

**NATIONAL CREDIT UNION ADMINISTRATION**

**OFFICE OF INSPECTOR GENERAL**

**RESULTS ACT: Call Report  
Performance Measures**

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## EXECUTIVE SUMMARY

The Government Performance Results Act of 1993 (Results Act) seeks to improve the effectiveness, efficiency, and accountability of federal programs. The Results Act requires government agencies to develop strategic plans, annual performance plans, and performance reports. The agency performance plan must also include objective, quantifiable, and measurable performance goals. Natural person and corporate credit unions periodically report their financial status to the National Credit Union Administration (NCUA) using call report forms 5300 (5300) and 5310 (5310) respectively. NCUA has identified the call reports as key data sources to measure progress in achieving agency strategic goals meeting the requirements of the Results Act.

We performed a review of the NCUA-identified goals using call reports as data sources for the year 1999 and to a lesser extent 2000. The purpose of our review was to evaluate and determine the reliability of credit union call report information identified as Results Act performance measurements.

Our primary review procedures included reviewing Results Act requirements as appropriate for NCUA; reviewing NCUA plans and guidance for call reports; interviewing NCUA staff; and reviewing call report documentation. Because of the agency-identified goals utilizing call reports, primary agency offices for the review included the Office of Strategic Planning (OSP), the Office of Examination and Insurance (E&I), the Office of Corporate Credit Unions (OCCU), and the Office of Community Development Credit Unions (OCDCU).

Timely information is critical to ensure appropriate regulatory action. We found that all other federal financial regulators require quarterly call report information from their insured institutions. Credit union call reports are available semi-annually from all natural person credit unions with assets less than \$50 million and quarterly from credit unions with assets greater than \$50 million. Because of the size of a significant number of federally insured credit unions, credit unions representing the vast majority of assets are submitting call reports each quarter. In instances where full information is available for all natural person credit unions twice a year, the agency attempts to remedy the situation by using examination information. However, this is an imperfect situation and can result in delayed or incorrect information available to agency management in making corrections to plans and measuring goal achievement.

Call report information is available on a monthly basis from all corporate credit unions. We commend the OCCU for its system of monthly call reports from corporate credit unions and the monthly update reports prepared by staff. The reports and follow-up provide timely information to adjust, as needed regulatory efforts.

Overall, we concluded that the call report system, and the methods used by the agency in verifying and validating the call report information for the identified goals, is appropriate. Our report provides six recommendations for consideration and system improvement.

## BACKGROUND

### Government Performance Results Act (Results Act)

The Government Performance Results Act of 1993 (Results Act) seeks to improve the effectiveness, efficiency, and accountability of federal programs by requiring federal agencies to set goals for program performance and to report on annual performance compared with the goals. The Results Act requires government agencies to develop strategic plans, annual performance plans, and performance reports. The performance plan must be consistent with the strategic plan and cover each program activity set forth in the budget. In addition, the performance plan must also include objective, quantifiable, and measurable performance goals. Performance plans are intended to indicate annual steps taken by agencies to meet their strategic mission.

The Results Act requires an annual report to the President and Congress. The report should:

- Include performance indicators along with the actual program performance achieved;
- Described program results in terms of whether the performance failed to meet the criteria of a minimally effective or successful program;
- Review the success of achieving the performance goals of the fiscal year;
- Evaluate the performance plan for the current fiscal year relative to the performance achieved toward the performance goals in the fiscal year covered by the report;
- Explain and describe, where a performance goal has not been met;
- Describe the use and assess the effectiveness in achieving performance goals of any waiver;
- Include the summary findings of those program evaluations completed during the fiscal year covered by the report; and
- Indicate the functions and activities ... to be inherently governmental functions.

### Review Plan

The perceived basis and the underlying purpose for an Inspector General community role in the Results Act implementation and performance measurement is to evaluate actions taken and to assist their respective agencies in improving program efficiency, effectiveness, and accountability in the Federal Government.

Natural person and corporate credit unions periodically report financial status to NCUA using call report forms 5300 (5300) and 5310 (5310) respectively. NCUA has identified the call reports as key data sources to measure progress in meeting a number of agency strategic goals. Because NCUA has identified the call reports as key data sources, the Office of Inspector General (OIG) selected the call reports system for its first Results Act review. The review focused on the measures reported for 1999, because this data represents actual results of operations, and should have supporting data. The review

included the following goals utilizing 5300 or 5310 reports as data sources in the 1999 and 2000 NCUA Annual Plans: (1999) 1.3, 1.4, 1.6, 2.1, 3.1, 3.2; and (2000) goals similar to the 1999 goals 1.1, 1.3, 4.1, and 4.2.

### **Review Objective**

The review objective was to evaluate and determine the reliability of credit union call report (forms 5300 and 5310) information identified as Government Performance Results Act Performance measurements.

### **Review Scope**

The review scope focused on:

- Limited legal and regulation review to Government Performance Results Act (Results Act)
- NCUA 2000-2005 strategic plan
- NCUA 1999 and 2000 annual plans
- NCUA 1999 performance report to the Office of Management and Budget (OMB)

### **Review Methodology**

The review methodology included:

- An identification and evaluation of Results Act requirements regarding measurements; and particularly data validation and verification
- An evaluation of NCUA 2000-2005 Strategic plan; NCUA 1999 and 2000 Annual Plans; and NCUA 1999 Performance Report to determine how:
  1. Call reports (5300 and 5310 reports) were incorporated into agency annual plans
  2. Measurements are identified and their validity
  3. Agency identified measurements measure the goals
  4. Agency annual plans address strategic plan call reports
  5. Call report information is verified and validated (Results Act, Sec. 4, (b), a)
  6. Call report information is reported to the OMB
- Discussions with NCUA staff and review of documentation to determine and evaluate the relationship of call report information to strategic and annual plans, and annual performance reporting.

#### **Verification, Validation, and Internal Controls**

Verification and Validation (V&V) of credit union data is considered by the Office of Strategic Planning (OSP) as an Office of Examination and Insurance (E&I) and examiner responsibility, with both being able to perform database queries. Examiners, regions, and E&I review 5300s for reasonableness and accuracy. For the 1999 Annual Plan, E&I performed queries regarding numbers for credit union activity for each goal. The query results were sent for verification or confirmation of results, to the various regions. Regions would respond on changes in strategies and this information was consolidated

into the E&I report that was sent to OSP. Corporate examiners, Office of Corporate Credit Unions (OCCU), and supervisors determine accuracy and reasonableness of 5310s.

Verification and validation (V&V) of 5300 and 5310 information is performed at a number of levels from the initial submission of data to the central office at NCUA. The examiner is the key NCUA person to ensure validity and consistency in 5300 and 5310 information. Credit unions are required by NCUA to prepare periodic financial statements in accordance with Generally Accepted Accounting Principles (GAAP). GAAP provides a uniform system to validate financial information by external auditors and examiners with the accounting records. Credit unions are required to prepare and submit periodic financial statements to NCUA at least on a semi-annual basis. Examiners review 5300 information when reports are submitted by credit unions and during annual examinations. Corrected 5300 forms are submitted by credit unions when errors are discovered and corrections are necessary. Regional offices and E&I perform queries on data after 5300s are submitted. E&I reviews monthly reports (allocation and losses), and monthly reports from regions (reserving and federally insured credit unions CAMEL coded 4 and 5). 5300 Regional offices report 5300 information in monthly management report.

The Office of Community Development Credit Unions (OCDCU) indicated that in 1999 and 2000 no V&V was performed on 5300 data for Limited Income Credit Unions (LICUs). OCDCU relies on examiners and E&I to perform V&V to ensure the integrity of the 5300 system. OCDCU prepares periodic management reports from the 5300 database using ACCESS software. OSP indicated that there is a disconnect between OCDCU and examiners (OCDCU does not have control over examiners for information or accomplishing goals). In 2000 some of the 1999 OCDCU goals were moved to Goal 1, which now applies to all federally insured credit unions (FICUs) not just LICUs. Quarterly, regions prepare and submit to OCDCU Small Credit Union Program (SCUP) summary data reports.

*Comments from Director Office Credit Union Development (formerly OCDCU):*

*As the office responsible for the monitoring, we are to provide any aberrations noted in the available information to the oversight office but should not be expected to have direct involvement with the examiner staff. We do note a need to ensure proper coding of low-income designated credit unions in our Management Information System. The Office of E&I and this office have addressed this with the regions to ensure proper reporting of the designation.*

Twenty-five to thirty percent of FICU assets are in the form of investments and deposits held in corporate credit unions. OCCU analysts are assigned specific corporates to monitor. There are monthly meetings in OCCU for planning and discussion purposes to monitor corporate credit unions activities and progress. Corporate examiners and group supervisors prepare monthly status reports on assigned corporates for the Director OCCU. The OCCU prepares quarterly update reports to NCUA Board detailing corporate credit union status. In 1999 the Director OCCU prepared quarterly update reports for OSP. In 2000 there was no specific goal related to the corporate program and accordingly quarterly reports were not prepared in 2000. However, OCCU provides monthly corporate information in the NCUA Management Report. The office also determines that the safety and

soundness issues and other agency strategic goals are addressed as they relate to all federally insured credit unions.

