



TABLE OF CONTENTS

| | |
|--|----|
| INSPECTOR GENERAL'S MESSAGE | i |
| NCUA AND OFFICE OF INSPECTOR GENERAL MISSION STATEMENTS | 1 |
| INTRODUCTION | 2 |
| NCUA ORGANIZATIONAL CHART | 5 |
| NCUA HIGHLIGHTS | 6 |
| FEDERALLY INSURED CREDIT UNIONS HIGHLIGHTS | 9 |
| LEGISLATIVE HIGHLIGHTS | 11 |
| OFFICE OF THE INSPECTOR GENERAL | 13 |
| AUDIT ACTIVITY | 15 |
| INVESTIGATIVE ACTIVITY | 21 |
| LEGISLATIVE AND REGULATORY REVIEWS | 24 |
| TABLE I – REPORTS WITH QUESTIONED COSTS | 26 |
| TABLE II – REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE | 27 |
| TABLE III – SUMMARY OF OIG ACTIVITY | 28 |
| INDEX OF REPORTING REQUIREMENTS | 29 |

SEMIANNUAL REPORT TO THE CONGRESS

APRIL 1 — SEPTEMBER 30, 2006

**OFFICE OF THE INSPECTOR GENERAL
NATIONAL CREDIT UNION ADMINISTRATION**



INSPECTOR GENERAL'S MESSAGE TO THE NCUA BOARD AND THE CONGRESS

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) strives to carry out its mission to promote effectiveness in NCUA programs. This reporting period is no exception. In the past six months, the OIG has been active on both the audit and investigative sides of the office. On the audit side, while information security issues remained a major focus, we also completed an audit of the agency's oversight of indirect lending programs and are currently conducting reviews of NCUA's risk-focused examination process as well as its Office of Foreign Assets Control compliance program. On the investigative side, we investigated and reported on two employee misconduct cases involving allegations of false claims and sexual harassment, respectively, and are currently investigating a criminal case involving unauthorized access of a government computer by a former employee. We intend to report fully on the completed investigation in our next Semi-Annual Report. During this reporting period we also responded to one request under the Freedom of Information Act. I am proud of the continued commitment

and professionalism of our small staff in accomplishing this work.

Moreover, because the NCUA has been actively engaged during this reporting period in negotiations for a bargaining contract with the National Treasury Employees Union, the Office of Investigations, under advisement of the OIG Counsel, has striven to ensure that managers representing NCUA at the bargaining table understand the issue of union representation and employee rights during OIG investigative interviews. The OIG appreciates greatly the dialogue that ensued with agency representatives and feels comfortable that the unique role of the OIG within NCUA will be represented accurately.

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.

I would like to thank Chairman Johnson, Vice Chairman Hood, and Board Member Hyland for their sustained support of the OIG's work. Our office is committed to assisting the NCUA in ensuring the safety and soundness of credit unions as we work with the agency to achieve needed changes and improvements in NCUA's programs and activities.

William A. DeSarno
Inspector General

THE NCUA MISSION

NCUA's charge is to foster the safety and soundness of federally insured credit unions and to better enable the credit union community to extend the availability of financial services for provident and productive purposes to all who seek such service, while recognizing and encouraging credit unions' historical emphasis on extension of financial services to those of modest means.

The NCUA's mission is accomplished by managing the National Credit Union Share Insurance Fund in an efficient and prudent manner through an effective supervision program and a regulatory environment that encourages innovation, flexibility and continued focus on attracting new members and improving financial service to existing members.



