OIG received an allegation that an NCUA examiner (1) used his/her official position to solicit business for a personal business venture; and (2) failed to disclose the secondary employment and acquire agency pre-approval. The investigation found that the employee misused his/her official position; failed to obtain approval for outside employment; and failed to report the outside position on his/her Confidential Financial Disclosure Report. The OIG issued a Report of Investigation. The case was closed during this reporting period.

Employee Misconduct (Mail Tampering)

The OIG investigated allegations that a letter, mailed from one NCUA employee to another at the NCUA Central Office, was intentionally ripped open and destroyed. Another employee in the affected office, during an OIG interview, admitted that he/she had inadvertently damaged the letter. The OIG issued a Report of Investigation which cited no misconduct. The case was closed during this reporting period.

Employee Misconduct (Harassment)

During the previous reporting period, the OIG received an allegation that two NCUA examiners behaved in a harassing manner towards credit union staff during a recent examination. The investigation found that one of the examiners may have used interview techniques that were unduly “heavy-handed” and inappropriate. Allegations concerning the other manager were not substantiated. The OIG issued a Report of Investigation. The case was closed during this reporting period.

Employee Misconduct (False Claims/False Statements)

During this reporting period, the OIG received information that an NCUA examiner claimed and received \$4,989.15 in travel reimbursements that the agency had already paid directly. This investigation is ongoing.

Employee Misconduct (Alleged Unauthorized Disclosure to Media)

During the reporting period, the OIG obtained information regarding a possible disclosure of internally-held information to the media. In a recent article, a credit union trade magazine noted that two unnamed NCUA sources provided the information. This investigation is ongoing.

Employee Misconduct (Alleged Sexual Harassment)

The OIG Hotline received a phone call from a former NCUA contractor alleging that a senior manager had sexually harassed her and other female staff members. The investigation revealed

that the allegations were wholly unsubstantiated. Several interviews and investigative inquiries determined the former contractor as less than credible. The OIG issued a Report of Investigation. This investigation is closed.

Employee Misconduct (Unprofessional Conduct; Failure to Protect and Conserve Government-Issued Property)

During this reporting period, the OIG received allegations that a senior examiner threatened his/her direct supervisor; behaved disrespectfully with co-examiners and credit union staff members; and exhibited a pattern of repeated failure to protect and conserve Government-issued property. This investigation is ongoing.

Management Advisory Review

During the reporting period, the Office of Investigations conducted a Management Advisory Review (MAR) stemming from an incident whereby an NCUA examiner lost an unencrypted external flash drive provided by a credit union manager that contained PII belonging to approximately 1,600 credit union members. The MAR examined the NCUA's decision not to publicly announce, on the NCUA website, the loss of the flash drive and how the agency could improve if a similar loss or actual breach incident were to occur in the future. This report is available to the public [here](#).

Peer Review - October 1, 2014 through March 31, 2015

Section 6(e)(7) of the Inspector General Act of 1978, as amended, requires those OIGs that have been granted statutory law enforcement authority pursuant to the Act, to be periodically reviewed by another OIG or a committee of OIGs (Peer Review). The purpose of the peer review is to ascertain whether adequate internal safeguards and management procedures exist to ensure that the law enforcement powers conferred by the 2002 amendments to the Act are properly exercised. The NCUA OIG does not have statutory law enforcement authority. Consequently, our investigative organization is not required to have a peer review and to date, has neither undergone a peer review nor conducted a peer review of another OIG. However, the OI is tentatively scheduled to both receive and conduct, respectively, its first peer review in 2015.

LEGISLATIVE AND REGULATORY REVIEWS

Section 4(a) of the Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the NCUA and to make recommendations concerning their impact. Moreover, we routinely review agency program and policy guidance, in order to make recommendations concerning economy and efficiency in the administration of NCUA programs and operations and the prevention and detection of fraud, waste and abuse.

During the reporting period, the OIG reviewed 19 items, including proposed legislation, proposed and final regulations, and NCUA Letters to Credit Unions (LTCU). The OIG also responded to eight (8) Freedom of Information Act (FOIA) requests.