### **Internal controls**

E&I performs validity checks via accounting edits (such as assets must equal liabilities), queries and reports as a part of internal controls to ensure validity and consistency of data. There are built in edits – critical and warning. The examiner is given 1 hour of time per credit union to check the 5300 when it arrives from the credit union (basically to ensure report can be uploaded – no time for analysis). The agency is exploring the possibility of providing additional time for examiner verification of 5300 information. At the present time there is no check box to indicate the examiner has reviewed and taken action as needed for the warning edits. Text fields can be problematic in that a “none” answer can be read as 1. The examiner is tasked to check validity of 5300 reporting during the credit union examination.

A part of internal controls for the corporate credit unions is the OCCU and corporate examiners obtaining and reviewing for reasonableness and accuracy monthly financial and other information reports from corporates. Examiners are intimately familiar with assigned corporate since each examiner is assigned only one or two corporates.

### **Strategy Changes**

During discussions with the Director of Strategic Planning (DSP), he indicated that there were strategy changes from 1999 to 2000 and 2000 to 2001 as a result of goal accomplishment and goal changes. At the time of our review the DSP was finalizing the 2001 annual plans and preparing the preliminary 2002 plan. In accordance with Instruction #9501, quarterly update or progress reports are submitted by goal managers to the DSP.

The DSP is emphasizing to regions and office directors to write their part of monthly management reports in the format and style of the strategic plan and performance plan requirements. That way they would only need to write the information once and it can readily be incorporated into the quarterly progress reports and semi-annual and annual progress reports the OSP prepares for OMB. Our review found that the agency is making progress in this area and the process is evolving. Analytical assistance to the OSP is provided by detailed staff and E&I. It is important that the OSP have their own staff to independently analyze information. To provide additional assistance in the OSP, the DSP requested additional resources in the 2001 budget request.

## PLANNING AND REPORTING ON GOAL PERFORMANCE

### Strategic Planning

The Results Act (Section 3 – Strategic Planning) requires the following to be included in the agency strategic plan:

- Mission statement
- General goals and objectives
- Description of how the goals and objectives are to be achieved
- Description of how performance goals in plan related to general goals and objectives in strategic plan
- Identify key factors external to the agency could significantly affect achievement of goals and objectives
- Description of program evaluations used in establishing/revising general goals and objectives

We reviewed the agency strategic plan and found that basically the requirements for strategic planning were included for goals utilizing 5300 and 5310 information and all of the goals had outcome goals and performance measures.

NCUA Instruction 9400.1 provided guidance for the strategic and annual plans; and the Results Act committees. Agency guidelines for implementation of the annual plans are included in NCUA Instruction 9501. In 1999 goal managers received performance measures from the Director Strategic Planning (DSP). The Office of Examination and Insurance (E&I) provided leadership for the goal managers. The Strategic Management Council (SMC) is the internal management committee that provides input for planning changes. The SMC is comprised of certain agency senior management, and certain central office and regional management. The SMC is scheduled to meet quarterly for planning purposes. We found that the SMC has not met each quarter. The goals leaders provide goal progress reports to the DSP and the DSP provides Results Act committee oversight. Committees have informal meetings with no minutes. The committees provide drafts of plans for review and comment by agency management. During 2000 the DSP received goal progress information from data providers, primarily E&I and the Office of Chief Financial Officer (OCFO). The DSP provides quarterly progress reports to the Executive Director and NCUA Board. In addition, the DSP and some central offices provide progress update information in the monthly management report. Quarterly reports from the goal managers are primarily data information.

#### Comment from Director Office Strategic Planning:

*The agency is in the process of developing a formal charter for the SMC and establishing regular meeting dates of the Friday following the NCUA Board meeting during January, March, May, July, September, and November. The agency will begin the Results Act required update of our Strategic Plan this month. This update will include annual performance goals for each year of the strategic plan formally tying the two together. Also included in this update is a formal re-*

*write of NCUA Instruction 9501 which will formally layout our Strategic and Annual planning process, provide regional and central office requirements and set due dates for inputs to the quarterly reports and annual performance reports and plans.*

It is the DSP responsibility to ensure Results Act mandates are incorporated in the agency strategic and annual plans and that the mandates are met. DSP and mandates are given oversight by NCUA Board assistants. The DSP indicated the annual plans flow from the strategic plan and to the annual performance report to OMB. However, there is no formalized process now. NCUA hired a contractor to provide assistance with planning.

The DSP coordinates goal groups and mandates were reviewed and incorporated into the 2000 plan. Mandates are incorporated during strategic planning. In 1999 NCUA hired a consultant to address Results Act, strategic plan, and annual process. There is involvement by Senior Staff Persons (SSP) during meetings and comment periods. "Situation Groups" for various interest areas were appointed such as the Office of Chief Information Officer (OCIO) for technology. The Office of Strategic Planning (OSP) reviews offices operating plans. Annual plans are living documents and the agency should follow-up and follow-through on plans. The Office of Examination and Insurance (E&I) in charge of the credit union examination program, relies on the DSP to ensure requirements are met. In 1999 E&I wrote NCUA plan, performance requirements, and project lists in E&I to accomplish strategic plan and office annual plan.

In our review of NCUA strategic planning we found that in 1999 the agency assigned goal managers and in 2000 the agency assigned team leaders charged with the responsibility of ensuring that outcome and performance goals were accomplished. The appropriate central and regional offices assisted the goal managers and team leaders. The Director of E&I was responsible for natural person credit union goals. The Director of Office of Corporate Credit Unions (OCCU) was responsible for the corporate credit union goal. The Director of the Office of Community Development Credit Unions (OCDCU) was responsible for the 1999 low-income credit union related goals. NCUA determined there was a need for more interaction with the regions regarding some 1999 OCDCU goals. Accordingly, a Regional Director (RD) was assigned as the goal manager for the goals related to increasing credit union membership, increasing limited-income credit unions, and increasing limited income credit union membership.

In 1999 and 2000 teams of staff with appropriate expertise were assigned and met with the goal and team leaders to develop or revise strategies and after agency comment and approval, to implement strategies to accomplish the assigned goals. Goal managers were responsible to provide quarterly progress reports to the OSP.

The 2000 progress reports are primarily data with limited analysis. The DSP indicated the 5300 and 5310 process is not well identified in the strategic and annual plans to quantify and measure agency mission and strategic goals. In 1999 goal managers prepared quarterly progress reports including numbers, problems, and strategies to fix the problems. E&I prepares management reports with 5300-related numbers for the goal managers. In addition, E&I conducts meetings on progress towards goals. A quarterly project list from E&I is submitted to OSP. E&I and other central offices report goal

progress made in monthly management report (management report is consolidated for all offices and regions).

For 2000, per the DSP, there was limited manager goal input, with the goals being developed by OSP. RDs and initial goal groups were involved in developing the performance indicators. For the 2001 plan, an Associate Regional Director and team addressed issues. For 2000 an Associate Regional Director (ARD) headed the committee; and for 1999 a committee representing each region addressed issues and sent drafts to the regions for comments and then a report was presented to the NCUA Board. Performance measures are communicated to staff through annual plans and progress reports. At the present time no external benchmarks are used in interpreting performance indicators. Historical NCUA baseline information is used. FDIC has a good plan FDIC is following. DSP would like to use Federal Financial Examination Council) (FFIEC) information.

### **Annual Performance Plan**

The Results Act (Section 4 – Annual Performance Plans and Reports) requires the following to be addressed in the agency annual performance plan:

1. Performance goals
2. Goals in objective, quantifiable, and measurable form
3. Operational processes
4. Performance indicators
5. Comparison of actual program results with the established performance goals
6. Describe means used to verify and validate measured values

Our review of the 1999 and 2000 Performance Plans found that basically the Results Act requirements were met for the goals of this review (Goals 1.3, 1.4, 1.6, 2.1, 3.1, and 3.2 and goals 1.1, 1.3, 2.1, 3.1, 4.1 and 4.2 respectively), utilizing forms 5300 and 5310 for performance measurements.

**RECOMMENDATION:** None. However, we believe the agency should continue to review and revise the strategic plan and annual performance plans as necessary to address changing conditions and goal completion.

### **Operating Plans**

The Results Act requires each agency to develop annual operating plans addressing each major program area. NCUA Instruction 9501, Section 5, requires operating plans of that office contributing to Results Act goal accomplishment. The plans must include action plans and were to include:

- Action steps;
- Milestones;
- Responsible individuals; and
- Resource requirements

We obtained and reviewed available 1999 operating plans for the offices utilizing 5300 or 5310 information as data source for goals. The purpose of the review was to determine how office operating plans tie in with the agency strategic and annual plans. We reviewed plans from E&I, OCCU, OCDCU, and all six regions. The Director of E&I was the goal manager for Goals 1.3, 1.4, and 2.1. The Director of OCCU was the goal manager for Goal 1.6. The Director of OCDCU was the goal manager for Goal 3.1 and co-manager with the Director of E&I for Goal 3.2.