THE OFFICE OF INSPECTOR GENERAL MISSION

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

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

INTRODUCTION

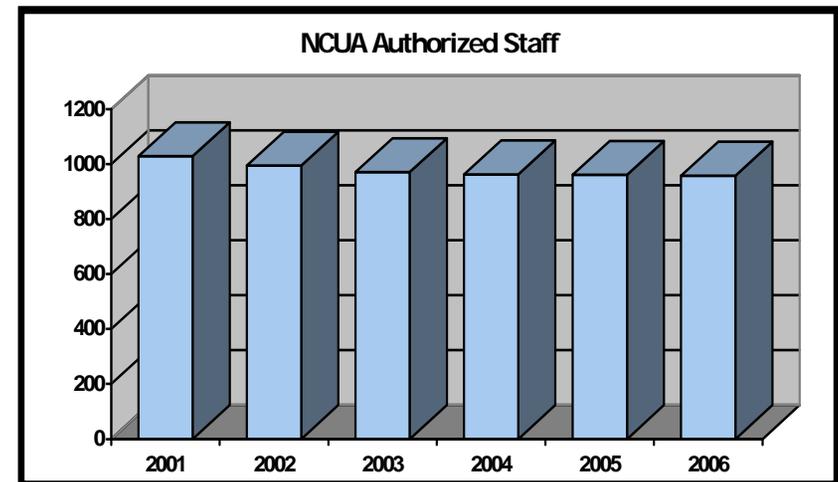
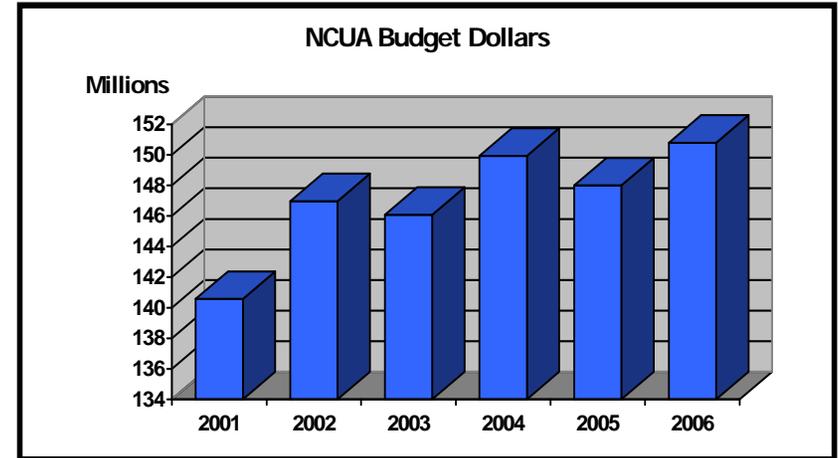
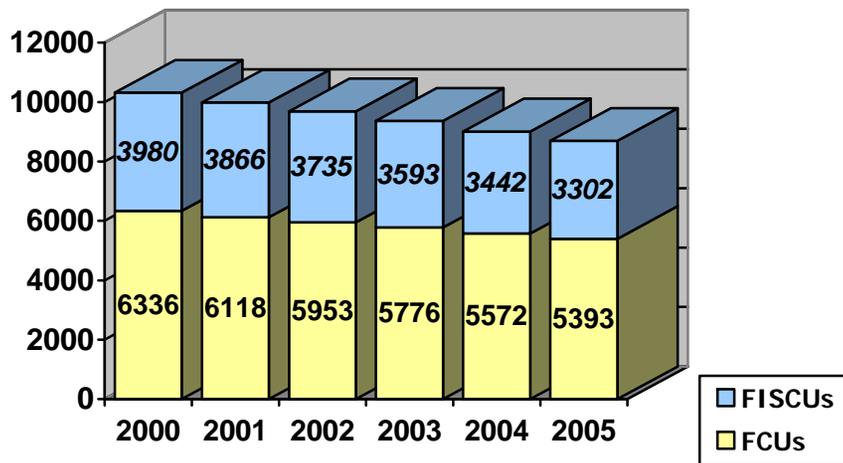
The National Credit Union Administration (NCUA) was established as an independent, federal regulatory agency on March 10, 1970. The agency is responsible for chartering, examining, supervising, and insuring federal credit unions. It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. The NCUA is funded by the credit unions it supervises and insures. As of June 30, 2006, the NCUA was supervising and insuring 5,308 federal credit unions and insuring 3,232 state-chartered credit unions, a total of 8,540 institutions. This represents a decline of 85 federal and 70 state-chartered institutions since December 31, 2005, for a total decline of 155 credit unions nationwide, primarily as a result of mergers.

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

The NCUA executes its program through its central office in Alexandria, Virginia and regional offices in Albany, New York; Alexandria, Virginia; Atlanta, Georgia; Austin, Texas; and Tempe, Arizona. The NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer to the NCUA organizational chart on page 5.

The NCUA Board adopted its 2006 budget of \$150,788,525 on November 29, 2005. The Full-Time Equivalent (FTE) staffing authorization for 2006 is 958, a reduction of 3 positions from the 2005 total of 961.