SUMMARY OF STATUTES AND REGULATIONS REVIEWED	
Legislation	Title
S. 579	Inspector General Empowerment Act of 2015
H.R. 299	Capital Access for Small Community Financial Institutions Act of 2015
H.R. 601	Eliminate Privacy Notice Confusion Act
H.R. 685	Mortgage Choice Act of 2015
H.R. 1529	Community Institution Mortgage Relief Act of 2015
S. 774	Financial Institutions Examination Fairness and Reform Act
S. 881	Comprehensive Regulatory Review Act of 2015
H.R. __	Federal Employee Tax Accountability Act of 2015
	Federal Information Technology Acquisition Reform Act
Regulations/Rulings	Title
12 CFR Part 701 and 722	Final Action: Appraisals—Availability to Applicants and Requirements for Transactions Involving and Existing Extension of Credit
12 CFR Part 701	Proposed Rule: Federal Credit Union Ownership of Fixed Assets
12 CFR Part 702	Proposed Rule: Capital Planning and Stress Testing
12 CFR Parts 701, 702, 703, 713, 723 and 747	Proposed Rule: Risk-Based Capital
12 CFR Part 704	Proposed Rule: Corporate Credit Unions



12 CFR Part 760	Proposed Rule: Loans in Areas Having Special Flood Hazards
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Letters to Credit Unions	Title
LTCU 15-CU-02	Private Student Loans with Graduated Repayment Terms at Loan Origination
LTCU 15-CU-01	Supervisory Priorities for 2015
LTCU 14-CU-10	Identifying and Mitigating Risks of Money Services Businesses
LTCU 14-CU-9	Projected 2015 Share Insurance Fund Premium Range

TABLE I: ISSUED REPORTS WITH QUESTIONED COSTS				
		Number of Reports	Questioned Costs	Unsupported Costs
A.	For which no management decision had been made by the start of the reporting period.	0	\$0	\$0
B.	Which were issued during the reporting period.	0	0	0
	Subtotals (A + B)	0	0	0
C.	For which management decision was made during the reporting period.	0	0	0
	(i) Dollar value of disallowed costs	0	0	0
	(ii) Dollar value of costs not allowed	0	0	0
D.	For which no management decision has been made by the end of the reporting period.	0	0	0
E.	Reports for which no management decision was made within six months of issuance.	0	0	0

Questioned costs are those costs the OIG has questioned because of alleged violations of laws, regulations, contracts, or other agreements; findings which at the time of the audit are not supported by adequate documentation; or the expenditure for the intended purpose is unnecessary or unreasonable.

Unsupported costs (included in "Questioned Costs") are those costs the OIG has questioned because of the lack of adequate documentation at the time of the audit.

TABLE II: ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE			
		Number of Reports	Dollar Value
A.	For which no management decision had been made by the start of the reporting period.	0	\$0
B.	Which were issued during the reporting period.	0	0
	Subtotals (A + B)	0	0
C.	For which management decision was made during the reporting period.	0	0
	(i) Dollar value of recommendations agreed to by management.	N/A	N/A
	(ii) Dollar value of recommendations not agreed to by management.	N/A	N/A
D.	For which no management decision was made by the end of the reporting period.	0	0
E.	For which no management decision was made within six months of issuance.	0	0

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



TABLE III: SUMMARY OF OIG ACTIVITY

October 1, 2014 through March 31, 2015

Part I – Audit Reports Issued

Report Number	Title	Date Issued
OIG-14-08	Independent Evaluation of NCUA's Compliance with the Federal Information Security Management Act FISMA 2014	11/13/2014
OIG-14-09	Review of NCUA's Effort to Promote Equal Opportunity and Achieve Diversity in Senior Management	11/26/2014
OIG-15-01	Audit of the National Credit Union Administration's Mobile Device Security Controls	01/28/2015
OIG-15-02/03/04/05	NCUA 2014 Financial Statement Audits of Central Liquidity Facility, Community Development Revolving Loan Fund, Operating Fund, Share Insurance Fund	02/17/2015
OIG-15-06	NCUA 2014 Financial Statement Audit of the Temporary Corporate Credit Union Stabilization Fund	03/16/2015
OIG-15-07	Travel and Purchase Card Review	03/31/2015