We found that the operating plans for all goals addressed the required strategies, action steps, milestones, responsible individuals and resources. The plans and actions appeared reasonable. However, the information provided did not tie actions to accomplishment of goals. Most of the actions to accomplish goal 1.6 were accomplished at the time the plan was prepared. Also, E&I Goals 1.3, 1.4, and 1.5 were listed together with limited specific strategies, action steps, milestones, responsible Individuals, and resources to address goals. For E&I Goal 2.1 no Strategy was indicated and the action step was to “monitor performance and take appropriate action within statutory guidance.” E&I Goal 3.2 included basic strategies, action steps, milestones, responsible individual, and resources. However, it was not clear how this would meet the goal of increasing credit union members served by 3 percent (i. e. no numbers were identified with the actions).

Our review of the 1999 six regional operating plans found that the plans agreed with the E&I and OCDCU goals with additional detail. Two of the regions commented that we do believe that there needs to be some type of review and comparison of the final plans submitted by the six regions. This comparison should be performed by the DSP or, as an alternative, by representatives of the six regions plus the OSP. An opportunity for fine-tuning of the Regional Plans then needs to be made available to the regions. Additionally, one region commented such a comparison will help to ensure consistency across regions and ultimately result in more effective planning by all the regions. And, in hindsight, it may have been worthwhile to have a national planning meeting for the regions to assist in developing their plans.

*Comment from Director Office Strategic Planning:*

*OHR is currently reviewing the position description for a Strategic Planning analyst and Director Strategic Planning plans call for a Strategic Planning Reports analyst (this last position has yet to be approved for hiring). Once both staff members are on board, time should be available to accomplish regional and central office Operating plan reviews and to hold regional or national planning meetings.*

We reviewed the 1999 and 2000 annual operating plans for the OCCU. We reviewed the documentation with emphasis on the 5310 plan; validation and verification efforts; and results reporting.

We found that the 1999 OCCU plan addressed the only goal charged to the office, Outcome Goal 1.6, to “Ensure that corporate credit unions operate within a reasonable level of risk in order to maintain their role as a provider of liquidity and financial services to the credit union industry.” The Performance Goal was to ensure 100 percent of corporate credit unions on a monthly basis met minimum capital levels and net economic value per NCUA requirements. Plan strategies to ensure goal accomplishment included

on-site presence at some corporates; developing a new risk rating system; emphasizing the Net Economic Value (NEV) determination process; contracting for an independent review of corporate automated network; and establishing a Corporate Examination Review Task Force.

The NCUA 2000 annual plan did not contain a specific goal charged to OCCU. However, in the 2000 OCCU operating plan, the office committed to supporting NCUA's Strategic Plan 2000-2005 and Annual Performance Plan 2000 adopted by the NCUA Board. The OCCU plan specifically addressed Outcome Goals 1.1, 1.2, 2.2, 2.3, and 3.2.

### **NCUA Progress in Meeting Goals**

NCUA in its annual plans addressed strategic goals and its approach in working with credit unions, including:

#### **1999 Plan**

- Promote system of financially sound, well-managed federally insured credit unions.
- Protect member savings in federally insured credit unions, thus promoting public confidence in the credit union system.
- Provide a regulatory environment that promotes credit union service to people of modest means, as well as to other eligible consumers.
- Ensure that credit union consumers get the benefits and protections afforded them by law and regulation.

#### **2000 Plan**

- Promote a system of financially sound, well-managed federally insured credit unions able to withstand economic volatility.
- Ensure that credit unions are prepared to safely integrate financial services and emerging technology in order to meet the changing needs of their members.
- Create a regulatory environment that will facilitate credit union innovation to meet member financial service expectations.
- Enable credit unions to leverage their unique place in the American financial services sector to make service available to all Americans who are not currently being served, particularly those of modest means.
- Enhance NCUA's organizational ability to serve as a proactive partner with the credit union community in addressing the challenges of the 21<sup>st</sup> century.

Natural person and corporate credit unions periodically report their financial status to NCUA using call report forms 5300 and 5310 respectively. NCUA has identified the call reports as key data sources to measure progress in meeting a number of agency strategic goals. Because NCUA has identified the call reports as key data sources, the Office of Inspector General (OIG) selected the call reports system for its first Results Act review. The review focused on the measures reported for 1999, because this data represents actual results of operations, and had supporting data.

## **1999 and 2000 Outcome Goals**

In the NCUA 1999 and 2000 Annual Plans the following Outcome Goals were identified utilizing call reports (forms 5300 or 5310) as data source:

### 1999 Outcome Goals

- 1.3 - Ensure that federally insured credit unions are adequately capitalized.
- 1.4 - Improve financial soundness of credit unions with negative financial indicators.
- 1.6 - Ensure that corporate credit unions operate within a reasonable risk....
- 2.1 - Maintain the healthy financial performance of the National Credit Union Share Insurance Fund (NCUSIF).
- 3.1 - Promote successful, financially healthy, low income credit unions and credit unions serving the underserved.
- 3.2 - Increase access to credit unions for underserved individuals and for all other eligible consumers.

### 2000 Outcome Goals similar to 1999:

- 1.1 - Ensure that federally insured credit unions are financially healthy, (goal similar to 1.3 for 1999).
- 1.3 - Maintain the healthy performance of the NCUSIF, (goal similar to 2.1 for 1999).
- 4.1 - Increase the number of credit union members, (goal similar to 3.2b for 1999).
- 4.2 - Increase credit union service to low-income and underserved areas, (goal similar to 3.2a for 1999).

## **1999 Goals**

NCUA established fifteen performance goals for 1999, including six goals utilizing call reports. The agency reported that all but two goals were met. Goals utilizing 5300 information that were not met included parts of Goal 3.1 and 3.2. They included Goal 3.1a (reduce by 10% the number of low-income designated credit unions with net capital of less than 6%) and Goal 3.2b (increase the number of federal credit union members served by 3%).

NCUA Instruction 9501 (3/23/99) required goal managers to report quarterly on progress toward achieving the NCUA Board approved 1999 Annual Plan goals. The report for the quarter ending March 31, 1999, was the first report after the instruction. The report contained comments for all 5300 Outcome Goals and the report indicated satisfactory progress was being made in each goal, although timely data collection is a problem for several goals in several program areas. The DSP in a May 1999 memorandum stated, "The primary lesson learned relates to data collection. Currently, we measure many of our goals via the 5300 data collection program. This data will not be available until August of 1999 and February of 2000. Data timeliness is a problem. We collect data so we can monitor program goals and modify our strategies if that data shows that we are not achieving the desired results. Therefore, if possible, we must devise alternative ways to measure the goals we have established. If not possible, we should certainly avoid this situation in the future."

The report for the quarter ended June 30, 1999, indicated satisfactory progress was being made in each goal. The agency reported that satisfactory progress was being made in all the performance goals except 3.1a and 3.2b for the third quarter 1999. Because of lack of staff and time, the Office of Strategic Planning (OSP) indicated there was not enough time to write a progress report for the quarter ending December 31, 1999, and also write the annual performance report to Office of Management and Budget (OMB). Accordingly, only the report for OMB was prepared for 1999.

The agency provided the following quarterly report information for the goals:

Quarter Ending March 31, 1999

Goal 1.3 (Ensure that federally insured credit unions are adequately capitalized)– The report stated: “The goal...was met 12-31-98. This raises several questions. Was the goal not sufficiently ambitious? Were the number of undercapitalized credit unions reduced by 7% in a six month period because of NCUA’s extraordinary supervision activity? How many of the original 372 credit unions were merged or liquidated? Office of Examination and Insurance (E&I) has been asked to provide this information and it will be included in the next quarterly report.” And: “Data from the 5300 ... will not be available until August 1999. E&I will devise an alternative means of tracking ...” As of March 31, 1999, the number of credit unions (CUs) that have net capital of less than 6 percent was not available.

Goal 1.4 (Improve financial soundness of credit unions with negative financial indicators) - The report indicated numbers of CUs with negative financial indicators (number of CUs with return on assets of less than .5%) was not available and stated: “Data from 5300 ... will not be available until August 1999. E&I will devise an alternative means of tracking ...”

Goal 1.6 (Ensure that corporate credit unions operate within a reasonable risk) – The report indicated that all corporate credit unions (CCUs) were meeting regulatory requirements for minimum capital and maximum change in Net Economic Value (NEV).

Goal 2.1 (Maintain the healthy financial performance of the National Credit Union Share Insurance Fund) – The report indicated the agency met the goal of maintaining the NCUSIF equity ratio of 1.3 percent with a projection for year-end of +1.3 percent.

Goal 3.1 (Promote successful, financially healthy, low income credit unions and credit unions serving the underserved) – The report indicated no number of CUs for March 31, 1999, and stated: “Office of Community Development Credit Unions (OCDCU) has the same problem as E&I – 5300 data not available until August and February.” The goal manager added 9 new strategies to accomplish the goal.

Goal 3.2 (Increase access to credit unions for underserved individuals and for all other eligible consumers – The report did not indicate the number of potential members for March 31, 1999. The OSP wanted to know why the goal for the number of potential members from low-income areas was exceeded (for year) in the first quarter. The reason this happened was that several large CUs were designated low-income. The report further stated that for this goal: “Interim data on this measure will

not be available until the mid-year 5300 reports are processed in August 1999.” Goal manager added 9 new strategies to accomplish this goal.