Federally Insured Credit Unions



NCUA ORGANIZATIONAL CHART



NCUA HIGHLIGHTS

CHAIRMAN JOHNSON SHARES RECOMMENDATIONS WITH PRESIDENT'S IDENTITY THEFT TASK FORCE

NCUA Chairman JoAnn Johnson met with senior Administration officials on September 19, 2006, to share recommendations with the President's Identity Theft Task Force. The Task Force, which includes U.S. Attorney General Alberto Gonzalez; Clay Johnson III, Deputy Director of the White House Office of Management and Budget; Michael Chertoff, Secretary of the Department of Homeland Security; Carlos M. Gutierrez, Secretary of Commerce; and other senior government officials, will work together to deliver a final strategic plan to President Bush in early November. During the September 19 meeting, Chairman Johnson and the other members of the Task Force discussed improving government handling of sensitive personal data; improving authentication methods of an individual's identity; victim assistance; and law enforcement initiatives.

VICE CHAIRMAN HOOD, BOARD MEMBER HYLAND SPEAK AT NAFCU CONGRESSIONAL CAUCUS

During September 2006, NCUA Vice Chairman Rodney E. Hood and NCUA Board Member Gigi Hyland spoke before the National Association of Federal Credit Unions (NAFCU) Congressional Caucus in Washington D.C. Both Vice Chairman Hood and Board member Hyland emphasized key priorities for the NCUA in the coming months, including data security, predatory lending, member business lending, and open communication

NCUA CHAIRMAN JOANN JOHNSON ISSUES STATEMENT ON UTAH DISMISSAL

On July 21, 2006, bankers in the field-of-membership lawsuit targeting an underserved area expansion in Utah agreed to a dismissal of that suit. The American Bankers Association, Utah Bankers Association, and several banks last December challenged NCUA's approval of an underserved area expansion for the community-based America First Federal Credit Union of Ogden, Utah. NCUA issued a proposed rule amending its chartering and field of membership policy in January 2006. The rule became final on July 28, 2006. Chairman Johnson, in responding to the court's dismissal of the case, commented as follows: "Now that the legal process has concluded, NCUA is pleased that credit unions can now proceed knowing that there is clarity, and consumers in underserved areas will have another choice in financial services."

CHAIRMAN JOHNSON TESTIFIES ON H.R. 3206, "CREDIT UNION CHOICE ACT"

NCUA Chairman Johnson testified on May 11, 2006, before the House Subcommittee on Financial Institutions and Consumer Credit on H.R. 3206, the "Credit Union Charter Choice Act" and credit union conversions in general. Chairman Johnson presented the Agency's views on credit union conversions to mutual savings banks and associations, and noted there are fundamental issues at stake. In particular, Chairman Johnson stated that credit unions are nonprofit cooperatives that exist to promote thrift and provide a source of affordable credit for their members rather than to maximize profits to outside investors or stockholders. The Federal Credit Union Act requires NCUA to administer the

member vote on a proposed conversion and review the methods and procedures of the vote. Chairman Johnson expressed NCUA's support of the provisions of H.R. 3026 that would require a secret ballot and an independent inspection of elections, as well as retain the 90, 60, and 30 day mailing requirement.

FINCEN, OFAC AND FFIEC MEMBERS REVISE STANDARDS TO EVALUATE BSA COMPLIANCE PROGRAMS

The Federal Financial Institutions Examination Council (FFIEC), including NCUA, worked together with the Financial Crimes Enforcement Network (FinCen) and the Office of Foreign Assets Control (OFAC) to revise existing guidance and standards to evaluate Bank Secrecy Act (BSA) and OFAC compliance programs at financial institutions. On July 28, 2006, the FFIEC issued the revised *Bank Secrecy Act Anti-Money Laundering Examination Manual (BSA/AML)*, originally released in June 2005. The BSA/AML Manual was updated to further clarify supervisory expectations and incorporate regulatory changes since the manual's 2005 release. Part 748 of NCUA's Rules and Regulations requires credit unions to have a BSA compliance program and procedures. NCUA has further advised credit unions that they must have a policy on compliance with OFAC regulations which they may include within their existing BSA compliance policy.

FEDERALLY INSURED CREDIT UNION HIGHLIGHTS

Credit unions submit quarterly call reports (financial and operational data) to the NCUA. An NCUA staff assessment of the June 30, 2006, quarterly call reports submitted by all federally insured credit unions found that key financial indicators were stable.

