

NCUA



SEMIANNUAL REPORT TO THE CONGRESS

OFFICE OF THE INSPECTOR GENERAL
OCTOBER 1, 2006 - MARCH 31, 2007



National Credit Union Administration

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

The attached semiannual report covers the Office of Inspector General's (OIG) activities for the previous six month reporting period, ending March 31, 2007, and is submitted in accordance with Section 5 of the Inspector General Act of 1978, as amended.

During this reporting period, the OIG issued an audit of the National Credit Union's (NCUA) financial statements as well as conducted an annual security review as mandated in the Federal Information Security Management Act. In connection with its FISMA review, the OIG subsequently performed a limited scope review assessing the NCUA's actions to ensure that personally identifiable information and sensitive information is safeguarded as required by the Office of Management and Budget. The audit staff also completed and reported on a review to determine whether NCUA provides effective supervision over federally chartered credit unions' compliance with Office of Foreign Assets Control requirements.

On the investigative side, the OIG closed a criminal case involving unauthorized access of a government computer by a former employee, after a U.S. District Court handed down a sentence of two years supervised probation, 50 hours of community service, and a \$4,000 fine. That case was investigated by Special Agents of the NCUA OIG and the Federal Bureau of Investigation.

As in the past, the NCUA Board and management have been responsive in attempting to implement all OIG recommendations. I appreciate management's support and I look forward to working with you in our ongoing efforts to promote economy and efficiency in agency programs.

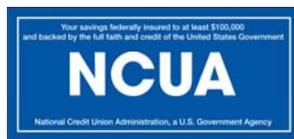
A handwritten signature in black ink that reads "William A. DeSarno".

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

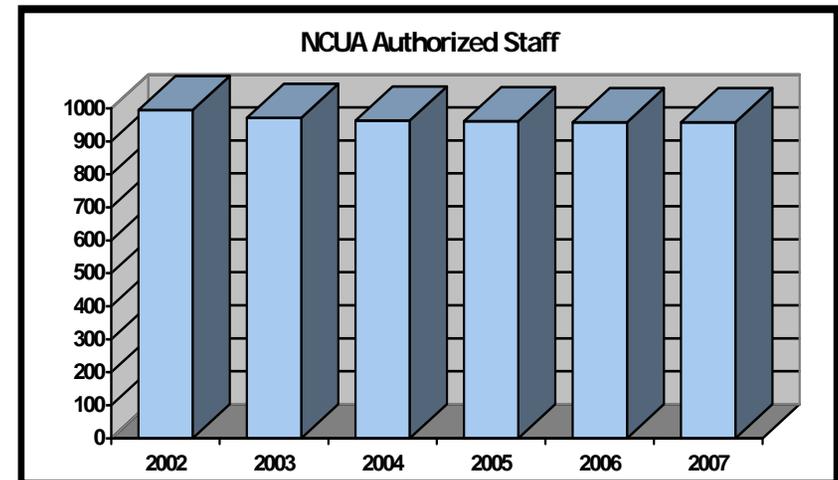
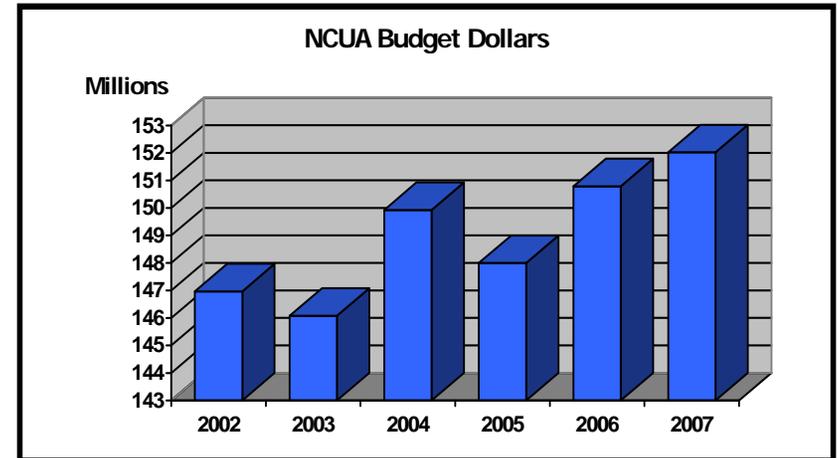
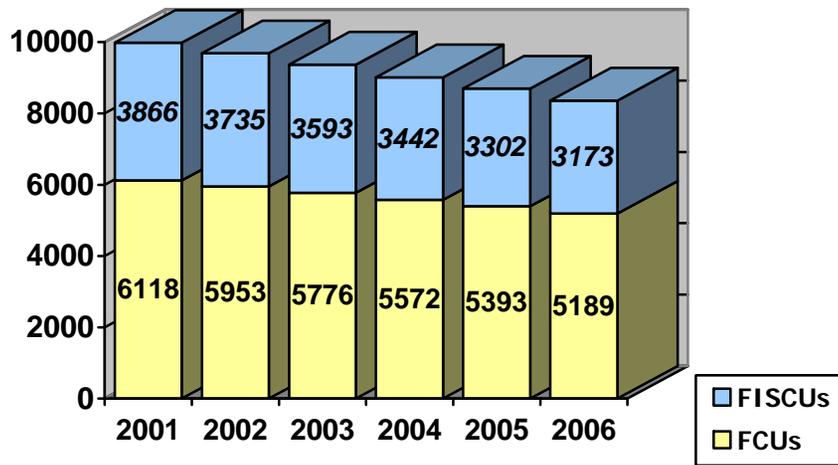
The National Credit Union Administration (NCUA) was established as an independent, federal regulatory agency on March 10, 1970. The agency is responsible for chartering, examining, supervising, and insuring federal credit unions. It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. The NCUA is funded by the credit unions it supervises and insures. As of December 31, 2006, the NCUA was supervising and insuring 5,189 federal credit unions and insuring 3,173 state-chartered credit unions, a total of 8,362 institutions. This represents a decline of 204 federal and 129 state-chartered institutions since December 31, 2005, for a total decline of 333 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.

