OFFICE OF THE INSPECTOR GENERAL

REPORT TO CONGRESS

October 1, 2000 – March 31, 2001

THE NCUA MISSION

OUR CHARGE IS TO FOSTER THE SAFETY AND SOUNDNESS OF FEDERALLY INSURED CREDIT UNIONS AND TO BETTER ENABLE THE CREDIT UNION COMMUNITY TO EXTEND CREDIT FOR PRODUCTIVE AND PROVIDENT PURPOSES TO ALL AMERICANS, PARTICULARLY THOSE OF MODEST MEANS.

WE STRIVE TO ENSURE THAT CREDIT UNIONS ARE ENPOWERED TO MAKE THE NECESSARY BUSINESS DECISIONS TO SERVE THE DIVERSE NEEDS OF THEIR MEMBERS AND POTENTIAL MEMBERS. WE DO THIS BY ESTABLISHING A REGULATORY ENVIRONMENT THAT ENCOURAGES INNOVATION, FLEXIBILITY, AND CONTINUED FOCUS ON ATTRACTING NEW MEMBERS AND IMPROVING SERVICE TO EXISTING MEMBERS.

THE OFFICE OF INSPECTOR GENERAL MISSION

TO PROMOTE ECONOMY, EFFICIENCY, AND EFFECTIVENESS IN NCUA PROGRAMS AND OPERATIONS, AS WELL AS PREVENT AND DETECT FRAUD, WASTE, AND ABUSE.
<table>
<thead>
<tr>
<th>SECTION</th>
<th>DATA REQUIRED</th>
<th>RESPONSE</th>
<th>PAGE REF</th>
</tr>
</thead>
<tbody>
<tr>
<td>4(a)(2)</td>
<td>Review of Legislation and Regulations</td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>5(a)(1)</td>
<td>Significant Problems, Abuses, or Deficiencies relating to the administration of programs and operations disclosed during the reporting period.</td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>5(a)(3)</td>
<td>Recommendations with Respect to Significant Problems, Abuses, or Deficiencies.</td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>5(a)(3)</td>
<td>Significant Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed.</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>5(a)(4)</td>
<td>Summary of Matters Referred to Prosecution Authorities and Prosecutions, Which Have Resulted.</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>5(a)(5)</td>
<td>Summary of Each Report to the Board Detailing Cases Where Access to All Records Was Not Provided or Where Information Was Refused.</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>5(a)(6)</td>
<td>List of Audit Reports Issued During the Reporting Period.</td>
<td></td>
<td>18</td>
</tr>
<tr>
<td>5(a)(7)</td>
<td>Summary of Particularly Significant Reports.</td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>5(a)(8)</td>
<td>Statistical Tables on Audit Reports With Questioned Costs.</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>5(a)(9)</td>
<td>Statistical Tables on Audit Reports With Recommendations That Funds Be Put To Better Use.</td>
<td></td>
<td>17</td>
</tr>
<tr>
<td>5(a)(10)</td>
<td>Summary of Each Audit Report Issued Before the Start of the Reporting Period for Which No Management Decision Has Been Made by the End of the Reporting Period.</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>5(a)(11)</td>
<td>Description and Explanation of Reasons for any Significant Revised Management Decision Made During the Reporting Period.</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>5(a)(12)</td>
<td>Information Concerning Significant Management Decisions With Which the Inspector General is in Disagreement.</td>
<td>None</td>
<td></td>
</tr>
</tbody>
</table>
INSPECTOR GENERAL’S MESSAGE TO THE CONGRESS

During this period, the Office of Inspector General (OIG) focused its efforts on two high profile issues: (1) a security and control audit of the National Credit Union Administration’s (NCUA) financial system, SAP R/3 (SAP); and (2) an ongoing investigation involving allegations of criminal and administrative wrongdoing against two senior agency officials. Both matters garnered the intense interest of employees of all levels within the NCUA, from two perspectives, respectively. First, the OIG’s role in promoting systems security within the NCUA has in turn helped the agency take a more proactive role in managing risk and strengthening systems security. Second, with regard to the OIG’s investigation into allegations of misconduct involving two senior level officials, the OIG has completed its investigation and issued part one of a two-part Report of Investigation. We intend to report fully on the completed investigation, findings, and recommendations in our next Semi-Annual Report.