KEY FINANCIAL INDICATORS STABLE

Looking at the June 30, 2006 quarterly statistics for major balance sheet items and key ratios shows the following for the nation's 8,540 federally insured credit unions: assets grew 2.70 percent, or \$18.32 billion; net worth to assets ratio increased from 11.24 to 11.36 percent; the loan to share ratio increased from 79.33 percent to 80.24 percent; the delinquency ratio decreased from .73 to .58 percent; and credit union return on average assets increased from .85 percent to .86 percent.

SAVINGS INCREASED marginally

Total insured share accounts increased 2.78 percent, or \$16.05 billion. Regular shares comprise 33.05 percent of total share accounts; share certificates increased 9.43 percent; money market shares increased .02 percent; and share draft accounts decreased 4.05 percent.

LOANS INCREASED AND INVESTMENTS DECREASED

Loan growth of 3.96 percent resulted in an increase in total loans by \$18.2 billion. Total net loans of \$473.1 billion comprise 67.9 percent of credit union assets. First mortgage real estate loans increased 5.75 percent and other real estate loans increased 7.95 percent. First mortgage real estate loans are the largest single asset category with \$153.44 billion accounting for 32.21 percent of all loans. Other real estate loans of \$79.26 billion account for 16.64% of all loans. Used car loans of \$87.11 billion were 18.29% of all loans, while new car loans amounted to \$86.56 billion or 18.17% of total loans. Credit card loans totaled \$23.93 billion or 5.02% of total loans and other unsecured loans totaled \$21.31 billion for 4.47% of total loans. The remaining 5.25% of loans was \$24.76 billion in other loans. Total investments decreased 2.0 percent to \$145.3 billion. Investments with maturities less than one year increased 3.46 percent, while long term investments decreased 5.70 percent.

LEGISLATIVE HIGHLIGHTS**HOUSE, SENATE PASS “FINANCIAL SERVICES REGULATORY RELIEF ACT of 2006”**

The U.S. Senate voted unanimously on September 30, 2006, in favor of the “Financial Services Regulatory Relief Act of 2006,” S. 2856, just two days after it was approved without dissent by the U.S. House of Representatives. The bill, if enacted into law, will modernize and improve the regulatory structure under which credit unions operate, and enable them to provide more up-to-date services to their members. The legislation will also allow for the redefinition of net worth following the merger of two healthy credit unions. Other credit union provisions included in the Senate Bill would permit land lease at only “nominal” cost when credit unions build on DOD facilities; raise the 12-year loan limit to at least 15 years; and authorize federal credit unions to cash checks and wire funds for anyone eligible to join the credit union. The bill, which was based in large part on H.R. 3505, was introduced in the Senate by Senator Mike Crapo (ID) on May 18, 2006.

NCUA BOARD FINALIZES SHARE INSURANCE COVERAGE

At its meeting on September 21, 2006, the NCUA Board issued a final rule change to Part 745 of the Federal Credit Union Act, implementing amendments to the Federal Deposit Insurance Reform Act of 2005 and the Federal Deposit Insurance Reform Conforming Amendments Act of 2005, which increase share insurance coverage for certain accounts. The rule also clarifies insurance coverage for qualified tuition savings programs and share accounts denominated in foreign

currencies. At an earlier Board meeting, NCUA staff presented a proposed amendment to an existing regulation to make changes to the official insurance sign. The final rule on the official sign will be presented at the November Board meeting.