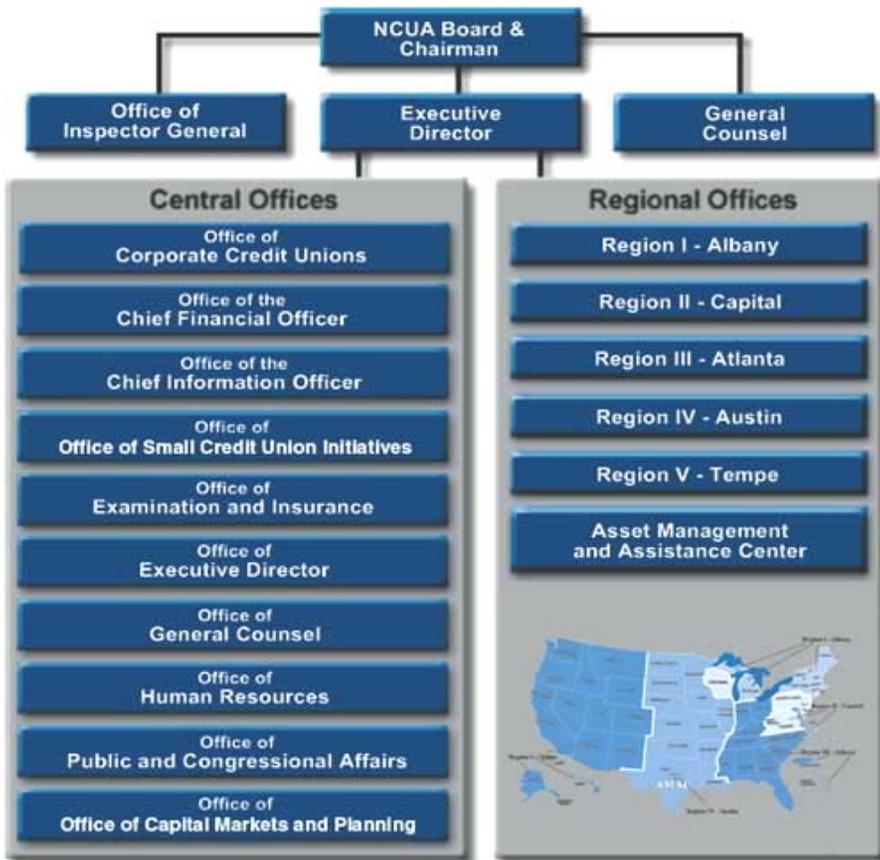
The NCUA executes its program through its central office in Alexandria, Virginia and regional offices in Albany, New York; Alexandria, Virginia; Atlanta, Georgia; Austin, Texas; and Tempe, Arizona. The NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer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

The NCUA Board adopted its 2007 budget of \$152,016,840 on November 16, 2006. The Full-Time Equivalent (FTE) staffing authorization for 2007 is 958, remaining unchanged from the 2006 total.