The OIG intends to continue its mandate to help promote systems security at NCUA. The OIG recognizes that one of the most critical mandates for information system managers is to ensure systems integrity. As such, we have an important role in identifying potential as well as existing problems, both one-time and systemic. Moreover, the OIG will continue to pursue investigations of misconduct by agency employees and to actively provide the high level of public accountability necessary to instill public confidence within the greater credit union community.

AUDIT HIGHLIGHTS

Information security issues were the focus of OIG audit activity during the past reporting period. The OIG audit staff issued a comprehensive report on the security and internal controls of NCUA’s financial reporting system, SAP. This report made over 40 recommendations for rectifying security weaknesses which could lead to unauthorized, undetected access to financial and employee data. In addition, the financial audit report for the year ending December 31, 2000, presented a number of information security observations and recommendations addressing Windows NT security; SAP information technology controls; and network connectivity.

INVESTIGATIVE HIGHLIGHTS

During the reporting period, the Office of Investigations (OI) initiated three (3) new investigations and closed five (5) additional matters.

The OI issued the first of two reports on its investigation into allegations of criminal and administrative misconduct against two senior NCUA officials. The first report concerned the criminal phase of the investigation. Although the report found that no criminal wrongdoing had occurred, one senior official was found to have violated standards of ethical conduct. With regard to the second phase of the investigation, involving administrative allegations of discrimination, preferential treatment, gross mismanagement, and abuse of authority against the
same two senior officials, the OIG completed its investigation and is in the process of finalizing the second of two reports. Moreover, the OI closed and reported on two investigations involving, respectively, misuse of a government contractor-issued credit card and false claims for sick leave and Office of Worker’s Compensation Continuation of Pay benefits.

During this period the OI responded to Freedom of Information Act (FOIA) and Privacy Act (PA) requests in connection with the combined criminal/administrative investigation just described. The OI further coordinated with the Office of General Counsel on the latter’s response to FOIA and PA requests stemming from the same matter.

FUTURE PLANS

As mentioned above, the NCUA OIG plans to emphasize information security in accordance with requirements and obligations of OIGs under the recently passed Government Information Security Act. Our audit staff will also continue to focus on agency strategic planning and reporting activities required by the Results Act. In addition, auditors will perform more management consulting reviews at the regional office level.

On the investigative side, the OI will continue its efforts to educate agency employees concerning the investigative jurisdiction of the OIG, focusing on misconduct by employees. In connection with the pending combined criminal/administrative investigation--for which the OIG is currently finalizing its second of two reports--we intend to continue our oversight of the matter to ensure that the identities of the numerous employees who cooperated with the OIG remain confidential and that they are protected from reprisal.

Frank Thomas
Inspector General
TABLE OF CONTENTS

INDEX OF REPORTING REQUIREMENTS.............................................................................................................................. inside front cover

INSPECTOR GENERAL’S MESSAGE TO CONGRESS................................................................. i

NATIONAL CREDIT UNION ADMINISTRATION................................................................. 1

NCUA Highlights......................................................................................................................................................... 4

Federally Insured Credit Union Highlights........................................................................................................... 5

Legislative Highlights................................................................................................................................................... 6

OFFICE OF THE INSPECTOR GENERAL......................................................................................... 8

AUDIT ACTIVITY.......................................................................................................................................................... 9

INVESTIGATION ACTIVITY............................................................................................................................... 12

LEGISLATIVE AND REGULATORY REVIEWS................................................................................... 14

OTHER INSPECTOR GENERAL ACTIVITIES.................................................................................... 15

TABLE I – REPORTS WITH QUESTIONED COSTS.................................................................................. 16

TABLE II – REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE......................................................... 17

TABLE III – SUMMARY OF OIG ACTIVITY.................................................................................... 18
NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration (NCUA) was established as an independent, federal regulatory agency on March 10, 1970. The agency is responsible for chartering, examining, supervising, and insuring federal credit unions. It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. NCUA is funded entirely by credit unions; it does not receive any tax dollars. As of December 31, 2000, the NCUA was supervising and insuring 6,336 Federal credit unions and insuring 3,980 state-chartered credit unions, a total of 10,316 institutions. This represents a loss of 230 Federal and 82 State chartered institutions since late 1999, for a total loss of 312 credit unions nation-wide.