HOUSE COMMITTEE APPROVES NCUA FUNDING

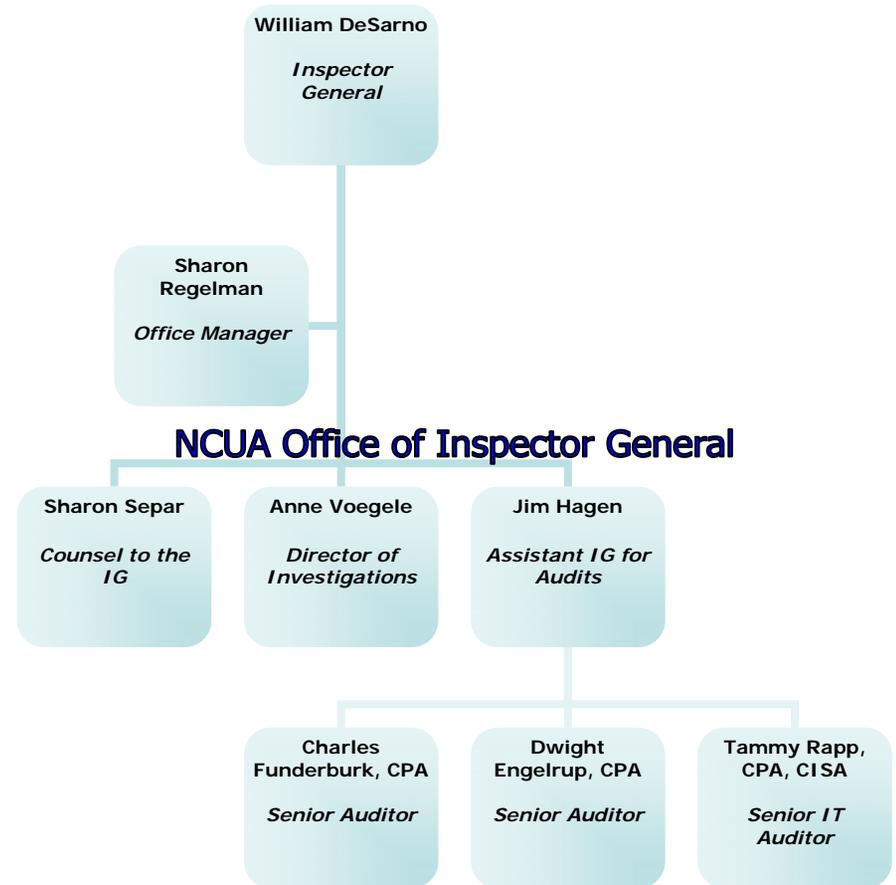
The House Appropriations Committee approved legislation on June 6, 2006, backing the Community Development Revolving Loan Fund Program (CDRLF) with \$941,000 for technical assistance grants to low-income designated credit unions in fiscal year 2007. In addition, the bill includes \$1.5 billion borrowing for the Central Liquidity Facility (CLF) for fiscal year 2007. The CDRLF was established by Congress in 1979 with a \$6 million appropriation to demonstrate that low-income credit unions with technical assistance and limited financial assistance can play a role in providing needed financial and labor intensive services in their communities. Also formed in 1979, the CLF is a government corporation owned by its member credit unions. Managed by the NCUA Board, it provides financial stability by meeting the liquidity needs of credit unions and thereby encourages savings and supports consumer and mortgage lending.

OFFICE OF THE INSPECTOR GENERAL

The Office of the Inspector General was established at the NCUA in 1989 under the authority of the Inspector General Act of 1978, as amended in 1988. The staff consists of the Inspector General, Counsel to the Inspector General, Assistant Inspector General for Audits, Director of Investigations, two Senior Auditors, Senior Information Technology Auditor, and Office Manager.

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

OIG-06-05 – September 30, 2006

INDEPENDENT EVALUATION OF THE NATIONAL CREDIT UNION ADMINISTRATION INFORMATION SECURITY PROGRAM 2006

The Office of Inspector General for the National Credit Union Administration engaged Grant Thornton LLP to conduct an independent evaluation of its information systems and security program and controls for compliance with the Federal Information Security Management Act (FISMA), Title III of the E-Government Act of 2002.

Grant Thornton evaluated NCUA's security program through interviews, documentation reviews, and sample testing. We evaluated NCUA against standards and requirements for federal government agencies such as those provided through FISMA, National Institute of Standards and Technology (NIST) Special Publications (SPs) and Federal Information Processing Standards (FIPS), and Office of Management and Budget (OMB) memorandums. We conducted an exit conference with NCUA officials on September 6, 2006, to discuss evaluation results.

The NCUA made noticeable progress in strengthening its Information Technology (IT) security program during Fiscal Year (FY) 2006. Notable accomplishments include:

- Significant strides in remediation of the significant deficiency noted in the FY2005 report by deploying

encryption software to improve security of information stored on examiners' laptop computers, and

- Completion of the Accreditation package for the NCUA General Support System (GSS).