Federally Insured Credit Unions



NCUA ORGANIZATIONAL CHART



NCUA HIGHLIGHTS

CHAIRMAN JOHNSON TESTIFIES ON CREDIT UNION SUBPRIME PRACTICES AND PRODUCTS

NCUA Chairman JoAnn Johnson testified on March 27, 2007, before the House Subcommittee on Financial Institutions and Consumer Credit concerning subprime mortgage practices and products and foreclosures in relation to credit unions. Chairman Johnson testified that to effectively reach out to disadvantaged and lower income individuals, some credit unions offer nontraditional mortgage products and loans to subprime borrowers. She stressed that “NCUA has an interest in ensuring that these loans are prudently underwritten and clearly understood by borrowers wherever they are offered.” Chairman Johnson stated that in addition to the agency’s practices and policies outlining safe, sound mortgage lending practices, NCUA supports the recently proposed Interagency Guidance on Subprime Mortgage Lending. With regard to the Interagency Guidance, Chairman Johnson said that “NCUA is working with the other agencies to finalize this important guidance as soon as possible.”

NCUA SEES STAFFING SELECTIONS AND CHANGES

On February 23, 2007, the NCUA Board selected Deputy Executive Director Jane Walters to be the Capital Region II Director, filling the position left vacant with the retirement of Edward P. Dupcak. As Region II director, Walters is responsible for the supervision and examination program of credit unions in Delaware, District of Columbia, Maryland, New Jersey, Pennsylvania, Virginia and West Virginia. The Chairman’s office saw the departure of Senior Advisor and

Chief of Staff Holly Herman in November 2006, and the subsequent appointment, in February 2007, of Peter C. Barrett as Senior Policy Advisor to the Chairman. Mr. Barrett will advise Chairman Johnson on a broad range of issues pertaining to the agency as well as help oversee day to day operations. In November and December 2006, respectively, NCUA selected John E. Kutchey as Director of Risk Management and Mike J. McNeill as the agency's Ombudsman. As Director of Risk Management, Mr. Kutchey is responsible for overseeing NCUA's credit union problem resolution program, while as Ombudsman, Mr. McNeill will investigate complaints that relate to regulatory issues that cannot be resolved at the operational (regional) level and recommend solutions.

VICE CHAIRMAN HOOD HOLDS RISK MITIGATION SUMMIT

NCUA Vice Chairman Rodney E. Hood hosted a Risk Mitigation Summit January 11, 2007, at the United States Chamber of Commerce in Washington, D.C. The event brought government and industry leaders together to discuss the latest and most effective techniques for risk mitigation. Vice Chairman Hood expressed his belief that it is not enough for credit unions to avoid risks, but to manage them effectively in order to stimulate economic growth. The Summit featured sessions on loan funding alternatives, risk measurement and management approaches, and various outlets for asset securitization and sales.

BOARD MEMBER HYLAND LEADS OUTREACH TASK FORCE

Chairman Johnson appointed Board Member Gigi Hyland last November to lead an Outreach Task Force to gain a better

understanding and evaluation of the NCUA's outreach efforts in response to the findings in the agency's Member Service Assessment Pilot—MSAP: A Study of Federal Credit Union Service. The thirteen member internal Outreach Task Force held its first meeting on January 30, 2007. NCUA initiated MSAP in 2006 as a result of questions raised by the House Ways and Means Committee and the Government Accountability Office (GAO) regarding the income distribution of federal credit union (FCU) members, the types of services FCUs provide to their members, and the transparency of FCU executive compensation.

NCUA AND FINCEN HOLD BSA COMPLIANCE WEBINAR

More than 2,000 members of the credit union industry participated, on February 6, 2007, in the first webinar hosted jointly by the NCUA and the Financial Crimes Enforcement Network (FinCen). The free webinar, entitled *BSA: A Year in Review and Setting the Table for 2007*, provided information and guidance to credit unions about Bank Secrecy Act (BSA) obligations. The interactive electronic format allowed viewers to ask questions to NCUA and FinCen panelists about NCUA's BSA compliance issues, recent regulatory changes, how to prepare for a BSA compliance review, and FinCen's role as BSA administrator. The program also included a presentation on the value of BSA data and how FinCen uses it. The webinar and Q&A session is available online at www.ncua.gov.