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

The National Credit Union Administration executes its program through its central office in Alexandria, Virginia and regional offices in Albany, New York; Alexandria, Virginia; Atlanta, Georgia; Lisle, Illinois; Austin, Texas; and Concord, California. NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer to the NCUA organizational chart on page 3.

The NCUA Board adopted its 2001 budget on November 16, 2000. The final revised 2001 budget of $140,568,580 represents an increase of $5.6 million over the 2000 budget. The Full Time Equivalent (FTE) staffing authorization for 2001 is 1,028, a reduction of 21 positions over the 2000 total of 1,049.

<table>
<thead>
<tr>
<th>LOCATION</th>
<th>2001 FTE</th>
<th>2000 FTE</th>
<th>Difference FTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headquarters</td>
<td>237</td>
<td>236</td>
<td>1</td>
</tr>
<tr>
<td>Regional Offices</td>
<td>173</td>
<td>173</td>
<td>-</td>
</tr>
<tr>
<td>Field Examiners</td>
<td>618</td>
<td>640</td>
<td>&lt;22&gt;</td>
</tr>
<tr>
<td>Total Positions Authorized</td>
<td>1028</td>
<td>1049</td>
<td>&lt;21&gt;</td>
</tr>
</tbody>
</table>
DOLLAR NAMED ACTING CHAIRMAN BY PRESIDENT BUSH

Shortly after taking office, President George W. Bush appointed Dennis Dollar Acting Chairman of the NCUA Board, effective February 8, 2001. Mr. Dollar has been the single Republican member of the NCUA Board since October 9, 1997.

WHEAT HONORED WITH CHAIRMANSHIP

In a broad sweep of final appointments, President Clinton named Yolanda Wheat to the NCUA Board Chairmanship on January 5, 2001. Wheat held the NCUA Chair position for approximately one month, at which time President Bush appointed Dennis Dollar Acting NCUA Chairman.

BACINO APPOINTED TO NCUA BOARD

President Bill Clinton named Geoff Bacino to the NCUA Board in a recess appointment effective December 29, 2000, filling the seat held by Chairman Norman D’Amours, whose term expired August 2, 1999. President Clinton originally nominated Mr. Bacino for a seat on the NCUA Board on July 24, 2000. Mr. Bacino was sworn in on January 2, 2001.

SKILES NAMED EXECUTIVE DIRECTOR

The NCUA Board, on February 15, 2001, named J. Leonard Skiles executive director of NCUA. As executive director, Skiles is responsible for the day-to-day operation of the agency. Skiles began his career with NCUA in 1973 as a staff attorney in the Office of General Counsel. Prior to assuming the executive director post, Skiles served--since March 1999--as the director of NCUA’s Austin regional office.

E&I’S NEW PROGRAM FOR IT SECURITY REVIEWS OF CREDIT UNIONS

NCUA’s Office of Examination and Insurance recently issued a new Instruction that provides guidance on NCUA’s Information Systems & Technology Safety & Soundness Examination Program. Specifically, the Instruction sets forth a revised examination program for NCUA staff to (1) review credit union information systems and technology; (2) ensure that credit unions understand the risks inherent in electronic commerce and the measures needed to mitigate those risks; and (3) evaluate credit union management with regard to electronic financial services.
Credit unions submit semiannual call reports (financial statement data) to NCUA. An NCUA staff assessment of the December 31, 2000, semi-annual call reports submitted by all federally insured credit unions found that virtually all key financial indicators finished the year very strongly.

CREDIT UNIONS SHOWED MARKED LOAN GROWTH IN 2000

Lending grew 11 percent and shares grew 6.3 percent in 2000 according to preliminary data from year-end call reports submitted by the nations 10,316 federally insured credit unions.

Every category of lending saw positive growth in 2000. New and used auto loans grew 15.5 and 10.1 percent, respectively. New automobile loans increased from $52.4 to $60.6 billion, outpacing used automobile loans for the first time in many years. The largest category of loans, first mortgage real estate loans grew 7.7 percent while other types of real estate loans grew a remarkable 21.5 percent.