While NCUA has made commendable progress in eliminating the significant deficiencies reported last year, our review this year identified the following areas in IT security controls where attention is required:

- Procedures requiring the use of cryptographic security measures for sensitive financial and Personally Identifiable Information (PII) need better enforcement, and Privacy Impact Assessments (PIA) for its systems needs to be developed.
- Certification and accreditation (C&A) of all NCUA systems needs to be completed.
- Password and user account security configurations need improvement, including regular user account reconciliations.
- Personnel security awareness training program needs to be fully implemented.

We also noted other suggestions in IT security controls that management should consider.

OIG-06-06 – September 30, 2006

OIG REPORT TO OMB ON THE NATIONAL CREDIT UNION ADMINISTRATION INFORMATION SECURITY PROGRAM

This report contains a summary of our evaluation of the NCUA's information security program presented in the OMB prescribed format.

The OIG issued two reports during the past year that reported on the testing of the effectiveness of information security and internal controls:

- On September 30, 2006, the OIG issued a report containing an Independent Evaluation of the NCUA's Information Security Program - 2006. The content of the independent evaluation report supports the conclusions presented in this report.
- On March 31, 2006, the OIG issued the Financial Statement Audit Report for the year ended December 31, 2005. The purpose of this audit was to express an opinion on whether the financial statements were fairly presented. In addition, the internal control structure was reviewed and an evaluation of compliance with laws and regulations was performed as part of the audit. The result of this audit was an unqualified opinion, stating that the financial statements were presented fairly. Although there were no material weaknesses identified during the review of the internal control structures pertinent to financial reporting, several recommendations were made relating to weaknesses in the financial and information security areas.

OIG-06-07 – September 27, 2006

**REVIEW OF NATIONAL CREDIT UNION ADMINISTRATION
OVERSIGHT OF INDIRECT LENDING PROGRAMS**

The National Credit Union Administration has identified outsourced indirect lending as a potential high risk program and the number of credit unions involved in indirect lending has been increasing. Therefore, the NCUA Office of Inspector

General conducted a review to assess NCUA examiner compliance with agency guidance regarding reviews of credit union indirect lending programs.

We reviewed a judgmental sample of 36 credit unions. We concluded that with regard to these sampled credit unions, examiners assessed the risk of indirect lending programs for all 36. We based our conclusion upon reviews of examiners' workpapers and analyses of call report data and key financial ratios and trends.

The OIG also assessed whether credit unions were accurately reporting the existence of indirect lending programs to NCUA. We found a need to improve internal controls over 5300 call report data, specifically as it relates to indirect lending programs. The OIG has made two recommendations that should result in improved internal controls over 5300 call report data.

AUDITS IN PROGRESS

RISK FOCUSED EXAMS

The National Credit Union Administration expends significant resources to ensure the safe and sound operation of Federal credit unions. The major NCUA effort in this area is the performance of risk focused examinations (RFE) and supervision. The current RFE program was initiated in 2002.

The Office of Inspector General is conducting a national review of certain aspects of the RFE program. The audit objective is to determine if NCUA has a process in place to

provide assurance that high risk areas are identified and addressed through the risk focused examination process

OFFICE OF FOREIGN ASSET CONTROL COMPLIANCE REVIEW

The U.S. Congress has shown an interest in the status of financial institutions' compliance with the Office of Foreign Asset Control (OFAC) foreign sanction requirements. Therefore, the NCUA Office of Inspector General initiated a review to determine whether NCUA provides effective supervision over federally chartered credit unions' compliance with OFAC requirements.

We are reviewing OFAC compliance requirements and NCUA policies, procedures and guidance related to the examination and supervision of credit unions' compliance with those requirements.

PRIVACY REVIEW

Following numerous incidents involving the compromise or loss of sensitive personal information, OMB issued memorandum M-06-16 on June 23, 2006. The memorandum requires agencies to take specific actions to protect Personally Identifiable Information (PII) that are outlined in NIST Special Publication 800-53. In addition, OMB recommends agencies take four additional actions to protect sensitive agency information. OMB requested that agencies ensure that the safeguards outlined in M-06-16 be reviewed and in place within 45 days (August 7, 2006) from the issuance of the memorandum. Inspectors General were also requested to conduct a subsequent review to assess the agencies compliance.

