

NCUA



SEMIANNUAL REPORT TO THE CONGRESS

OFFICE OF THE INSPECTOR GENERAL
April 1—September 30, 2007



National Credit Union Administration

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

This reporting period saw important and prolific audit activity in the Office of Inspector General (OIG), as the audit staff conducted reviews in the following areas: (1) a review to determine if significant real estate lending risks exist in federally chartered credit unions which should lead to an audit engagement; (2) a review to determine whether NCUA examiners are preparing Documents of Resolution (DOR) to reduce areas of unacceptable risk and, subsequently, ensuring that credit unions are progressing in their efforts to address and correct deficiencies noted in the DOR; and (3) a review to determine whether NCUA is accurately maintaining and storing Official Personnel Folders (OPF), and to evaluate the agency's ability to migrate to an electronic OPF system.

Given the ongoing problems in the sub-prime mortgage market, the OIG's inquiry into the extent of real estate lending risks at federally chartered credit unions, and whether the agency was mitigating those actual or potential risks, was timely. As a result of the review, the OIG recommended, among other things, that NCUA management review the current tracking and reporting of sub-prime mortgages and determine if these mortgages should be specifically reported on the credit union quarterly report.

As part of our oversight function and our commitment to ensure that the agency operates effectively, we premised the decision to conduct the DOR review on NCUA's stated mission: "To facilitate the availability of credit union services to all eligible consumers, especially those of modest means, through a regulatory environment that fosters a safe and sound credit union system." The DOR review concluded that NCUA has a process in place for examiners to effectively identify deficiencies in the DOR and, subsequently, to track credit unions' efforts to resolve identified deficiencies in a timely manner.

The OIG conducted the OPF review as part of our continuing mandate to help promote information and systems security at NCUA. We intend to report fully in the next reporting period on the final report to management and the agency's response to our recommendations.

More than ever, the OIG is dedicated to accomplishing its mission of conducting independent audits, investigations, and reviews to help the NCUA accomplish its mission; improve its effectiveness; and prevent and detect fraud, waste, and abuse. We look forward to working together successfully with the agency, now and in the future, to achieve our strategic mission and goals.

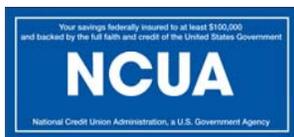
A handwritten signature in black ink that reads "William A. DeSarno".

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

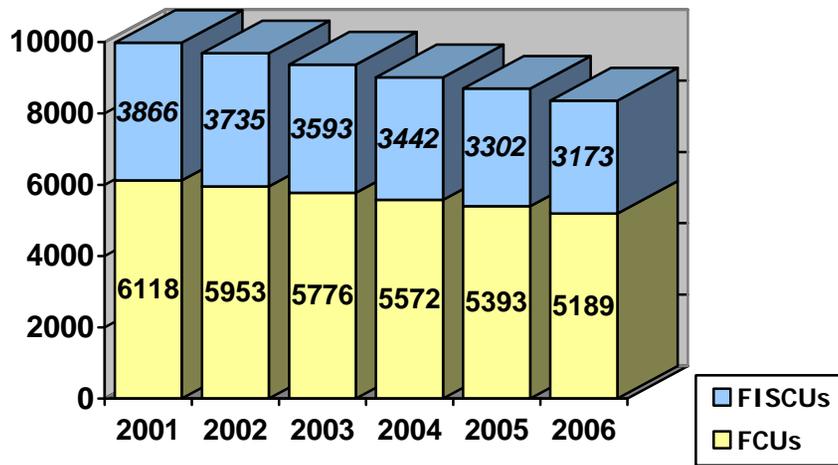
The National Credit Union Administration (NCUA) was established as an independent, federal regulatory agency on March 10, 1970. The agency is responsible for chartering, examining, supervising, and insuring federal credit unions. It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. The NCUA is funded by the credit unions it supervises and insures. As of June 30, 2007, the NCUA was supervising and insuring 5,118 federal credit unions and insuring 3,120 state-chartered credit unions, a total of 8,238 institutions. This represents a decline of 71 federal and 53 state-chartered institutions since December 31, 2006, for a total decline of 124 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.

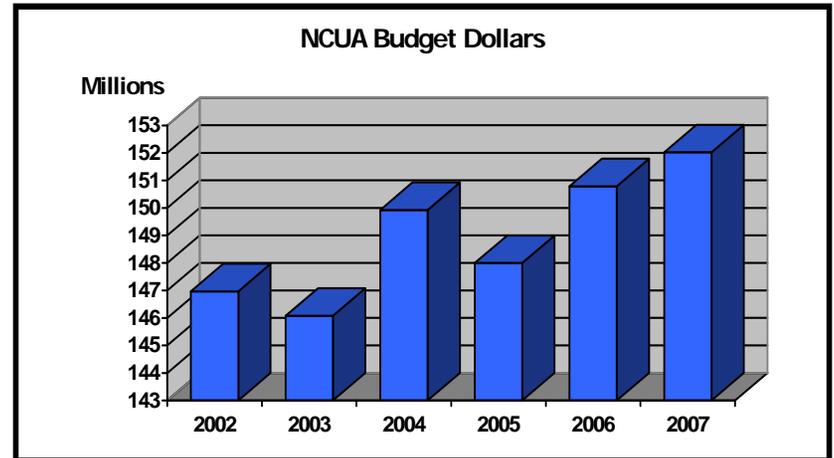
The NCUA executes its program through its central office in Alexandria, Virginia and regional offices in Albany, New York; Alexandria, Virginia; Atlanta, Georgia; Austin, Texas; and Tempe, Arizona. The NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer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