Note: Instruction 9501 indicates that the goal manager is to provide an assessment of performance against budgeted FTE’s and dollars. In the quarterly reports for March 31, 1999, goal managers for 5 of the 6 goals (1.3, 1.4, 1.6, 3.1, and 3.2) did not provide the required assessment of performance against budgeted FTE’s and dollars.

#### Quarter Ending June 30, 1999

Goal 1.3 (Ensure that federally insured credit unions are adequately capitalized) – The report stated: “It was agreed last quarter to use the 12-31-98 figure (for CUs with net capital of less than 6%) as the baseline rather than the 6-30-98 figure. The goal thus becomes 347 minus 7%, a reduction of 24, for a total of 322 undercapitalized credit unions by 12-31-99. Data from the 5300 Call Report was not available until August 1999. Therefore, E&I has been tracking the original 347 undercapitalized Federally Insured State Chartered Credit Unions (FISCUs) through other means. Of the original 347 undercapitalized FISCUs, 32 CUs have been removed. This exceeds the goal of 24. Of the 32, 16 were removed due to merger, liquidation, or purchase and assumption. Removal due to merger, liquidation or purchase and assumption accounted for 50% of the reduction. Use of a static, rather than a dynamic list of CUs may be producing artificially positive results. Call report data is available biannually, significantly beyond the end of the quarter. This is a problem because timely data is needed in order to monitor performance. This concern applies to Outcome Goal 1.4, as well. Using the static list, 315 CUs remain undercapitalized. However, the 5300 Call Report (for 6/30/99) indicates that 339 CUs are undercapitalized. This means that while we have resolved the capitalization problem of 32 CUs, 24 new CUs have developed capitalization problems.”

As of June 30, 1999, there was an actual net reduction improvement of 8 CUs to 339 undercapitalized (12/98 CUs 347 less 6/99 CUs 339 = 8 net improvement). It is misleading to show 315 credit unions as undercapitalized when the true net reduction shows 339.

Goal 1.4 (Improve financial soundness of credit unions with negative financial indicators) - The second report stated: “It was agreed last quarter to use the 12-31-98 figure as the baseline rather than the 6-30-98 figure. The goal thus becomes 214 minus 7%, a reduction of 15, for a total of 199 CUs by 12-31-99. Data for the 5300 Call Report was not available until August 1999. Therefore, E&I has been tracking the original 214 CUs through other means. Of the original 214 CUs 37 have been removed. This exceeds the goal of 15. Of the 37, 12, 32% were removed due to merger, liquidation or purchase and assumption. The 5300 Call Report data indicates that 209 credit unions had a return on assets (ROA) of less than .5% and net capital of less than 6%. Again, while 37 CUs have been removed from the original list, 32 new CUs have been added.”

As of June 30, 1999 there was an actual net reduction of 5. With 209, the 177 listed as of June 30, 1999, is misleading. E&I has been tracking the original 214 through other means.

Goal 1.6 (Ensure that corporate credit unions operate within a reasonable risk) – The report indicated that all corporate credit unions were meeting regulatory requirements for minimum capital and maximum change in Net Economic Value (NEV). The goal manager did not provide an assessment of performance against budgeted FTE's and dollars for the quarter ending June 30, 1999.

Goal 2.1 (Maintain the healthy financial performance of the National Credit Union Share Insurance Fund) – The report indicated the agency did not meet the goal of maintaining the NCUSIF equity ratio of 1.3% for the quarter ending June 30, 1999. However, the projection for year-end was for a ratio of +1.3 percent.

Goal 3.1 (Promote successful, financially healthy, low income credit unions and credit unions serving the underserved) – The report stated: “As of 6/30/99 there were 499 low-income credit unions. This represents a 6.25% increase over year end 1998. The goal is 13% and we are very close to target to meet that goal.”

Goal 3.2 (Increase access to credit unions for underserved individuals and for all other eligible consumers) – The report stated: “As of June 30, 1999 there are 44.1 million federal credit union (FCU) members. This represents a 1% increase over the 43.8 million figure. (43.8 million is an actual figure. The 44 million figure included in the annual plan was an estimate.) The annualized goal is 1.5%. We are behind that goal.”

#### Quarter Ending September 30, 1999

Goal 1.3 (Ensure that federally insured credit unions are adequately capitalized) - The report stated: “Of the original 347 undercapitalized federally insured CUs, 48 CUs have been removed. This exceeds the goal of 24.” This statement is true. However, the report did not take note of any new CUs being added to the list.

Goal 1.4 (Improve financial soundness of credit unions with negative financial indicators) - The report stated: “Of the original 214 CUs, 43 have been removed. This exceeds the goal of 15.” This statement is true. However, the report did not take note of any new CUs being added to the list.

Goal 1.6 (Ensure that corporate credit unions operate within a reasonable risk) – The report indicated that all corporate credit unions were meeting regulatory requirements for minimum capital and maximum change in Net Economic Value (NEV). The goal manager did not provide an assessment of performance against budgeted FTE's and dollars for the quarter ending June 30, 1999.

Goal 2.1 (Maintain the healthy financial performance of the National Credit Union Share Insurance Fund) – The report indicated the agency met the goal of maintaining the NCUSIF equity ratio of 1.3 percent, with a projection for year-end of +1.3 percent.

Goal 3.1 (Promote successful, financially healthy, low income credit unions and credit unions serving the underserved) – The report stated: “...The goal manager will take several steps to encourage improved performance for this goal.” (Alert each RD of status; make certain each undercapitalized low income

credit union (LICU) is included in the regional Small Credit Union Program). As of 9/30/99 there were 521 LICUs. This is a 12% increase. We are on target to meet the 13% goal.”

Goal 3.2 (Increase access to credit unions for underserved individuals and for all other eligible consumers) – The report stated: “...Meeting this goal is difficult for several reasons.” CUMAA impact not felt until 2<sup>nd</sup> quarter; perception of burdensome regulations may be discouraging application for FCU charters and encouraging conversion to other charters.) “The cumulative total of potential members added as of 9/30/99, 2,105,430, is a 21% increase over the 12/31/98 baseline (total potential membership) of 10,082,353. The goal has been exceeded by 11%.”

With NCUA exceeding certain goals by end of 3<sup>rd</sup> quarter, we believe those goals may have been set too low for the entire year.

**1999 Performance Report to OMB**

The Results Act, Section 4, requires that Federal agencies report their progress in meeting goals to the President and Congress by March 31 of each year. According to the Act, as applicable to NCUA, the report should include the following information: (Our evaluation of NCUA’s 1999 report is printed in italics.)

- Performance indicators along with the actual program performance achieved compared with the performance goals expressed in the plan for that fiscal year. *We found the 1999 report included this information.*
- Review the success of achieving the performance goals of the fiscal year. *We found the 1999 report included this information.*
- Evaluate the performance plan for the current fiscal year relative to the performance achieved toward the performance goals in the fiscal year covered by the report. *We found the 1999 report included this information.*
- Explain and describe, where a performance goal has not been met (including when a program activity’s performance is determined not to have met the criteria of a successful program activity under section 1115(b)(1)(A)(ii) or a corresponding level of achievement if another alternative form is used).
  - A. Why the goal was not met. *We found the 1999 report included this information why Goals 3.1a and 3.2b were not met.*
  - B. Those plans and schedules for achieving the established performance goal. *We found the 1999 report included this information.*
  - C. If the performance goal is impractical or infeasible, why that is the case and what action is recommended. *We found the 1999 report included this information. Goal 1.3 was revised since the 1999 goal was achieved by December 31, 1998.*

D. Include the summary findings of those program evaluations completed during the fiscal year covered by the report. *We found the 1999 report included this information.*

E. The functions and activities of this section shall be considered to be inherently governmental functions. The drafting of program performance reports under this section shall be performed only by government employees. *The report was drafted by NCUA staff.*

The 5300 and 5310 reports provide measurable results in support of goals and plans for natural person and corporate credit unions respectively.

The 1999 NCUA performance report to OMB was prepared by the Office of Strategic Planning (OSP). E&I didn't participate in the preparation of the 1999 report. However, Office of Examination and Insurance (E&I) staff member gathered information from reports; regions provided comments on numbers and whether strategy was working and provided revisions to strategy. In preparing the annual report, the OSP incorporated information from the quarterly progress reports; comments received from team leaders; and other pertinent information. Central and regional offices had an opportunity to comment and provide input to the draft report. The final report was released to OMB in March 2000.

#### **5300 Data**

E&I is the primary 5300 data gatherer for NCUA, receiving data and preparing analysis of the data and information from regional and central offices. In addition, E&I has performed data gathering and analysis work for Office of Community Development Credit Unions (OCDCU) goals. Raw data compiled by E&I is sent to team and goal managers for review. Analysis of 5300 data is performed by the regions and E&I. E&I performs the number crunching for the goals utilizing the 5300s, performs analysis, and submits the results to OSP. Numerical data alone does not indicate what to do if performance goals are not met. However, report narrative does indicate how strategies are changed or will be changed for the next year, and the change impact. In determining how the performance data reported is reasonable, accurate, and reliable (validation and verification), the agency has software available for examiners to use in comparing data. The OSP is not certain that all regional staff are using the comparison software tool to verify and validate data. The OSP is responsible to ensure the reasonableness and accuracy of quarterly reports, semi-annual briefings for Executive Director and NCUA Board; and the annual report to OMB. For the 2001 year budget, the OSP requested additional staff to perform its duties including verification and validation of agency data. After verification and validation of information, the form 5300 is posted on the NCUA website.