FEDERALLY INSURED CREDIT UNION HIGHLIGHTS

Credit unions submit quarterly call reports (financial and operational data) to the NCUA. An NCUA staff assessment of the December 31, 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 December 31, 2006 quarterly statistics for major balance sheet items and key ratios shows the following for the nation's 8,362 federally insured credit unions: assets grew 4.61 percent, or \$31.28 billion; net worth to assets ratio increased from 11.24 to 11.54 percent; the loan to share ratio increased from 79.33 percent to 82.23 percent; the delinquency ratio decreased from .73 to .68 percent; and credit union return on average assets decreased from .85 percent to .82 percent.

SAVINGS SHIFTING TO CERTIFICATES OF DEPOSIT

Total insured share accounts increased 3.92 percent, or \$20.14 billion. Regular shares comprise 30.11 percent of total share accounts; share certificates increased 23.81 percent; money market shares increased 1.44 percent; and share draft accounts decreased 6.75 percent.

LOANS INCREASED AND INVESTMENTS DECREASED

Loan growth of 7.88 percent resulted in an increase in total loans by \$36.1 billion. Total net loans of \$491 billion comprise 70 percent of credit union assets. First mortgage real estate loans increased 10.04 percent and other real estate loans increased 15.03 percent. First mortgage real estate loans are the largest single asset category with \$159.68 billion accounting for 32.30 percent of all loans. Other real estate loans of \$84.44 billion account for 17.08% of all loans. Used car loans of \$87.56 billion were 17.71% of all loans, while new car loans amounted to \$88.53 billion or 17.91% of total loans. Credit card loans totaled \$26.54 billion or 5.37% of total loans and other unsecured loans totaled \$22.6 billion for 4.57% of total loans. The remaining 5.06% of loans was \$24.99 billion in other loans. Total investments decreased 4.17 percent to \$179.5 billion. Investments with maturities less than one year increased 5.01 percent, while long term investments decreased 14.87 percent.

LEGISLATIVE HIGHLIGHTS

HOUSE INTRODUCES REVISED CURIA BILL

On March 15, 2007, Representatives Paul Kanjorski, D-Pa. and Ed Royce, R-Calif., introduced the 2007 Credit Union Regulatory Improvements Act (CURIA), H.R. 1537, with two new provisions. The revised bill combines a series of regulatory enhancements that, according to Rep. Kanjorski, “will allow credit unions to operate more effectively and efficiently.” Specifically, CURIA modernizes credit union net worth standards; advances credit union efforts to promote economic growth; and modifies credit union regulatory standards by eliminating unnecessary, burdensome, and outdated regulations, as well as making other reforms to credit union oversight and governance. The new version of CURIA updates current law to allow all types of credit unions to expand their fields of membership in order to better serve underserved areas. The bill also unifies and strengthens the definition of an “underserved area” with the Federal Credit Union Act. The bill was referred to the House Financial Services Committee and awaits committee action.

HOUSE BILL PROMOTES CREDIT UNION BUSINESS LENDING

House Small Business Chairwoman Nydia Velasquez, D-N.Y., introduced a bill on March 29, 2007, that would enable credit unions to do more business lending. The Credit Union Small Business Lending Act, H.R. 1849, would exempt the nonguaranteed portion of the Small Business Administration 7(a) loans from counting against credit unions’ small business

lending cap. The legislation would also: establish an 85% guarantee on SBA loans of up to \$250,000 for credit unions lending to businesses in underserved areas; create a credit union outreach program within the SBA that would help credit unions use the 7(a) loan program more effectively; and require the agency to make annual reports to Congress on its efforts to get credit unions more active in SBA lending. The bill has been referred to the House Financial Services and the House Small Business committees.