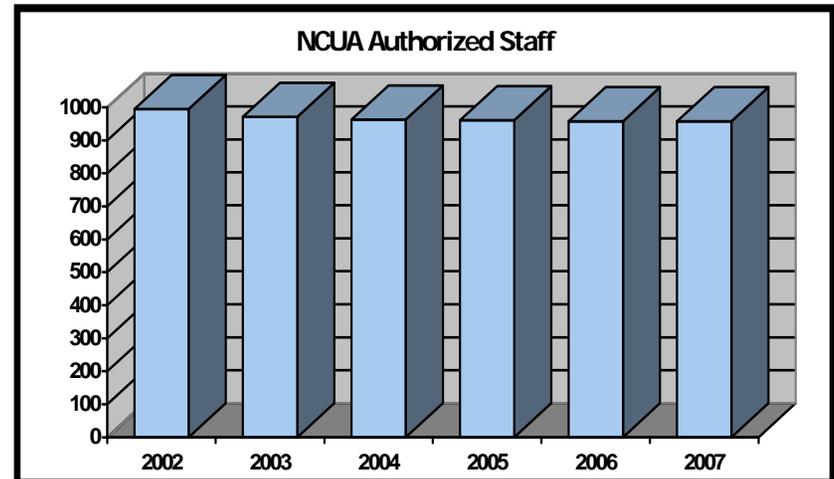
Federally Insured Credit Unions



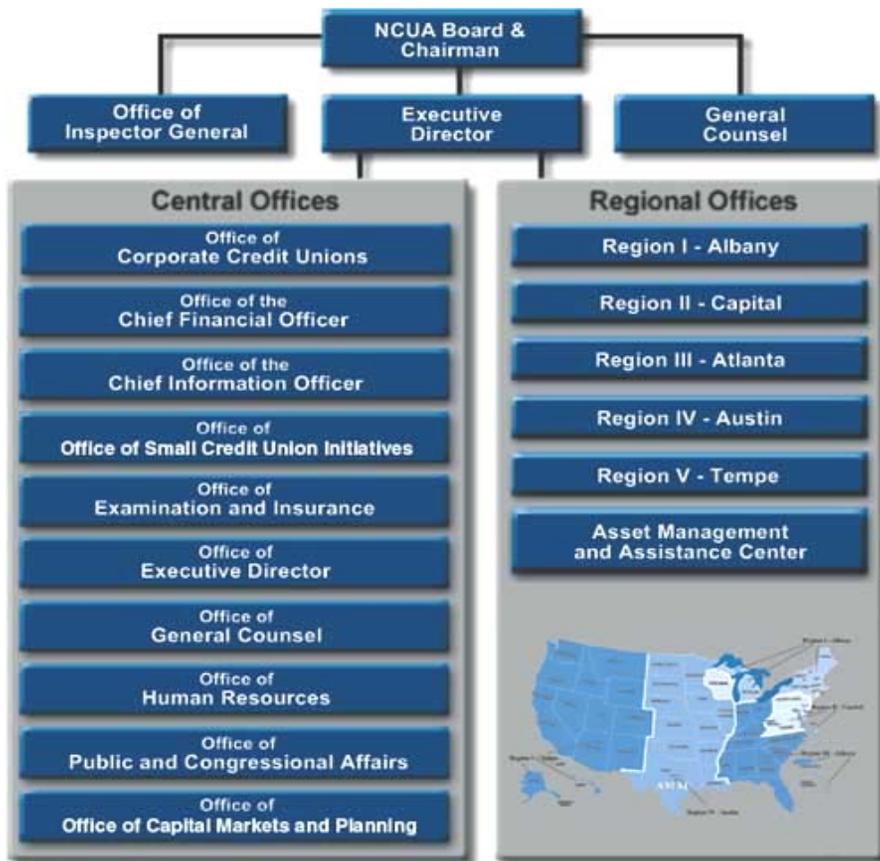
NCUA Budget Dollars



NCUA Authorized Staff



NCUA ORGANIZATIONAL CHART



NCUA HIGHLIGHTS

NCUA DISCUSSING MATRIX ELIMINATION

NCUA is working with the National Association of State Credit Union Supervisors (NASCUS) and reaching out to various credit union industry trade groups to discuss possible elimination of the CAMEL Matrix. CAMEL will continue to be NCUA's internal rating system. NCUA is confining its review to the Matrix, an optional examiner tool in use since 1995. The Matrix consists of static ratio benchmarks. CAMEL is not an arithmetic score or a comparison to other credit unions of similar asset sizes. An examiner's overall assessment of the credit union is based on numerous factors. As NCUA stated in Letter to Credit Unions Number 03-CU-04, "CAMEL is not intended to be used as a report card but as an internal tool to measure risk and allocate resources for supervision purposes."