KEY FINANCIAL INDICATORS FINISH STRONG

Looking at preliminary year-end statistics for major balance sheet items and key ratios shows: Assets grew 6.5 percent, up from $411.4 to $438.2 billion; Loans grew 11 percent, up from $271.5 to $301.3 billion; Savings grew 6.3 percent, up from $356.9 to $379.2 billion; Regular reserves grew 9.5 percent, up from $13.6 to $14.9 billion; Net income increased 16.2 percent, up from $3.7 to $4.3 billion; Delinquency ratio remains at its 1999 established historic low 0.7 percent; and Membership increased 2.9 percent, up from 75.4 to 77.6 million people.

EXCEPT FOR REGULAR SHARES, SAVINGS ALSO INCREASED IN 2000

While regular shares declined 2.2 percent, down from $134 to $131 billion, share certificates increased 17.1 percent, up from $89.7 to $105 billion. Share drafts grew 13.1 percent, up from $44.8 to $50.6 billion and money market shares grew 6.5 percent, up from $47.4 to $50.5 billion.

ELECTRONIC FINANCIAL SERVICES

The number of credit unions offering web site access increased 34.6 percent to 3,807 credit unions during 2000. An additional 5,953 credit unions are accessible by E-mail.
LEGISLATIVE HIGHLIGHTS

GOVERNMENT INFORMATION SECURITY REFORM ACT SIGNED

On October 30, 2000, President Clinton signed into law the Government Information Security Reform Act. The Act requires, among other things, agency Chief Information Officers to develop and implement security programs, which must undergo annual evaluation by the agency’s IG and be subject to the approval of the Office of Management and Budget. Specifically, agencies are required under the new law to “identify and afford security protection commensurate with the risk and magnitude of the harm resulting from the loss, misuse, or unauthorized access to or modification of information collected or maintained by or on behalf of an agency.”

FAITH-BASED LENDING BILL GOES BEFORE CONGRESS

Congress is considering legislation that would make it easier for credit unions to lend to religious organizations. The Faith-Based Lending Protection Act, which was reintroduced by Rep. Ed Royce (R-Calif.) in January 2001, would exempt loans made by credit unions to non-profit religious organizations from the 12.25 percent-of-assets cap that Congress imposed on a credit union’s portfolio in a previous bill.

CENTRAL LIQUIDITY FUND BORROWING CAP RAISED

On October 27, 2000, the White House signed the VA-HUD and Independent Agencies Appropriations bill for fiscal year 2001. It includes a borrowing ceiling of $1.5 billion for the CLF facility for new loans to credit unions.

ADDITIONAL $1 MILLION FOR THE COMMUNITY DEVELOPMENT CREDIT UNION REVOLVING LOAN FUND

Also included in the VA-HUD bill is an appropriation of an additional $1 million for the CDCU Revolving Loan Fund, $650,000 for loans and $350,000 for technical assistance grants. This is the first time Congress specifically appropriated funds for grants.
DEFENSE CREDIT UNIONS LAND LEASES

Congress approved a bill that includes a proposal for ensuring on-base credit unions the ability to continue leasing federal facilities at minimal or no cost. The measure, included in the FY2001 defense authorization legislation, revises a 1991 law that implemented “fair market value” rents--a provision that threatened to sharply raise land rents for some credit unions operating on U.S. military installations. Now, military departments may recognize construction of facilities on leased land as an “in kind” contribution toward the lease value.

MISCELLANEOUS LEGISLATIVE UPDATE

Bankruptcy Reform: While it didn’t get enacted into law, Congress at the end of 2000 reached final agreement on bankruptcy reform--an agreement that could set the stage for easier passage of a reform measure in the current session.

Predatory Lending: Legislation proposed to define and set penalties for “predatory” loan practices was proposed but never passed out of committee.

Consumer Privacy: More legislation is expected in 2001 on the confidentiality of consumer information.
The Office of the Inspector General was established at the NCUA in 1989 under the authority of the Inspector General Act of 1978, as amended in 1988. The staff consists of the Inspector General, an Assistant Inspector General for Investigations/Counsel, a Senior Special Agent, an Assistant Inspector General for Audits, two Senior Auditors, a Senior Information Technology Auditor and an Office Administrator.

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

1. Conducting, supervising, and coordinating audits and investigations of all NCUA programs and operations;

2. Reviewing policies and procedures to ensure efficient and economic operations as well as preventing and detecting fraud, waste, and abuse;

3. Reviewing existing and proposed legislation and regulations to evaluate their impact on the economic and efficient administration of agency programs; and

4. Keeping the NCUA Board and the Congress apprised of significant findings and recommendations.
AUDIT ACTIVITY

AUDIT REPORTS ISSUED

SAP Security and Control Review
OIG-01-01 March 15, 2001

NCUA’s financial system, SAP, is used to primarily perform online payment and accounting of agency financial transactions. The purpose of our review was to access controls and recommend corrections for any deficiencies.