NCUA JOINS OTHER FEDERAL REGULATORS ON PROPOSED MODEL PRIVACY NOTICE

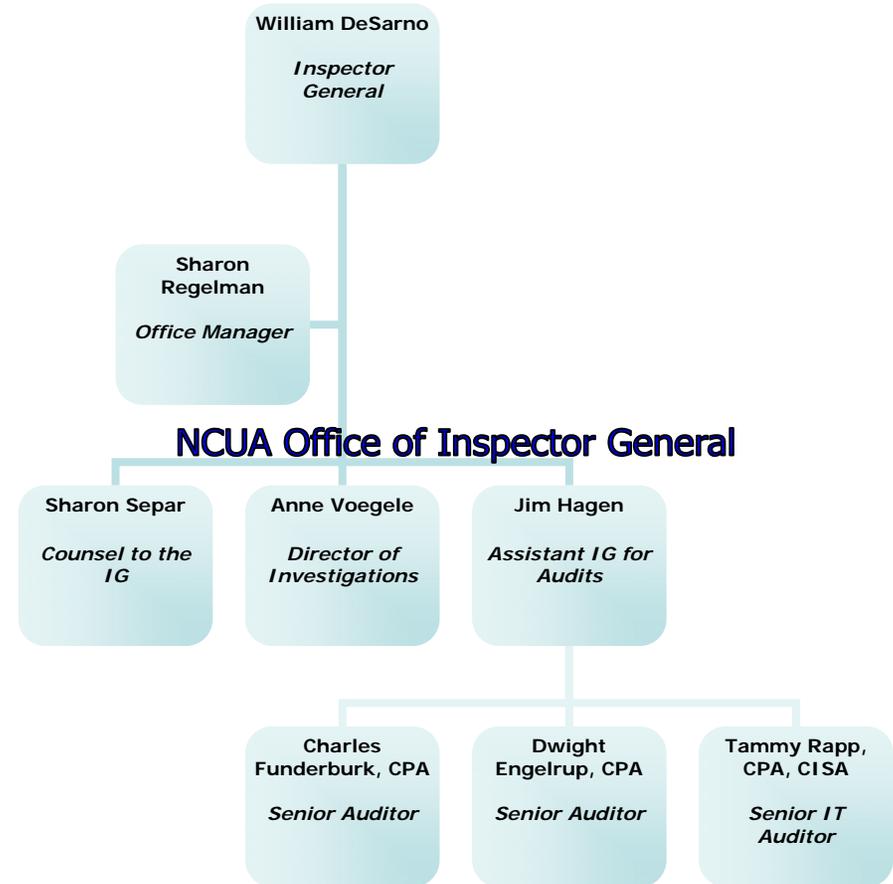
On March 20, 2007, NCUA joined seven other federal regulators (the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission, the Federal Deposit Insurance Corporation, the Federal Trade Commission, the Office of the Comptroller, the Office of Thrift Supervision, and the Securities and Exchange Commission) in issuing a notice of proposed rulemaking (NPR) requesting comments on a model privacy form that financial institutions may use for their privacy notices to consumers, as required by the Gramm-Leach Bliley Act (the GLB Act). The privacy notices must describe an institution’s information-sharing practices and, for certain types of sharing, consumers have the right to opt out. The notices must be provided when a consumer first becomes a customer of a financial institution, and then annually for as long as the customer relationship lasts. Last October, President Bush signed into law the Financial Services Regulatory Relief Act of 2006, amending the GLB Act to require the agencies, including NCUA, to propose a model form that is succinct and comprehensible to consumers, allows consumers easily to compare privacy notices of financial institutions, and uses easily readable type font.

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-06-08 – October 16, 2006

NCUA'S RISK-FOCUSED EXAMINATION PROCESS FOR FEDERAL CREDIT UNIONS

The NCUA commits the majority of its resources promoting a system of financially sound, well managed, federally insured credit unions. A key element in this process was the change in 2001 to risk-focused examinations (RFE) for federal credit unions. The objective of the RFE process is to enable NCUA to identify and address risks before they become major problems. Due to the importance and emphasis by NCUA on the examination and supervision function, we identified the RFE process for review. Our review objective was to determine whether NCUA has a process in place to provide assurance that high risk areas are identified and addressed throughout the RFE process.

Overall, we found that the RFE process appears adequate. Regional staff are preparing the examination forms and documentation in accordance with agency guidance with few exceptions. Agency guidance indicates Documents of Resolution (DOR) are normally prepared to correct unacceptable risk situations, and not to address minor issues. CAMEL 1 credit unions are normally those credit unions with only minor weaknesses that can be handled in a routine manner by the board of directors and management. However, we found DOR were issued for 12 of the 36 CAMEL 1 sample examinations we reviewed. We found examination

scheduling is usually performed in accordance with agency guidance. Scheduling for the risk-focused examinations we reviewed coincided with agency guidance in 83 of the 90 exams in our sample.