In 2000, goal managers were to prepare data analysis, from the data supplied by E&I. Region provides information in monthly management reports to the central office. In addition quarterly progress reports as deemed necessary by E&I goal manager are submitted. The OSP receives information from action offices and prepares reports submitted to OED and the NCUA Board. In addition, the OSP takes the E&I data analysis and includes the information in the annual performance report to OMB.

#### **5310 Data**

The Office of Corporate Credit Unions (OCCU) is the primary data gatherer and performs analysis of the 5310 information received from corporate credit unions. Corporate examiners prepare monthly reports that are submitted to OCCU providing the status of corporate credit unions. OCCU submits a monthly status report to the Executive Director. In 1999 and 2000, Monthly Corporate Capital Reports and Net Economic Value reports were submitted. Key areas in capital are set by regulation, with minimum total capital equaling 4 percent. The 5310 form is sent in electronic software format to each corporate credit union via electronic mail at the beginning of each year. Using the software program the corporate can generate the 5310 call report for a specific month. The completed form is submitted electronically by the corporate to OCCU via email. An example of 5310 data reporting time frames was for the third quarter 2000: October 20, form 5310 to be submitted by corporate to OCCU; November 20, corporate examiners review 5310 information, upload the reviewed/revised report, and prepare status memorandum to supervisor ensuring accuracy of 5310; and December 1, the 5310 is posted on the NCUA website.

**2000 NCUA Draft Report**

At the time of our review the 2000 report to OMB was in draft status and being circulated internally at NCUA for comment. Because of limited staff, OSP continues to rely on the validity of data input from other offices and NCUA regional offices. The OIG provided advice and comments to the OSP regarding some of the data contained in the draft report during the course of this review.

**RECOMMENDATION #1:** NCUA should establish consistent E&I input and cutoff times to ensure consistent information is provided to OSP.

*Comment from Director Office of Examination and Insurance:*

*Recommendation #1 has merit. E&I has constraints based upon the timing of the 5300 report. The call report production process takes precedence over the goal tracking responsibility. E&I has limited staff resources dedicated to these functions and must first complete 5300 goals. Changes to the measurements further extend the time needed to compile the data. If quarterly call reports for all credit unions are approved, the need to interpolate 1<sup>st</sup> and 3<sup>rd</sup> quarter data will no longer be an issue and the information will become easier to obtain.*

**RECOMMENDATION #2:** NCUA should establish a consistent policy for counting (or not counting) inactive federally insured state chartered credit unions (FISCUs) to ensure accurate and consistent reporting of FISCU numbers.

**OIG Goal Conclusions**

We reviewed the following Outcome Goals utilizing 5300 or 5310 reports as the data source identified in the 1999 and 2000 Annual Plans:

**Identified NCUA Outcome Goals Utilizing 5300 or 5310 Reports as Data Source**

<i>1999 Annual Plan Outcome Goal:</i>	<i>1999 Performance Report:</i>	<i>2000 Annual Plan Outcome Goal:</i>
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1.3 (adequate capital)	<b>Exceeded</b>	1.1 (similar to 1999 1.3)
1.4 (negative financial indicators)	<b>Exceeded</b>	1.3 (similar to 1999 2.1)
1.6 (corporate CUs – Form 5310)	<b>Met</b>	3.1 NEW (demographics)
2.1 (share insurance fund)	<b>Met</b>	4.1 NEW (increase FCU members)
3.1a (low income credit unions)	<b>Not met</b>	4.2 (similar to 1999 3.2)
3.2 (increase access to underserved)	<b>3.2a Met</b> <b>3.2b Not met</b>	

E&I confirmed that the 5300 system has the capability to identify how data is submitted by the credit union to NCUA. The credit union can submit the periodic information electronically or via a manually prepared form. For the 5300 cycle for June 2000, 93 percent of federally insured credit unions submitted the information electronically.

Complete 5300 information is available only semi-annually. Because complete 5300 data is available only twice a year goal results cannot readily be reported for each quarter. A good example is included in the Goal 1.3 narrative.

### **1999 Goal Results**

Goal results for 1999 included the following:

Goal 1.3 – Ensure that federally insured credit unions are adequately capitalized. Goal exceeded

Data collection issues may have created a rosier picture than is warranted. Because of problems related to timeliness of the 5300 report for quarterly data collection (complete call report data is available only semiannually, significantly beyond the end of the quarter) a static list of credit unions was tracked. As of June 30, 1999, of the original 347 listed, only 315 remained undercapitalized, again easily exceeding the annual goal in six months. However, the 5300 report for June 30, 1999, received in August shows a total of 339 undercapitalized credit unions. While NCUA staff helped resolve the capitalization problems of 32 credit unions, 24 new credit unions developed capitalization problems. Similarly, as of December 31, 1999, while figures show a 22 per cent reduction in the number of the original undercapitalized credit unions, from 347 to 271, the actual total number of undercapitalized credit unions was 284.

A significant number of undercapitalized credit unions were removed from the list through merger or liquidation. The agency indicated “We have been wary of an unintended consequence of the ‘reduce the number of undercapitalized credit unions’ goal. One of the ways to accomplish this goal would be to merge or liquidate troubled credit unions. In fact, of the 76 credit unions removed from the undercapitalized list, 38, or 50 percent, were taken off the list because of merger or liquidation. Strategic goals for 2000-2005 emphasize establishing a regulatory environment where credit unions of all sizes flourish. While it would be inappropriate to interfere with a credit union business decision to merge or liquidate, NCUA will continue to emphasize to examiner staff that merger or liquidation should be viewed as a last resort option to resolve supervisory problems.

The agency modified the goal and its indicator to be a percentage of all federally insured operating credit unions. This will necessitate tracking both existing and newly undercapitalized credit unions. The long term view of the 5300 report data collection program will be supplemented by information from the Examination System (EXM) database. EXM data is available contemporaneously and will be used to adjust supervision strategy to the current circumstance.

Goal 1.4 - Improve the financial soundness of credit unions with negative financial indicators. Goal exceeded. The total number of federally insured credit unions reflecting the negative financial indicators (return on assets of less than .5% and net capital of less than 6%.) were 213 credit unions as of June 30, 1998. The 1999 goal was to reduce the number to 198 as of December 31, 1999. As was the case with Outcome Goal 1.3, it was agreed to use the December 31, 1998 figure rather than the June 30, 1998 figure. The goal became 214 minus 7 per cent, a reduction of 15, for a total of 199 credit unions by December 31, 1999. As of December 31, 1999, 138 credit unions, of the original 214, had a return on assets of less than .5 per cent and net capital of less than 6%. Data collection is an issue with this performance measure, as well. Again, although at the end of the year the agency helped resolve the problems of 36 percent of the original 214 credit unions with negative financial indicators, the actual total of operating federal credit unions with net capital of 6 per cent and return of assets of .5 per cent was 171, a reduction of 25 per cent. Again, this will mean tracking both existing and new problem cases using 5300 report data and Examination System data.

Goal 1.6 – Ensure that corporate credit unions operate within a reasonable level of risk in order to maintain their role as a provider of liquidity and financial services to the credit union industry. Goal met. The performance goal was to ensure that 100 percent of corporate credit unions, on a monthly basis, meet the regulatory requirements for minimum capital levels, pursuant to Part 704.3 and Part 704 Appendix B of NCUA’s Rules and Regulations, and for changes to net economic value, pursuant to Part 704.8 and Part 704 Appendix B of NCUA’s Rules and Regulations, based on the corporates approved operating authority level. Each corporate credit union was able to meet regulatory requirements for minimum capital levels and the change to net economic value despite the significant growth in assets due to the build up of year 2000 liquidity in the credit union system. The 2000 Annual Plan does not include a separate outcome goal related to the corporate credit union program. Corporate credit unions are included in the generic term “credit unions” and corporate credit unions figure in three of the five strategic goals.

Goal 2.1 – Maintain the healthy financial performance of the National Credit Union Share Insurance Fund. Goal met.

The performance goal was to maintain the equity ratio of 1.3%. The equity level of 1.3% is mandated by statute. The ratio as of September 30, 1999, was 1.31% and 1.3% as of December 31, 1999. The effectiveness of NCUA’s supervision program has a direct impact on the health of the National Credit Union Share Insurance Fund. One of the measures of the effectiveness of the supervision program is to: “Manage...so that the percentage of federally-insured credit unions that remain CAMEL code 4 or 5 is no more than 1.1% for 12 months and no more than .45% for 24 months. No more than 4.5% of

federally-insured credit unions will remain CAMEL code 3 for more than 36 months.” 1999 results indicated the agency met or exceeded the three goals at 1.09%, .45%, and 4.04% respectively.

A related goal is for the insurance loss ratio to be below \$.30 per \$1,000. The report indicated zero losses for the years 1995-99.