Our review identified several internal control weaknesses in the SAP security configuration. Because SAP is utilized to process financial accounting information including Purchasing, Accounts Payable, Accounts Receivable, General Ledger and Human Resources, security breaches in this area could lead to unauthorized, undetected access to confidential financial and employee data. The most significant findings were:

- Duties within the purchasing process have not been adequately segregated. As a result, personnel could possibly gain control of the entire purchasing cycle, resulting in errors, irregularities or fraud.

- A large number of users have been granted inappropriate authorities in the Financial Accounting and Controlling modules.

We reported that NCUA should take immediate action to conduct a thorough review of user access in order to ensure that user access is appropriately restricted and that incompatible duties are segregated. NCUA’s consolidated response to the report’s 42 recommendations was extremely positive. NCUA has either implemented or agreed to implement all of the report’s recommendations.

*The content of this report is restricted to official use only in order to protect the sensitive nature of the specific control weaknesses identified.*

NCUA Financial Statement Audits, dated March 31, 2001

Our contract accounting firm, Deloitte & Touche, issued opinions on the 2000 financial statements of the National Credit Union Administration Operating Fund, National Credit Union Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Program. The auditors found that the financial statements presented fairly the financial position of the agency’s funds as of December 31, 2000. The firm issued its opinions on February 16, 2001.
The NCUA Operating Fund (OIG-01-02) was established as a revolving fund managed by the NCUA Board for the purpose of providing administration and service to the federal credit union system. The auditors issued an unqualified opinion on the Operating Fund’s financial statements. The Fund’s total assets for 2000 were $53.4 million down from $54.6 million in 1999.

The National Credit Union Share Insurance Fund (OIG-01-03) was established as a revolving fund managed by the NCUA Board to insure member share deposits in all Federal credit unions and qualifying state credit unions up to $100,000 per shareholder account. The auditors issued an unqualified opinion on the Share Insurance Fund’s financial statements. The Fund’s total assets for 2000 were $4.7 billion, up from $4.3 billion in 1999.

The Central Liquidity Facility (OIG-01-04) was established, as a mixed ownership government corporation managed by the NCUA Board to improve general financial stability by meeting the liquidity needs of credit unions. The auditors issued an unqualified opinion on the CLF’s financial statements. The CLF’s total assets for 2000 were $932 million down from $1,962 million in 1999.

The Community Development Revolving Loan Program’s (OIG-01-05) purpose is to stimulate economic activities in the communities served by low-income credit unions. This in turn, will result in increased income, ownership and employment opportunities for low-wealth residents and other economic growth. The auditors issued an unqualified opinion on the Program’s financial statements. The CDRLP’s total assets for 2000 were $11.7 million--the same as in 1999.

The financial auditors did not find any matters considered to be material weaknesses in their review of the Fund’s internal control structures pertinent to financial reporting. However, during the performance of the audit, several observations and recommendations were presented relating to SAP security and control weaknesses; Windows NT security; SAP information technology controls; network connectivity; employee relocation advances; and CDRLP loans.

AUDITS IN PROGRESS

Results Act: Review of Selected Performance Measures

The Government Performance and 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. Natural person and corporate credit unions periodically report 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. The OIG review objective is to evaluate and determine the reliability of credit union call report (forms 5300 and 5310) information identified as
Results Act performance measurements. The review scope is limited to the Results Act; the agency strategic plan and annual plans for 1999 and 2000; and the agency 1999 performance report to the Office of Management and Budget.

**Review of Several Issues Related to the Acquisition and Roll-Out of Compaq Notebook Computers and Windows 2000**

The audit staff is in the process of reviewing several issues related to the procurement of Compaq notebook computers and migration to the Windows 2000 operating system. Review objectives are to determine: (1) what methodology was used to acquire new computers and Windows 2000 and whether this methodology was followed; and (2) if the agency was exposed to unreasonable risks by implementing a new operating system platform before it was commercially available. We anticipate issuing this report in Spring 2001.