Part of regional monitoring and quality control for the RFE involves the preparation of formal Quality Control Reviews (QCR) by regional supervision analysts in specific instances to ensure standards are met by the examiner. Also, periodic formal evaluations of specific examinations are prepared by supervisory examiners for examiner staff development. We found that 94 percent of the required QCR were completed. After our discussion with region management, plans were initiated to ensure all future QCR are performed in a timely manner. We found that formal supervisory examiner evaluations were being prepared in accordance with agency guidance.

Our report includes one recommendation to NCUA to clarify guidance regarding the assignment of CAMEL composite ratings in relation to the development of DOR for Federal Credit Unions rated CAMEL 1. Management agreed with our recommendation and is in the process of taking corrective action.

OIG-06-09 – December 18, 2006

OFFICE OF FOREIGN ASSET CONTROL COMPLIANCE REVIEW

The United States Congress has shown an interest in the status of financial institutions' compliance with the Department of the Treasury's Office of Foreign Asset Control (OFAC) administered laws and regulations. Therefore, the NCUA OIG initiated a review to determine whether NCUA provides effective supervision over federally chartered credit unions' compliance with OFAC requirements.

We reviewed OFAC program requirements as well as NCUA policies, procedures and guidance related to the examination and supervision of credit unions' compliance with those requirements. In addition, we reviewed the Federal Financial Institutions Examination Council (FFIEC) Bank Secrecy Act/Anti-Money Laundering Examination Manual (BSA/AML Manual) as it relates to OFAC requirements. Finally, we reviewed reports of examination and related examination workpapers for a random judgmentally selected sample of 12 federally chartered credit unions.

Our efforts to evaluate and verify the examiners' conclusions were hampered by the lack of documentation. We were unable to determine conclusively whether NCUA was effectively supervising federal credit unions' compliance with OFAC regulations. Under the NCUA Risk Focused Examination program, OFAC compliance is not required to be reviewed at each examination and NCUA examination workpapers are exception based. If an examiner concludes that an institution is OFAC compliant, there is no requirement that the examiner maintain copies of documentation to support that conclusion. We believe, however, that this policy makes it difficult to assess the adequacy of examinations and creates inconsistency in how program results are documented.

Eleven of twelve credit unions in our sample were reviewed by NCUA examiners for OFAC compliance. However, there was a lack of supporting documentation for some OFAC examination procedures performed, and only six of the twelve examinations made use of the NCUA OFAC checklist.

NCUA has issued guidance to both credit unions and examiners which address the requirements for an OFAC compliance program and supervision of that program,

respectively. However, in both instances we found the guidance too general, especially with regard to guidelines for examiner review of credit union compliance programs.

The OIG has made two recommendations that should result in an improved OFAC compliance examination program. The Office of Examination and Insurance agreed with both recommendations and is in the process of taking corrective action to address these two recommendations.

OIG-07-01 – February 7, 2007

REVIEW OF NCUA'S COMPLIANCE WITH OMB M-06-16 PROTECTION OF SENSITIVE AGENCY INFORMATION

The NCUA OIG performed a limited scope review assessing the NCUA's actions to ensure that personally identifiable information (PII) and sensitive information is safeguarded, in accordance with the Office of Management and Budget (OMB) Memorandum M-06-16, *"Protection of Sensitive Agency Information."*

To determine compliance with OMB M-06-16, we interviewed key agency officials responsible for privacy protection, reviewed applicable policies and procedures related to privacy, inquired about outstanding issues identified during the 2006 Federal Information Security Management Act (FISMA) audit, and compared encryption products used at NCUA with the National Institute of Standards and Technology's (NIST) Federal Information Processing Standards 140-2 validated product list. We performed limited tests on control procedures identified during this review.

As a result of this review, the OIG determined that NCUA needs to strengthen its privacy program to ensure that PII and sensitive data are appropriately protected. Most importantly, NCUA needs to ensure that member financial and personal

data is protected from potential unauthorized access. Although we identified several weaknesses in the actions NCUA has taken to protect PII and sensitive information, we determined that NCUA is making progress to strengthen its policies and procedures for protecting both. The OIG has made eleven recommendations and management has already taken action on several of those recommendations and has planned corrective action to address the remaining recommendations.