The Presidents Council on Integrity and Efficiency (PCIE) and Executive Council on Integrity and Efficiency (ECIE) jointly developed a data collection instrument and review guide to assist Inspectors General in determining their agency's compliance with OMB Memorandum M-06-16. The data collection instrument provides a snapshot of NCUA's progress in meeting OMB M-06-16 as of August 31, 2006. The data collection instrument was provided to NCUA senior management and a representative of the PCIE/ECIE so they can prepare and issue a consolidated OIG report in October 2006.

In addition, we are preparing a narrative OIG report expanding on the data collection instrument and including more specifics on the progress NCUA has taken in meeting OMB M-06-16 as well as areas for improvement.

SIGNIFICANT AUDIT RECOMMENDATIONS ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

As of September 30, 2006, there were no significant audit recommendations on reports issued over six months ago that have not been either fully implemented or are in the process of implementation.

INVESTIGATIVE ACTIVITY

In accordance with professional standards and guidelines established by the Department of Justice, the OIG conducts investigations of criminal, civil, and administrative wrongdoing involving agency programs and personnel. Our investigative program 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 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.

Moreover, we receive complaints from credit union members and officials that involve NCUA employee program responsibilities. We examine these complaints to determine whether there is any indication of NCUA employee misconduct. If not, we refer the complaint to the appropriate regional office for response, or close the matter if contact with the regional office indicates that the complaint has already been appropriately handled.

OIG HOTLINE CONTACTS

The OIG maintains a toll free hotline to enable employees and citizens to call with information about waste, fraud, abuse or mismanagement involving agency programs or operations. We also receive complaints through an off-site post office box, from electronic mail, and facsimile messages. All information received from any of these sources is referred to as a hotline contact. The OIG hotline program is handled by

our Office Manager, under the direction of our Director of Investigations. The majority of hotline contacts are from consumers seeking help with a problem with a credit union. These contacts are referred to the appropriate NCUA regional office for assistance. During this reporting period, we referred 186 consumer complaints to regional offices.

In our last two semi annual reports, we reported on Phishing attempts made by individuals using the NCUA name and logo in an effort to obtain personal and confidential information from credit union members. In the last reporting period, the number of reports to our office had dropped to approximately 400. During this reporting period, however, the OIG received a dramatic increase in complaints. In the past six months, our office handled approximately 1100 reports or inquiries regarding suspected Phishing attempts, 600 of which required a response from us.

INVESTIGATIONS

During the last reporting period the Office of Investigations initiated four new investigations and closed two.

SEXUAL HARASSMENT

The OIG received a complaint that a credit union Examiner had sexually harassed a credit union manager. The employee was interviewed and acknowledged that he had inappropriately harassed a female credit union manager. The agency suspended the employee for 30 days.

FALSE STATEMENTS

In our last Semi-Annual Report, we reported on an investigation involving a career NCUA Examiner who had provided false information during a routine background

investigation, and when questioned about the alleged false information, reiterated his original false statement. The OIG investigation developed numerous instances spanning twenty years of the employee providing false or misleading information on official documents. The employee was interviewed by the OIG under Kalkines Warnings during which he provided additional false and misleading information. The agency removed the employee and the employee appealed to the Merit Systems Protection Board (MSPB). The OIG Director of Investigations and the Inspector General gave depositions and testified at the MSPB hearing. As of the date of the last semi-annual report, there had been no final determination. Since then, the MSPB issued its ruling in the agency's favor.

CRIMINAL COMPUTER FRAUD

During this reporting period, the OIG received an allegation that a retired NCUA Examiner may have illegally accessed the NCUA computer system. A criminal case was initiated and the OIG invited the FBI to participate. The ensuing joint OIG/FBI investigation determined that a retired employee, who since retirement had been employed by a credit union, had illegally accessed confidential credit union information from the NCUA system. He used the information to assist him in his work assignments for the credit union and its wholly owned Credit Union Service Organization, which provides fee-for-service assistance to other credit unions. The case is being prosecuted by the United States Attorney's Office, Eastern District of Virginia.