**NCUA Budget Process**

We had begun preliminary planning on a review of the NCUA budget process but this review was suspended because of higher priority commitments. Once this review is resumed, we will evaluate the budget process to see if it can be improved to provide more useful and reliable information to the NCUA Board. Specific objectives include how well the NCUA budget accounts for the cost of meeting each of the agency’s strategic goals; and how well the events leading up to approval of the NCUA budget are effectively planned.
INVESTIGATIVE ACTIVITY

In accordance with professional standards and guidelines established by the Department of Justice, the Office of Investigations performs investigations of both criminal and administrative wrongdoing involving agency programs. Our investigative jurisdiction focuses on activities designed to promote economy, effectiveness, and efficiency, as well as fighting fraud, waste, and abuse in agency programs. In addition to our proactive efforts to deter misconduct and promote integrity awareness among agency employees, we investigate referrals and direct reports of employee misconduct. Investigations may involve possible violations of regulations regarding employee responsibilities and conduct, Federal criminal law, and other statutes and regulations pertaining to the activities of NCUA employees. Investigative findings may lead to criminal prosecution, civil prosecution, or administrative action.

Moreover, we receive complaints from credit union members that involve NCUA employee program responsibilities. These complaints are examined to determine whether there is any allegation of NCUA employee misconduct. If not, the complaint is referred to the appropriate regional office for response, or closed if contact with the regional office indicates that the complaint has already been appropriately handled.

<table>
<thead>
<tr>
<th>Investigative Operations</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contacts/inquiries/investigations carried forward from previous reporting period</td>
<td>1</td>
</tr>
<tr>
<td>Contacts initiated during reporting period</td>
<td>7</td>
</tr>
<tr>
<td>Contacts closed for lack of verifiable evidence or referred to another office</td>
<td>1</td>
</tr>
<tr>
<td>Reports issued and/or matters closed</td>
<td>5</td>
</tr>
<tr>
<td>Management Implication Reports issued</td>
<td>0</td>
</tr>
<tr>
<td>Matters Remaining Open</td>
<td>3</td>
</tr>
</tbody>
</table>
OFFICE OF INVESTIGATIONS ACTIVITIES

OPEN INVESTIGATIONS

For most of the reporting period, the OI continued to devote significant time and resources to a single ongoing investigation based upon a broad array of allegations—both criminal and administrative—referred to the OIG concerning misconduct on the part of two senior agency officials. The investigation has been time intensive as well as time sensitive. The OI has issued the first of two reports on this matter, addressing allegations of criminal misconduct and violations of the standards of conduct for federal employees. The report found that no criminal wrongdoing occurred. However, one senior official was found to have violated standards of ethical conduct. With regard to the second phase of the investigation, involving administrative allegations of discrimination, preferential treatment, gross mismanagement, and abuse of authority against the same two senior officials, the OIG completed its investigation and is in the process of finalizing the second of two reports.

The OI has two additional cases that remain open: one involving an allegation raised by a former contractor with NCUA against an agency official; the other involving allegations of an illegally forced downgrade.

CLOSED INVESTIGATIONS

The OI initiated and, subsequently, closed an investigation based on allegations that an employee had grossly misused her government contractor-issued credit card. The investigation determined that the employee had charged in excess of $6,000 in personal charges over a protracted period of time on the contractor-issued card. The employee resigned after the OI issued its report.

The OI investigated an allegation that an employee had verbally abused and threatened another employee. During the course of the investigation, the OIG developed additional information that the employee had submitted false claims for sick leave and Office of Worker’s Compensation Program (OWCP) Continuation of Pay (COP) benefits. The OI issued its report and action against the employee is pending.
LEGISLATIVE AND REGULATORY REVIEWS

Pursuant to its charge under the IG Act, we continually review proposed legislation and regulations, as well as proposed agency instructions and other policy guidance, in order to make recommendations concerning economy and efficiency in the administration of NCUA programs and operations and the prevention and detection of fraud, waste and abuse.