OIG-07-02, 03, 04, & 05 – March 12, 2007

NCUA FINANCIAL STATEMENTS DATED FEBRUARY 12, 2007

Our contracting audit firm, Deloitte & Touche LLP, issued opinions on the 2006 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 Fund. The auditors found that the financial statements presented fairly the financial position of the agency's funds as of December 31, 2006. The firm issued its opinions on February 12, 2007.

THE NCUA OPERATING FUND (OIG-07-02) 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 funds total assets for 2006 were \$63.5 million, down from \$64.1 million in 2005.

THE NATIONAL CREDIT UNION SHARE INSURANCE FUND (OIG-07-03) 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. The auditors issued an **unqualified opinion** on the Share

Insurance Fund's financial statements. The Fund's total assets for 2006 were \$7.1 billion, up from \$6.7 billion in 2005.

THE CENTRAL LIQUIDITY FACILITY (OIG-07-04) 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 Central Liquidity Facility's (CLF) financial statements. The CLF's total assets for 2006 were \$1.6 billion, up from \$1.5 billion in 2005.

THE COMMUNITY DEVELOPMENT REVOLVING LOAN FUND'S (OIG-07-05) 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 Fund's financial statements. The Community Development Revolving Loan Fund's total assets for 2006 were \$16.1 million, down from \$16.5 million in 2005.

The financial auditors did not find any matters considered to be *material* weaknesses in their review of the Funds' internal control structures pertinent to financial reporting. However, during the performance of the audit, several observations and recommendations were presented relating to internal control over financial reporting, and certain other accounting, administrative, and operating matters.

AUDITS IN PROGRESS

REAL ESTATE LENDING REVIEW

During the first nine months ending September 30, 2006, federally insured credit union assets increased 3.28 percent to

\$700.9 billion from \$678.7 billion, with loans increasing 6.47 percent to \$487.9 billion from \$458.2 billion. Lending grew across the board with the exception of loan leases. The credit unions reported 1st mortgage real estate loans expanded 8.20 percent and other types of real estate loans grew 13.13 percent. Combined, first mortgage and other types of real estate loans grew 9.86 percent through the third quarter of 2006. Real estate guidance is available to examiners in NCUA issuances such as Supervisory Letter 05-02, and the examiner guide.

We are conducting a survey of real estate lending to determine the significance of real estate lending in the credit union system and the risks that real estate lending poses to the share insurance fund and what NCUA is doing to mitigate these risks? We initiated a survey of this area in January 2007.

TRACKING IDENTIFIED DOCUMENTS OF RESOLUTION (DOR) REVIEW

This audit is a follow on review to the Risk Focused Exams – Internal Control Review (OIG-06-08 October 18, 2006). DOR's are issued to correct deficiencies identified during examinations of credit unions. There are approximately 5,200 Federal Credit Unions. Low risk credit unions as identified by CAMEL ratings 1 and 2 represented ninety-five percent of the insured shares and seventy-seven percent of the number of credit unions. High risk credit unions as identified by CAMEL ratings 3, 4, and 5 represented five percent of the insured shares and twenty-three percent of the number of credit unions.

Based on work we conducted on the Risk Focused Exam review we wanted to determine if NCUA has a process in place to track deficiencies identified during exams. In

addition we will determine what is the process for follow-up on the identified deficiencies and is follow-up and resolution of problems completed in a timely manner. We initiated a survey of this area in late January 2007.

ENCRYPTION REVIEW

Following numerous incidents involving the compromise or loss of sensitive personal information, OMB issued memorandum M-06-16 requiring agencies to take specific actions to protect personally identifiable information. In 2006, the NCUA OIG completed fieldwork and subsequently issued a report regarding NCUA's compliance with M-06-16 (OIG-07-01). During this limited scope review and the 2006 FISMA audit, the OIG identified several weaknesses regarding the use of encryption at NCUA.

In this follow-up review we will determine if NCUA is adequately protecting sensitive electronic data. Specifically, we will be reviewing examiner notebooks, USB drives, and other media to determine if sensitive credit union member data obtained during examinations are stored in an encrypted format. We initiated a follow-up review of this area in February 2007.

SIGNIFICANT AUDIT RECOMMENDATIONS ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

As of March 31, 2007, 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 188 consumer complaints to regional offices. Also during this reporting period, we referred one allegation to agency management for action.

In our last three semiannual 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 semiannual report we reported that the number of complaints to our office had increased from approximately 400 to approximately 1100. During this reporting period, however, there has been a significant drop in complaints. In the past six months, our office handled approximately 191 reports or inquiries regarding suspected Phishing attempts, 108 of which required a response from us.