Goal 3.1a - Reduce by 10% the low-income designated credit unions with net capital of less than 6%.

Goal not met.

Goal was not met to reduce by 10 percent the Limited Income Credit Unions (LICUs) designated credit unions with net capital of less than 6 percent because of emphasis to add new LICUs. A substantial proportion of the added LICUs had capital levels of under 6 percent. From June through December 1999, 23 newly designated, undercapitalized LICUs were added; 16 LICUs improved but remained under 6%; 28 LICU's improved to raise their capital above 6%; while 24 LICUs remained under 6% and continued to decline. If new LICUs are removed, performance is comparable to past years. For 2000, the agency approach was to better coordinate efforts related to low-income credit unions with the examiners, regions, and E&I taking the lead.

Goal 3.2 – 3.2a Increase potential credit union membership from low-income communities by 10%.

Goal met. 3.2b Increase the number of federal credit union members served by 3%. Goal not met.

3.a – As of December 31, 1999, potential membership from low-income communities was 10.4 million, a 33 percent increase over the figure for December 31, 1998.

3.b – As of December 31, 1999, there were 43.9 million federal credit union members. This is a .2% increase over 43.8 million as of December 31, 1998. Reasons for failure to achieve this goal included the Credit Union Membership Access Act full positive impact did not happen until 2<sup>nd</sup> quarter 1999; and a perception of burdensome federal charter and conversions to state charters. For 2000 the emphasis will be to focus on timely field of membership expansions; and using economic development specialists to assist and educate small credit unions on field of membership processing.

## **2000 Goal Results**

We reviewed the 2000 semi-annual agency report (report). In our review, we emphasized the 5300 and 5310 plan; data validation and verification; and narrative reporting. We found that the report was submitted to the NCUA Board in accordance with NCUA Instruction 9501. The report was the first semi-annual report under the new 2000-2005 Strategic Plan. The report was a transition from simply reporting strategically to thinking and managing strategically. The report included first steps and efforts to develop a more enhanced means of tracking costs.

All measures concerning safety and soundness were either met or exceeded at mid-year and year-end 2000, i. e. 2000 NCUA Outcome Goals identified utilizing forms 5300 or 5310 as data source similar to 1999, for goals:

1.1 (1999 1.3) Ensure that federally insured credit unions are financially healthy.

Performance Goal 1.1a: Reduce the percentage of federally insured credit unions with return on assets of less than 0.5% and net worth of less than 6% to 1.28% of credit unions. (Include only credit unions chartered longer than ten years.)

Indicator: The total number of federally insured CUs with return on assets of less than 0.5% and net worth of less than 6%. There are 145 CUs or 1.36% with these financial indicators as of December 31, 1999. The target for 12/31/2000 is 1.28% of operating CUs.

Performance Goal 1.1b: Reduce the percentage of federally insured credit unions with net worth of less than 6% to 2.50% of federally insured operating credit unions.

Indicator: The total number of FICUs with net worth of less than 6%. There are 284 CUs, or 2.67% with this financial indicator as of 12/31/99. The target number for 12/31/00 is 2.50% of operating CUs.

We found the goal was exceeded for mid-year; also exceeded for year-end

1.3 (1999 2.1) Maintain the healthy performance of the National Credit Union Share Insurance Fund.

Performance Goal 1.3a: Maintain an equity ratio of 1.3% (percent of equity to insured shares).

We found the goal was met for mid-year; also met for year-end.

4.1 (similar to 3.2b 1999 increase FCU members) Increase the number of credit union members.

Performance Goal 4.1: Increase the number of federally insured credit union members by 3%.

Indicator: Total increase in number of federally insured credit union members from 12/31/99 to 12/31/2000.

We found goal was not met for year with actual increase 2.92 percent instead of 3 percent for the year.

4.2 (1999 3.2) Increase credit union service to low-income and underserved areas.

Performance Goal 4.2a: Add 36 underserved areas to new or existing CU charters.

Performance Goal 4.2b: Increase the total number of low-income designated CUs by 13%.

Performance Goal 4.2c: Increase the number of credit union members in low-income designated credit unions by 25%.

We found the goal was exceeded for year-end.

**CONCLUSIONS:** Team leaders and DSP have followed OSP guidance. However, team leaders have not been consistent in providing update conclusions. NCUA needs to establish goals that cause management to stretch (an example is Goal 1.3). Critical data information on all credit unions is available only on a semi-annual basis. Data is needed on a timely basis to enable agency management to make changes in plans and strategies to achieve goals.

**RECOMMENDATION #3:** Agency should develop a consistent method of analysis, documentation, and reporting of progress in accomplishing annual performance goals to support progress reports to the NCUA Board and the annual performance report to the OMB.

Comment from Director Office Strategic Planning:

*During the March Regional Directors' meeting, the agency decided that each region should report quarterly on the status of the appropriate performance goals. E&I would provide the applicable performance results from 5300 Call Report data on a quarterly basis. An automatic means is being developed to access the 5300 results in a single preformatted report.*

**RECOMMENDATION #4:** Agency should consider implementing at least quarterly reporting of 5300 data to ensure timeliness of information and to affect needed changes in plans and strategies to achieve all goals.

Comment from Director Office of Examination and Insurance:

*A proposal to the NCUA Board for Recommendation #4, quarterly call report for all Federally Insured Credit Unions is in process. This matter is tentatively scheduled for Board consideration on July 26, 2001.*

## CALL REPORT PROCESS

Goal performance measurements utilizing call reports (5300 and 5310) were developed because the agency can obtain the information periodically and the information and the reports provide the most complete and reliable database for NCUA. Also, 5300 reports provide consistent information on all federally insured credit unions (FICUs) twice a year. The reports track performance quantitatively toward the stated outcomes in a meaningful way. NCUA has generally met the goals and measures stated using 5300 and 5310 reports.

The process to obtain 5300 reports is the responsibility of the Office of Examination and Insurance (E&I). During the 5300 process, examiners obtain 5300s from assigned credit unions and review the reports for correctness. Some SSAs receive 5300 information from FISCUs and upload directly to the NCUA database. All other credit unions provide reports semi-annually. Credit unions with assets >\$50 million provide quarterly 5300s. Agency offices report on strategic plan progress on a quarterly basis. Therefore, some information is not available from the smaller credit unions. The 5300 report is a tool used by managers for data information and for use in revising goal strategies. The semi-annual report information is the most consistent. In addition to E&I goals, the office provides the numbers from 5300 reports for Office of Community Development Credit Unions-related goals (OCDCU) and then provides the results to the Office of Strategic Planning (OSP) and OCDCU.

To ensure reliable data is available to assess performance measures, without bias, exaggeration or errors, E&I and regional offices test and perform queries after the 5300 reports are uploaded to the database. Each examiner has approximately ten assigned credit unions. Examiners become very familiar with the assigned credit unions. Accordingly, most controls should be at the regional office level not central office. Most of the process is external (CPA reviews and credit unions) because information

is provided by credit unions (CUs). The OSP indicated 5300 process does not provide data in a timely way in that several months are required from data input via 5300s until final information is available. The OSP would like to see monthly information from credit unions. At the present time only credit unions with assets >\$50 million provide quarterly reports with all others credit unions reporting semi-annually. Lack of timeliness is a factor in changing goal strategies in a timely manner.

For limited income credit unions (LICUs), the OCDCU can prepare access reports from NCUA 5300 database. The OCDCU prepares reports on numbers, and prepares a quarterly report of progress. Capital has been a problem for the limited income credit unions (LICUs). Numbers of LICUs have changed during year when assistance was provided. There is an emphasis to increase LICUs. The OCDCU has had input to goals and plans including efforts to assist LICUs and define areas of assistance and cooperation with trade groups and non-profits as partners for LICUs.

Currently 5300 is not timely, approximately 45 days from end of period to get information to the OSP. The semi-annual information is the most complete for all credit unions. However, because of the time delay it can be too late to effectively revise strategies prior to year-end. The OSP believes the information is good for long-term planning, but not for current periods. Please refer to Attachment 1, 5300 flowchart, for the complete 5300 process.

*Comment from Director Office of Examination and Insurance:*

*The report contains several references to the timeliness of the 5300 Call Report. While these references appear used in the context of the 5300 Call Report's suitability in measuring the Annual Plan goals, the primary purpose of the 5300 Call Report is to provide offsite monitoring for safety and soundness. NCUA Rules and Regulations establish the periods for receiving the 5300 Call Report data from credit unions. We believe the call report production is timely and we make every effort to meet established production due dates. We believe the term "timing" better describes the issues related to 5300 Call Report Data and the Annual Plan as the plan does not drive the call report process.*

The process to obtain 5310 reports is the responsibility of the Office of Corporate Credit Unions (OCCU). OCCU and corporate examiners are responsible for the 5310 process and the correctness of information from corporate credit unions. OCCU receives monthly electronic 5310 spreadsheet from each corporate. The spreadsheet consists mostly mostly of investments held by the corporate since that is the largest corporate asset. The spreadsheet contains critical and warning edits for examiner information review. The examiner downloads, reviews and compares the monthly spreadsheet for the assigned corporate credit union. On average, most corporate examiners are assigned no more than two corporate credit unions. Each month the examiner receives corporate minutes and financial and statistical report from the corporate. The additional information is useful in determining the accuracy of the 5310. Please refer to Attachment 2, 5310 flowchart, for the complete 5310 process.

