



## National Credit Union Administration

Office of Inspector General

June 20, 2013

### **SENT BY EMAIL**

The Honorable Darrell E. Issa  
Chairman  
Committee on Oversight and Government Reform  
U.S. House of Representatives  
2157 Rayburn House Office Building  
Washington, DC 20515-6143

Dear Chairman Issa:

This letter responds to your June 17, 2013, request for updated information regarding open and unimplemented Inspector General (IG) recommendations. Please see below the National Credit Union Administration (NCUA) Office of Inspector General's (OIG) responses to your information request:

1. The current number of open and unimplemented IG recommendations.

There are currently 19 open OIG recommendations which are either fully or partially unimplemented.

2. The cumulative estimated cost savings associated with the current number of open and unimplemented IG recommendations.

There is no estimated cost savings associated with the current number of open and unimplemented recommendations.

3. For those recommendations that would result in cost savings if implemented, specify the recommendation, the date the recommendation was made, and estimate the cost savings that your office believes would be realized if agency management implemented the recommendation.

See response to item #2, above. We do not estimate that the agency would realize cost savings if management implemented the current open recommendations.

4. Which three open and unimplemented recommendations does your office consider to the most important or urgent? For each, identify:

- a. The status of the recommendation, including whether agency management has agreed or disagreed with the recommendation and the expected date of implementation.
- b. The cost savings associated with the recommendation (if applicable).
- c. Any written report or other document that accompanied the recommendation.

Of the open and unimplemented long-term recommendations the OIG has made, I consider the following three (3) the most important.<sup>1</sup> These are discussed in more detail below.

1. Recommendation: 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.

- i. Status: Open. The agency agreed with the OIG and has provided training to examiners and issued a Supervisory Letter to credit unions advising them how to evaluate and manage concentration risk. NCUA further anticipates issuing—later in 2013—a proposed revision to update the risk-based net worth component of its current Prompt Corrective Action (PCA) regulation. In this regard, the agency has created a new taskforce to propose revisions to PCA and, to achieve this end, the taskforce is monitoring closely similar rulemaking in the banking industry.

The revised regulation will place additional emphasis on the various concentrations of credit on a balance sheet including, inter alia, real estate, member business lending (MBL), and loan participations. Thereafter, the minimum net worth level will be based more on the level of concentrations in the financial position of each credit union than previously. We are continuing to monitor the agency's efforts and anticipate an implementation date of September 30, 2013.

- ii. Cost savings: Currently, none.

- iii. Written Report: See footnote 1.

2. Recommendation: Develop a more specific process such as trigger reports or standards so examiners can better identify, analyze, and monitor loan concentrations during exams, as well as between exams.

- i. Status: Open. The agency agreed with the recommendation. To date, the agency has enhanced the quarterly regional risk reports to better detect excessive growth of various loan investment products; updated the national risk reports to identify

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<sup>1</sup> These recommendations are set forth in the "OIG Capping Report on Material Loss Reviews," Report #OIG 10-20, dated November 23, 2010. <http://www.ncua.gov/about/Leadership/CO/OIG/Documents/OIG201020CappRpt.pdf>  
All Material Loss Review reports referenced in the Capping Report are located on the NCUA OIG's website at: <http://www.ncua.gov/about/Leadership/CO/OIG/Pages/MaterialLossReviews.aspx>

concentration risk, including excess levels in products such as real estate and MBL; and issued credit union and supervisory guidance addressing concentration risk and how to mitigate it.

The agency also has current and future plans to update its Automated Integrated Regulatory Examination Software (AIRES) to better guide examiners to the review of concentration risk. Thus far, the agency has added a worksheet to exam.xls within AIRES to help identify increasing levels of concentration. Further, the March 31, 2013, AIRES update included risk.xls, which is an excel workbook that provides a review for several key risk areas and helps determine appropriate risk-based examination scope steps.

As with the first open recommendation noted above, we are continuing to monitor the agency's implementation efforts in this area as we plan and conduct current and future audits and MLRs. Nevertheless, the expected full implementation date is unknown. NCUA has advised that while AIRES updates are made quarterly, implementation of the triggers depends on programming resources.

- ii. Cost Savings: There is currently no cost savings associated with this recommendation.
  - iii. Written Report: See footnote 1.
3. Recommendation: Require examiners to document and retain the specific procedures and analysis performed during their quarterly review of the 5300 Call Reports. Examiners should then forward the analysis should then to the Supervisory Examiner for review.
- i. Status: Open. The agency agreed with the recommendation. The agency's National Supervisory Policy Manual (NSPM) tools product was not ready to test until the week of June 5, 2013. The OIG assembled testers to test the system during the week of June 10. Once the testing was completed, the OIG provided comments to the agency's Office of the Chief Information Officer (OCIO) pinpointing forms that needed to be fixed/revised/edited. The OIG is currently meeting with OCIO representatives to review that office's progress. The expected implementation date is December 31, 2013.
  - ii. Cost savings: Currently, none.
  - iii. Written Report: See footnote 1.

The Honorable Darrell E. Issa

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Please let me know if we can provide further assistance. We welcome the opportunity to work with the Committee and Congress in identifying waste, fraud and abuse in government operations.

Sincerely,

A handwritten signature in black ink, appearing to read "James Hagen", written over a printed name.

James Hagen  
Inspector General

cc: The Honorable Elijah E. Cummings