Part II – Audits in Progress (*as of March 31, 2015*)

Interest Rate Risk
Financial Stability Oversight Council (FSOC) Interest Rate Risk
Measures to Protect Electronic Credit Union Information during the Examination Process
Restitution Orders

INDEX OF REPORTING REQUIREMENTS		
Section	Data Required	Page Ref
4(a)(2)	Review of legislation and regulations	27
5(a)(1)	Significant problems, abuses, or deficiencies relating to the administration of programs and operations disclosed during the reporting period.	13
5(a)(3)	Recommendations with respect to significant problems, abuses or deficiencies	13
5(a)(3)	Significant recommendations described in previous semiannual reports on which corrective action has not been completed.	18
5(a)(4)	Summary of matters referred to prosecution authorities and prosecutions which have resulted.	None
5(a)(5)	Summary of each report to the Board detailing cases where access to all records was not provided or where information was refused.	None
5(a)(6)	List of audit reports issued during the reporting period.	31
5(a)(7)	Summary of particularly significant reports.	13
5(a)(8)	Statistical tables on audit reports with questioned costs.	29
5(a)(9)	Statistical tables on audit reports with recommendations that funds be put to better use.	30
5(a)(10)	Summary of each audit report issued before the start of the reporting period for which no management decision has been made by the end of the reporting period.	None
5(a)(11)	Description and explanation of reasons for any significant revised management decision made during the reporting period.	None
5(a)(12)	Information concerning significant management decisions with which the Inspector General is in disagreement.	None
5(a)(14)	An appendix containing the results of any peer review conducted by another OIG during the reporting period or, if no peer review was conducted within that reporting period, a statement identifying the date of the last peer review conducted by another OIG.	33
5(a)(15)	List of outstanding recommendations from any peer review conducted by another OIG that have not been fully implemented.	None
5(a)(16)	A list of any peer reviews conducted by the IG of another OIG during the reporting period, including a list of any outstanding recommendations made that remain outstanding or have not been fully implemented.	22

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

Office of Inspector General

Office
202.692.2900
peacecorps.gov/OIG
OIG Reports

Hotline
202.692.2915 800.233.5874
[Online Contact Form](#)
OIG@peacecorps.gov

System Review Report

February 4, 2013

William DeSarno
Inspector General
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Mr. DeSarno,

We have reviewed the system of quality control for the audit organization of National Credit Union Administration (NCUA), Office of Inspector General (OIG) in effect for the year ended December 31, 2012. A system of quality control encompasses NCUA OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. NCUA OIG is responsible for designing a system of quality control and complying with it to provide NCUA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and NCUA OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed NCUA OIG personnel and obtained an understanding of the nature of the NCUA OIG audit organization, and the design of the NCUA OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the NCUA OIG's system of quality control. The engagements selected represented a reasonable cross-section of the NCUA OIG's audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with NCUA OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the NCUA OIG's audit organization. In addition, we tested compliance with the NCUA OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the NCUA OIG's policies and procedures on selected engagements Enclosure 1 to this report identifies the offices of the NCUA OIG that we visited and the engagements that we reviewed. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

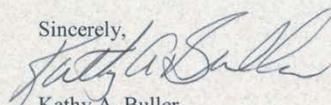
There are inherent limitations in the effectiveness of any system of quality control, and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

1

In our opinion, the system of quality control for the audit organization of NCUA OIG in effect for the year ended December 31, 2012, has been suitably designed and complied with to provide NCUA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. NCUA OIG has received a peer review rating of *pass*.

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to NCUA OIG's monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and therefore is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether NCUA OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on NCUA OIG's monitoring of work performed by IPAs.

Sincerely,



Kathy A. Buller
Inspector General

Enclosure