We reviewed the 1999 annual report to the President and the Congress, released in March 2000. We found that in general the report met the Results Act requirements. The annual report for 2000 was not finalized at the time of our review.

**Natural Person Credit Union  
Call Report (5300)**

All federal financial institution regulators except NCUA require at least quarterly reporting of financial information from their respective regulated financial institutions. All federally insured credit unions (FICUs) are required to provide financial information to NCUA on a periodic basis no less than semi-annually on the 5300 form. Only FICUs with assets over \$50 million are required to report quarterly.

NCUA, as a part of revising the examination process, is evaluating the need and feasibility of requiring all credit unions to file 5300 reports on a quarterly basis. Quarterly reporting for all credit unions would provide timelier reporting of financial information necessary for good supervision.

5300 information can be reported electronically or on a manually prepared hard copy form. As of December 31, 2000, most FICUs are reporting 5300 information electronically as illustrated in the following table.

*Credit Unions reporting 5300 information as of 12/31/00:*

<i>5300 Filing Method</i>	<i>Total Credit Unions</i>	<i>Percent</i>
Electronically	9,868	96%
Manually	448	4%
<b>Total Credit Unions</b>	<b>10,316</b>	<b>100%</b>

Presently six State Supervisory Authorities (SSAs) require state chartered federally insured credit unions (FISCUs) to file quarterly 5300 reports regardless of the asset size of the credit union. Even though some SSAs require quarterly filings to the state for all credit unions, there is no requirement for quarterly reports for credit unions with assets under \$50 million to be uploaded to the NCUA database. Accordingly, NCUA does not monitor uploads of SSA call reports under \$50 million in assets. Information for the FISCUs for December 31, 2000, indicated 367 credit unions with approximately \$4 billion in assets filed quarterly 5300 information as illustrated in the following table.

*State Supervisory Authorities (SSAs) requiring quarterly filing as of 12/31/00*

<i>State</i>	<i>#CU&lt;\$50M</i>	<i>Assets&lt;\$50M</i>	<i>Total #CU</i>	<i>Total CU Assets</i>
AK	1	\$ 21.2 million	2	\$ 328.3 million
AZ	21	263.2 million	29	2,502.0 million
FL	77	1,185.7 million	111	7,224.0 million
IA	179	1,605.0 million	190	3,636.7 million
OR	11	199.4 million	26	4,581.3 million
UT	78	709.8 million	96	5,053.5 million
<b>Totals:</b>	<b>367</b>	<b>3,984.3 million</b>	<b>454</b>	<b>23,325.8 million</b>

As of December 31, 2000, there are 1,558 FICUs with assets greater than \$50 million out of 10,316 FICUs, with total assets of \$438,244,311,122. All FICUs except one with assets greater than \$50 million filed electronically as illustrated in the following table.

<i>Federally Insured Credit Unions</i>	<i># Federally Insured Credit Unions with Assets &gt;\$50M</i>	<i>Total Assets &gt;\$50M</i>
Filing electronically	1,557	\$351,646.5 million
Filing manually	1	80.8 million
Totals	1,558	351,727.3 million
<i>Federally Insured Credit Unions</i>	<i># Federally Insured Credit Unions – All Assets</i>	<i>Total Assets</i>
Total FICUs	10,316	\$438,244.3 million

Quarterly reports filed by FICUs with assets greater than \$50 million represent 15 percent of all credit unions and 80 percent of total assets in FICUs.

FICUs filing quarterly reports	1,558	\$352 billion
FICUs filing semi-annual reports	8,758	86 billion
Total FICUs	10,316	\$438 billion

### **1999 and 2000 NCUA Annual Performance Plan Cycle Reports**

In 1999 the OSP received quarterly Results Act progress reports from central offices. We reviewed the quarterly reports for 1999 for the review goals 1.3, 1.4, 1.6, 2.1, 3.1, and 3.2. In general, we found that the reports provided accurate and reliable information regarding the performance goals measured by 5300 or 5310 data.

In addition to the 1999 quarterly progress reports we reviewed the December 1999 NCUA Annual Performance Plan Report, and the March, and June 2000 Report Cycle reports dated March 31, 2000, and June 30, 2000. A cycle report for September 2000 was not available for review. The reports provided summary data for regional FICUs. Key summary data included regional FISCUs numbers and percent for:

- Return on Assets <0.5% and Net Worth <6%
- Net Worth <6%
- Composite CAMEL 3 rating >36 months
- Interactive Services provided

- Share Drafts/Members
- FICU Members
- Low Income
- Low Income Designation

We reviewed the numbers and compared the report results to the numbers Office of Examination and Insurance (E&I) provided to the Office of Chief Financial Officer (OCFO) for the report periods. E&I analyst indicated there was a problem with the database properly annualizing information correctly for the March and June 2000 reports. E&I corrected the problem and provided revised numbers to the OCFO. In addition, we reviewed the Annual Performance Plan Specifications to gain an understanding of the specifications used by E&I to generate the numbers for the annual NCUA performance plan.

### **CONCLUSIONS:**

For the two-year 2000 performance cycle reports, we found that the team leader did not provide section comments regarding resource utilization, overall goal status, and action taken in response to data analysis. Overall, we found that all reports were correct and prepared in a timely manner. E&I identified and corrected an annualizing problem. Also, there was a small difference in the progress reports caused by the count of credit unions increasing by one for March and June 2000. E&I indicated this difference was a result of initially a credit union not needing to file a report and then a report being filed after the cycle was completed, thus changing the data.

### **RECOMMENDATION #5:**

We concur with an E&I suggestion that the agency revise the system so that any attempts to upload information after the cycle cutoff date would be unsuccessful. If a correction is needed, the region or SSA would need to justify any changes after cycle to E&I.

#### *Comment from Director Office of Examination and Insurance:*

*The recommendation to stop uploads of call reports after the cycle cutoff date is already in place for the June 2001 cycle. The system allows corrections to reports already on the system, but attempts to add additional call reports will fail.*

#### **Corporate Credit Union Call Report (5310)**

We requested and reviewed 1999 and 2000 information from the Office of Corporate Credit Unions (OCCU). We reviewed the documentation with emphasis on the 5310 plan; validation and verification efforts; and reporting. We reviewed a sample blank 5310 prepared monthly by corporate credit unions, and the OCCU critical errors/warnings listing. The listing is similar to the critical errors and warnings listings for natural person credit unions. The listing highlights possible data problems that need correction.

During our review we obtained and reviewed a sample of documentation prepared by corporate examiners and OCCU staff including:

- Field Monthly Management Reports to OCCU

Corporate examiners send monthly status reports regarding their assigned corporate credit unions to their corporate field supervisor. The supervisor uses the examiner information to document and prepare a spreadsheet for submission to the Director OCCU.

Examiner monthly report includes a detailed report of assigned corporate credit union work performed for the month, credit union contact information, and financial and operational information for assigned credit unions.

Supervisor monthly report includes information for the group credit unions and administrative information for the group of examiners. In addition, the supervisor prepares a monthly statistical spreadsheet detailing the assigned credit unions' progress.

- OCCU Staff Reports

The OCCU analyst prepares a monthly "Trends In Corporates Report" for review by the Director OCCU. The report discusses a summary of financial and ratio trends in the corporate system. Other staff reports include the Net Economic Value (NEV) Measures report, Corporate Capital report, and monthly financial reports (balance sheet, income statement, miscellaneous loan information, detailed investment information, and monthly key trends for the corporate system.

Each month the Director OCCU prepares and sends to the Executive Director an "Office of Corporate Credit Unions Management Report." The report provides monthly update information regarding administration, performance plan, and other corporate credit union operational information.

- OCCU Quarterly Report to NCUA Board

Each quarter end the Director OCCU prepares and submits to the NCUA Board a "Quarterly Report Corporate Credit Unions". We reviewed the quarterly reports for March, June, September, and December 2000. Each quarterly report provided detailed progress of the corporate credit union system and provided a brief update of events since the previous quarterly report. We found the reports to be very informative. There appeared to be good supervision for the analyzed corporates.

**CONCLUSIONS:** We commend the OCCU for developing a comprehensive system of reporting corporate credit union system financial status and projections. The system begins with the department annual performance plan and includes monthly reports from the examiner assigned the specific corporate to the supervisor; the monthly report from the supervisor to the OCCU; monthly management report from the OCCU to the Executive Director; and quarterly status reports to the NCUA Board. All reports are compatible and provide comprehensive information regarding the status of the corporate credit union system.

**RECOMMENDATION:** None

**Analysis of 2000 Annual Plan and Goals**

We requested and reviewed additional 2000 information from E&I, particularly year-end 5300 information. We reviewed the documentation with emphasis on 5300 plans; validation and verification efforts; and reporting. Our emphasis was the review of final data numbers for June, September, and December 2000.