INVESTIGATIONS

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

MISUSE OF GOVERNMENT ISSUED CREDIT CARD

The OIG received a referral from an NCUA Regional Office of allegations that an employee had been misusing her Government issued credit card. This employee had previously been the subject of an OIG investigation for the same offense. The previous investigation determined that the employee had repeatedly misused her credit card for personal purchases and in that case the agency imposed a three day

suspension. In this investigation, the OIG again determined that the employee had repeatedly misused her credit card. As of the date of this report, the agency is considering appropriate action.

CRIMINAL COMPUTER FRAUD

During the last reporting period, we reported on a case involving allegations 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 was prosecuted by the United States Attorney's Office, Eastern District of Virginia. The former employee pleaded guilty and in February 2007, was sentenced to two years supervised probation; a \$4,000 fine; 50 hours of community service; and an assignment to write an essay on his crime.

Two other investigations resulting from this case were closed to the file for lack of evidence.

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 18 items, including proposed and final legislation and regulations, and internal NCUA issuances. The OIG submitted comments on one agency Procedure.

SUMMARY OF STATUTES AND REGULATIONS REVIEWED	
Legislation/E.O.	Title
H.R. 1537	"Credit Union Regulatory Improvements Act"
H.R. 928	"The Improving Government Accountability Act"
S. 680	"Accountability in Government Contracting Act of 2007"
H.R. 1309	"Open Government: Reinvigorating the Freedom of Information Act"
H.R. 985	"The Whistleblower Protection Enhancement Act of 2007"
H.R. 789	"Government Credit Card Abuse Prevention Act of 2007"
H.R. 1300	"The Program for Real Energy Security Act"

Regulations/Rulings	Title
12 CFR Parts 745 and 747	Final Rule: "Share Insurance Appeals; Clarification of Enforcement Authority " Of the NCUA Board"
12 CFR Part 701	Interim Final Rule: "General Lending Maturity Limit and Other Financial Services"
12 CFR part 708a	Final Rule: "Conversion of Insured Credit Unions to Mutual Savings Banks"
12 CFR Part 703	Final Rule: "Permissible Investments for Federal Credit Unions"
12 CFR part 740	Final Rule: "Accuracy of Advertising and Notice of Insured Status"
12 CFR Part 748	Final Rule: "Filing Requirements for Suspicious Activity Reports"
12 CFR Parts 748 and 749	Proposed Rule: "Records Preservation Program"
12 CFR Part 716	Interagency Proposal for Model Privacy Form under the Gramm-Leach-Bliley Act"
	Interagency Statement on Subprime Mortgage Lending
Agency Issuances	Title
	"Executive Resources Board (ERB) Operating Procedures"
	"NCUA Continuity of Operations Plan"

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 OCTOBER 1, 2006 THROUGH MARCH 31, 2007		
PART I – AUDIT REPORTS ISSUED		
Report Number	Title	Date Issued
OIG-06-08	NCUA's Risk Focused Examination Process for Federal Credit Unions	10/16/2006
OIG-06-09	Office of Foreign Asset Control Compliance Review	12/18/2006
OIG-07-01	Review of NCUA's Compliance with OMB M-06-16 Protection of Sensitive Agency Information	2/7/2007
OIG-07-02	NCUA Financial Statement Audit: The NCUA Operating Fund	3/12/2007
OIG-07-03	NCUA Financial Statement Audit: The National Credit Union Share Insurance Fund	3/12/2007
OIG-07-04	NCUA Financial Statement Audit: The Central Liquidity Facility	3/12/2007
OIG-07-05	NCUA Financial Statement Audit: The Community Development Revolving Loan Fund	3/12/2007
PART II – AUDITS IN PROGRESS (as of March 31, 2007)		
	Real Estate Lending Review	
	Tracking Identified Documents of Resolution Review	
	Encryption Review	

INDEX OF REPORTING REQUIREMENTS

SECTION	DATA REQUIRED	PAGE REF
4(a)(2)	Review of Legislation and Regulations	26
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.	22
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.	30
5(a)(7)	Summary of Particularly Significant Reports.	15
5(a)(8)	Statistical Tables on Audit Reports With Questioned Costs.	28
5(a)(9)	Statistical Tables on Audit Reports With Recommendations That Funds Be Put To Better Use.	29
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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