During the reporting period, the OIG reviewed 16 items, including one new law, five proposed regulations, two final rules, one proposed policy instruction, one final policy instruction, five legislative proposals, and one Office of General Counsel report of its review of existing regulations. Other items reviewed included extensive comments on proposed legislation affecting the IG community.
OTHER OIG ACTIVITIES

STAFF TRAINING AND DEVELOPMENT

The Inspector General (IG), Frank Thomas continued to participate in the Financial Institutions Regulatory Committee of the Executive Council on Integrity and Efficiency (ECIE). The Committee provides a forum for Inspectors General of the NCUA, the Federal Reserve System, the Department of the Treasury, the FDIC, the Federal Housing Finance Board, the Securities and Exchange Commission, and the Farm Credit Administration to: discuss matters of mutual interest; coordinate relevant audits, investigations, legislative, and regulatory matters; and seek uniform approaches to handling similar issues.

Assistant IG for Audits, William DeSarno attended the Institute of Internal Auditors Annual Internal Auditing in Government Conference, and Federal Financial Institutions Regulatory OIG Council Meetings. Senior Auditors Charles Funderburk and Dwight Engelrup attended a course on Idea Software. Senior Information Technology Auditor Tammy Rapp attended a course on Control and Security of Windows 2000, and a seminar on implementation of the Government Information Security and Reform Act. All auditors also attended the IIA Annual Internal Auditing Conference.

Assistant IG for Investigations (AIGI), Sharon Separ and Senior Special Agent Anne Voegele attended training sponsored by the Public Administration Forum, “Issues, Problems & Solutions for the Federal IG Community.” AIGI Separ also attended the Association of Directors of Investigations Conference, hosted by the United States Postal Service Office of Inspector General, in Williamsburg, Virginia. Finally, AIGI Separ enlisted as a participant on both the PCIE Telecommuting Task Force and the Semiannual Report Coordinators Meeting.
### TABLE I

**INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of Reports</th>
<th>Questioned Costs</th>
<th>Unsupported Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. For which no management decision had been made by the start of the reporting period.</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>B. Which were issued during the reporting period.</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Subtotals (A + B)</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>C. For which management decision was made during the reporting period.</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(i) Dollar value of disallowed costs</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(ii) Dollar value of costs not disallowed</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>D. For which no management decision has been made by the end of the reporting period.</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>E. Reports for which no management decision was made within six months of issuance.</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

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

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

INSPECTOR GENERAL ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

<table>
<thead>
<tr>
<th></th>
<th>Number of Reports</th>
<th>Dollar Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A.</strong> For which no management decision had been made by the start of the reporting period.</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>B.</strong> Which were issued during the reporting period.</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>C.</strong> For which management decision was made during the reporting period.</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(i) Dollar value of recommendations agreed to by management.</td>
<td>N/A</td>
<td>0</td>
</tr>
<tr>
<td>(ii) Dollar value of recommendations not agreed to by management.</td>
<td>N/A</td>
<td>0</td>
</tr>
<tr>
<td><strong>D.</strong> For which no management decision was made by the end of the reporting period.</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>E.</strong> For which no management decision was made within six months of issuance.</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

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

**SUMMARY OF OIG ACTIVITY**  
**OCTOBER 1, 2000 THROUGH MARCH 31, 2001**

**PART I – AUDIT REPORTS ISSUED**

<table>
<thead>
<tr>
<th>Report Number</th>
<th>Title</th>
<th>Date Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>OIG-01-01</td>
<td>SAP Security and Control Review</td>
<td>3/15/01</td>
</tr>
<tr>
<td>OIG-01-02</td>
<td>Financial Audit: NCUA Operating Fund</td>
<td>3/31/01</td>
</tr>
<tr>
<td>OIG-01-03</td>
<td>Financial Audit: Share Insurance Fund</td>
<td>3/31/01</td>
</tr>
<tr>
<td>OIG-01-04</td>
<td>Financial Audit: Central Liquidity Facility</td>
<td>3/31/01</td>
</tr>
<tr>
<td>OIG-01-05</td>
<td>Financial Audit: Community Development Revolving Loan Program</td>
<td>3/31/01</td>
</tr>
</tbody>
</table>

**PART II – AUDITS IN PROCESS (as of March 31, 2001)**

<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Performance and Results Act: Review of Selected Performance Measures</td>
</tr>
<tr>
<td>NCUA Budget Process</td>
</tr>
</tbody>
</table>
WE WANT TO HEAR FROM YOU

CALL THE OIG HOTLINE

TOLL FREE 1-800-778-4806

WASHINGTON METRO AREA
703-518-6357

You may call ANONYMOUSLY, or request that YOUR call be kept CONFIDENTIAL