We reviewed the following documents:

06-00 Preliminary Status 2000 Annual Plan Goals: E&I indicated that at the time the June report was run, the preliminary and final data showed no major difference (a small change in Share Drafts/Members that didn't change the reported numbers), so no final report was issued. We compared numbers to E&I mid-year, E&I year-end, DSP mid-year, and OSP draft year-end report. We found the numbers were substantially in agreement.

06-00 Annual Performance Plan 2000 (preliminary): E&I indicated that this was the preliminary report from the June 5300 data. We compared numbers to E&I mid-year, E&I year-end, and OSP mid-year report. We found the numbers substantially in agreement.

06-00 Annual Performance Plan 2000: E&I indicated that this was the final report from the June 5300 data. We compared numbers to E&I mid-year, E&I year-end, and OSP mid-year report. We found the numbers substantially in agreement.

06-00 Revised Annual Performance Plan 2000: E&I indicated this report was generated after discovering the earnings were not being properly annualized. The correction changed the Return on Assets & Net Worth number. The number of Net Worth < 6% credit unions also declined by one. E&I indicated the error was caused by a credit union that was closed and the effective date was entered after the initial report was prepared. We compared numbers to E&I mid-year, E&I year-end, and OSP mid-year report. Numbers were substantially in agreement.

09-00 Preliminary Status 2000 Annual Plan Goals: E&I indicated this report used estimated numbers because not all credit unions reported quarterly. The report uses the final data numbers which were available due to the time needed to correct the earnings calculation. E&I used the preliminary report since complete data was not received on the quarter end. The historical 5300 data was updated on this report. We compared numbers to E&I 9/30, E&I year-end, and OSP mid-year report. Numbers were substantially in agreement.

09-00 Annual Performance Plan 2000: E&I indicated this was the final report from the September 5300 data. We compared numbers to E&I 9/30, E&I year-end, and OSP mid-year report. Numbers were substantially in agreement.

12-00 Preliminary Status 2000 Annual Plan Goals: E&I indicated this was the December preliminary report. We compared numbers to E&I mid-year, E&I 9/30, and OSP mid-year report. Numbers were substantially in agreement.

0012M Preliminary Annual Performance Plan 2000: E&I indicated this was the preliminary report from the December 5300 data. We compared numbers to E&I year-end, and OSP mid-year report. Numbers were substantially in agreement.

**CONCLUSIONS:**

- The numbers in the reports from E&I represented regular quarterly, semi-annual, and annual reports prepared by E&I from 5300 database for use by the OSP.
- Our review of the numbers indicated consistent application and agreement of the numbers with those presented by OSP to NCUAB for the mid-year report.

**RECOMMENDATIONS:** None

**Analysis of 2000 Mid-Year Performance and Year-End Progress Reports**

Our review of the 2000 mid-year and year-end reports focused on the 5300 and 5310 plan; validation and verification; and reporting. We found that the mid-year report was submitted to the NCUA Board in accordance with NCUA Instruction 9501. The report was the first semi-annual report under the new 2000-2005 Strategic Plan. The report was a transition from simply reporting strategically to thinking and managing strategically and included first steps and efforts to develop a more enhanced means of tracking costs.

We found the mid-year and year-end reports indicated measures concerning safety and soundness were either met or exceeded at mid-year and year-end 2000, i. e. 2000 NCUA Outcome Goals identified utilizing forms 5300 or 5310 as data source similar to 1999, for goals 1.1, 1.3, 4.1, and 4.2.

**RECOMMENDATION #6:** Team leaders and DSP followed OSP guidance, however they did not meet the requirements of NCUA Instruction 9501 (4/7/2000 and amended 4/28/2000) regarding quarterly reporting on Results Act progress. NCUA needs to formally revise guidance and to develop and implement a workable way to monitor and report on agency annual goals and measures.

**Management Reporting**

All of the central offices and regional offices provide monthly management reports to the Executive Director. The reports detail program and other information relating to their respective offices and activities. Starting in 1999 and continued during 2000 offices began reporting in the monthly management reports activity regarding the Results Act goals assigned to the offices. Results Act reporting is not uniform or complete for all activities.

As a part of our review to gain an understanding of management reporting regarding Results Act activities, we reviewed a small sample of six monthly management reports submitted during 1999 and

2000 for information regarding strategic planning and 5300 progress. We found limited reporting in 1999 monthly management reports from central and regional offices regarding progress being made in achieving annual plan goals. We noted improved reporting in the 2000 monthly management reports. We would encourage increased monthly Results Act activity reporting to provide information to improve agency strategies and results in a timely manner.

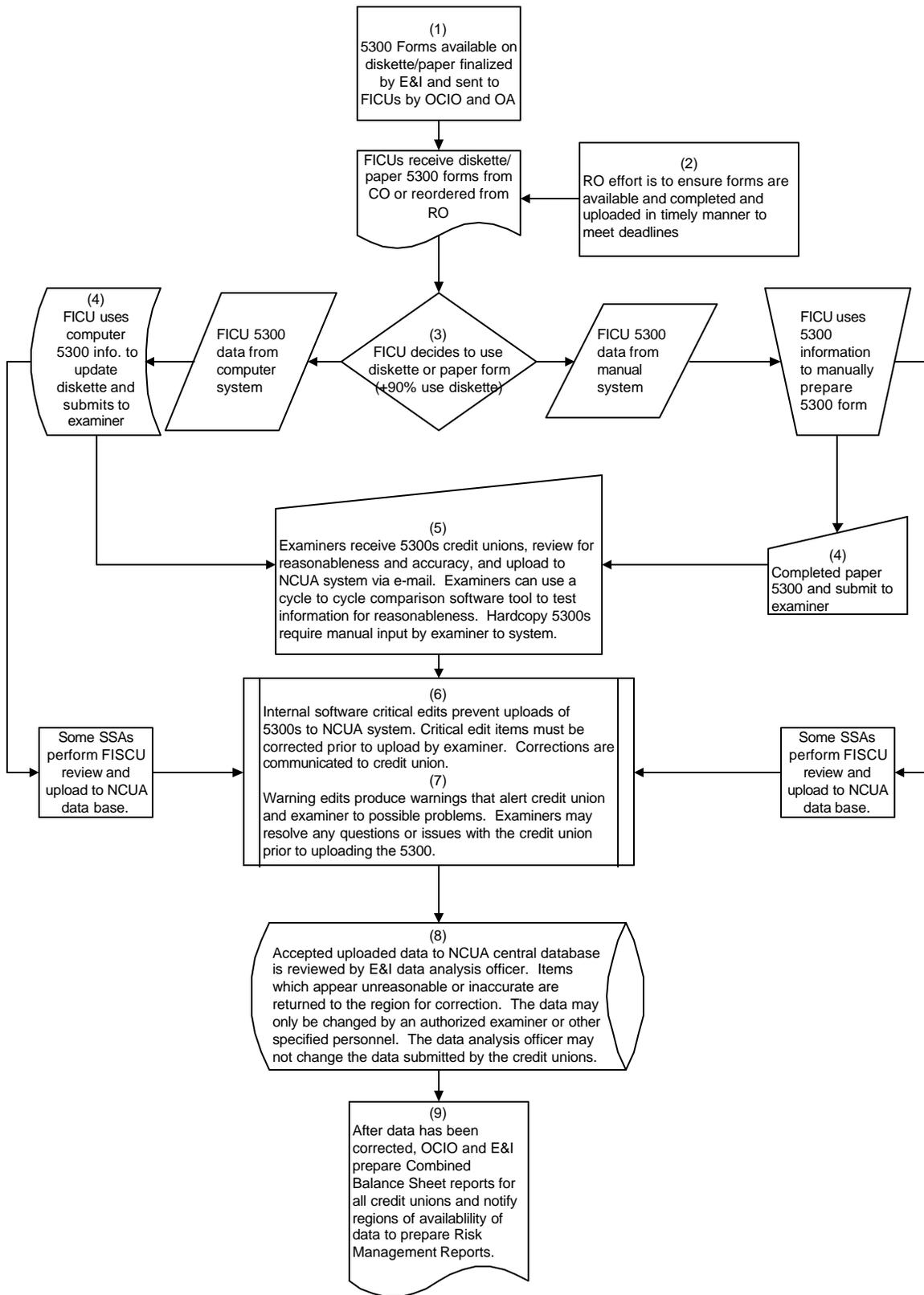
**MATTER FOR CONSIDERATION:**

Consideration should be given to expanding the monthly management reporting of Results Act goal achievement as a part of providing timely information to the OSP and NCUA Board to identify progress made and expedite changes to strategy to accomplish strategic plan and annual plan goals.

*Comment from Director Office Strategic Planning:*

*The idea of monthly reporting in accordance with performance goal achievement has merit. One concern I would have; however, would be the accuracy and validity of the data. Since the achievement of many of the goals is dependent upon 5300/5310 Call Report Data, which is available semi-annually and to some extent quarterly, monthly reporting would only be as accurate as the last complete 5300/5310 update. Until such time that we are collecting 5300/5310 data on a monthly basis, an integration of the quarterly report into appropriate monthly management report might simply our reporting requirements.*

# ATTACHMENT 1 – 5300 PROCESS



## ATTACHMENT 2 – 5310 PROCESS