LEGISLATIVE AND REGULATORY REVIEWS

Section 4(a) of the Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the NCUA and to make recommendations concerning their impact. Moreover, we routinely review 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 17 items, including proposed and final legislation and regulations, and several NCUA issuances. The OIG submitted comments on one agency Instruction.

| SUMMARY OF STATUTES AND REGULATIONS REVIEWED | |
|---|---|
| Legislation/E.O. | Title |
| H.R. 3206 | "Credit Union Charter Choice Act" |
| H.R. 2840 | "Federal Agency Protection of Privacy Act" |
| H.R. 5138 | Cyber Security Enhancement and Consumer Data Protection Act of 2006 |
| S. 2856 | "Financial Services Regulatory Relief Act of 2006" |
| Regulations/Rulings | Title |
| 12 CFR Part 701 | "Chartering and Field of Membership For Federal Credit Unions" |
| 12 CFR Part 701 | "Loan Interest Rates" |
| 12 CFR Part 701 | "General Lending Maturity Limit and Other Financial Services" |
| 12 CFR Parts 701, 741 | Proposed Rule Regarding Third Party |

| | |
|--|---|
| | Servicing of Indirect Vehicle Loans |
| 12 CFR Part 708a | Proposed Rule Regarding Conversion of Insured Credit Unions to Mutual Savings Banks |
| 12 CFR Part 740 | Proposed Rule Regarding Accuracy of Advertising and Notice of Insured Status |
| 12 CFR Part 740 | "Revisions to the Official Sign Indicating Insured Status" |
| 12 CFR Part 745 | "Share Insurance and Appendix" |
| 12 CFR Part 748 | NPR: "Filing Requirements For Suspicious Activity Reports" |
| 12 CFR Parts 41, 211, 222, 334, 364, 571, 717, 681 | Interagency Proposed Regulation: "Identity Theft Red Flags and Address Discrepancies under the Fair and Accurate Credit Transactions Act of 2003" |
| Agency Issuances | Title |
| Proposed IRPS 06-02 | Chartering and Field of Membership Amendments |
| Instruction 3212.4 (Rev.) | Freedom of Information Act Compliance and Procedures for Processing FOIA Requests |
| Draft Instruction | Credit Worthiness Evaluations and Training Requirements for Government Issued Charge Cards |

TABLE I

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

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

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

TABLE II

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

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

TABLE III

| SUMMARY OF OIG ACTIVITY APRIL 1, 2006 THROUGH SEPTEMBER 30, 2006 | | |
|---|--|-------------|
| PART I – AUDIT REPORTS ISSUED | | |
| Report Number | Title | Date Issued |
| OIG-06-05 | Independent Evaluation of NCUA Information Security Program | 9/29/2006 |
| OIG-06-06 | OIG Report to OMB on the NCUA Compliance with the Federal Information Security Management Act 2006 | 9/29/2006 |
| OIG-06-07 | Review of NCUA's Oversight of Indirect Lending Programs | 9/27/2006 |
| PART II – AUDITS IN PROGRESS (as of September 30, 2006) | | |
| | Risk Focused Exams | |
| | Office of Foreign Asset Control Compliance review | |
| | Privacy review | |



INDEX OF REPORTING REQUIREMENTS

| SECTION | DATA REQUIRED | PAGE REF |
|----------|---|----------|
| 4(a)(2) | Review of Legislation and Regulations | 24 |
| 5(a)(1) | Significant Problems, Abuses, or Deficiencies Relating to the administration of programs and Operations disclosed during the reporting period. | 15 |
| 5(a)(3) | Recommendations with Respect to Significant Problems, Abuses, or Deficiencies. | 15 |
| 5(a)(3) | Significant Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed. | 20 |
| 5(a)(4) | Summary of Matters Referred to Prosecution Authorities and Prosecutions, Which Have Resulted. | None |
| 5(a)(5) | Summary of Each Report to the Board Detailing Cases Where Access to All Records Was Not Provided or Where Information Was Refused. | None |
| 5(a)(6) | List of Audit Reports Issued During the Reporting Period. | 28 |
| 5(a)(7) | Summary of Particularly Significant Reports. | 15 |
| 5(a)(8) | Statistical Tables on Audit Reports With Questioned Costs. | 26 |
| 5(a)(9) | Statistical Tables on Audit Reports With Recommendations That Funds Be Put To Better Use. | 27 |
| 5(a)(10) | Summary of Each Audit Report Issued Before the Start Of the Reporting Period for Which No Management Decision Has Been Made by the End of the Reporting Period. | None |
| 5(a)(11) | Description and Explanation of Reasons for any Significant Revised Management Decision Made During the Reporting Period. | None |
| 5(a)(12) | Information Concerning Significant Management Decisions With Which the Inspector General is in Disagreement. | None |

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