NCUA SEEKS DISMISSAL OF CONVERSION RULES LAWSUIT

On September 7, 2007, NCUA filed a motion with the U.S. District Court for the Eastern District of Virginia, to dismiss a suit challenging credit union conversion rules promulgated by NCUA. The organization that filed the original lawsuit, the Coalition for Credit Union Charter Options, claims in its complaint that it seeks to preserve charter choice for credit unions. NCUA's motion argues that the Coalition lacks standing to bring its suit against NCUA regulations that oversee credit union to bank charter conversions. A hearing

on NCUA's motion is tentatively scheduled for October 19, 2007.

FFIEC RELEASES REVISED BANK SECRECY/ANTI-MONEY LAUNDERING EXAMINATION MANUAL

On August 24, 2007, the Federal Financial Institutions Examination Council (FFIEC) released a revised Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual. The revised manual reflects the ongoing commitment of the federal and state banking agencies and the Financial Crimes Enforcement Network (FinCEN) to provide current and consistent guidance on risk-based policies, procedures, and processes for banking organizations to comply with the BSA and safeguard operations from money laundering and terrorist financing. The 2007 version further clarifies supervisory expectations since the July 28, 2006, update. The NCUA worked with the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Conference of State Bank Supervisors to revise the manual in collaboration with FinCEN, the administrator of the BSA. The Office of Foreign Assets Control (OFAC) collaborated on the revisions made to the section that addresses compliance with regulations enforced by OFAC.

NCUA JOINS FEDERAL FINANCIAL REGULATORS IN PROPOSING ILLUSTRATIONS OF CONSUMER INFORMATION TO SUPPORT STATEMENT ON SUBPRIME MORTGAGE LENDING

The Federal financial regulatory agencies, including NCUA, issued on August 14, 2007, proposed illustrations of consumer information for certain adjustable-rate mortgage

(ARM) products described in the agencies' Statement on Subprime Mortgage Lending (Subprime Statement), effective July 10, 2007. The Subprime Statement recommends communications that ensure consumers have clear, balanced, and timely information about the relative benefits and risks of certain ARM products. The illustrations are intended to assist institutions in providing this information. The illustrations consist of (1) an explanation of some key features and risks that the Subprime Statement identifies, including payment shock; and (2) a chart that shows the potential consequences of payment shock in a concrete, readily understandable manner. The agencies are seeking public comment on all aspects of the proposed illustrations.

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, 2007, 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, 2007 quarterly statistics for major balance sheet items and key ratios shows the following for the nation's 8,238 federally insured credit unions: assets grew 8.65 percent; net worth to assets ratio decreased from 11.54 to 11.40 percent; the loan to share ratio decreased from 82.23 percent to 80.34 percent; the delinquency ratio increased from .68 to .69 percent; and credit union return on average assets decreased from .82 percent to .75 percent.

SAVINGS SHIFTING TO CERTIFICATES OF DEPOSIT

Total insured share accounts increased 9.68 percent. Share certificates increased 7.08%. Regular shares comprise 29.3 percent of total share accounts; share certificates comprise 32.1 percent; money market shares comprise 17.1 percent; and share draft accounts comprise 11.4 percent; and all other share accounts comprise 10.1 percent.

LOANS AND INVESTMENTS INCREASED

Loan growth of 4.86 percent resulted in an increase in total loans by \$12 billion. Total net loans of \$503 billion comprise 69 percent of credit union assets. Real estate loans increased 9.18 percent. First mortgage real estate loans are the largest single asset category with \$168.9 billion accounting for 34 percent of all loans. Other real estate loans of \$86.4 billion account for 17% of all loans. Used car loans of \$88.3 billion were 17% of all loans, while new car loans amounted to \$87.7 billion or 17% of total loans. Credit card loans totaled \$28.9 billion or 5% of total loans and other loans totaled \$47.2 billion for 10% of total loans. Total investments increased 20.16 percent to \$141.9 billion. Investments with maturities less than one year comprise 60.1 percent of total investments.

LEGISLATIVE HIGHLIGHTS

REPRESENTATIVE FRANK ADVOCATES IMPOSING CRA RULES ON CREDIT UNIONS

House Financial Services Chairman Barney Frank, D-Mass., recently told credit union representatives that he would like to extend Community Reinvestment Act (CRA) requirements to credit unions and other financial companies. On September 11, 2007, Rep. Frank spoke before the National Association of Federal Credit Unions (NAFCU), stating that he hopes to hold hearings on the issue next year but said he believes most credit unions would pass any new requirements with flying colors. Rep. Frank said further that most credit unions already invest in their communities and would just have to “demonstrate or document” it.

FRANK OPTIMISTIC THAT CURIA WILL CLEAR BOTH HOUSE AND SENATE

At the same NAFCU caucus, Rep. Frank also vowed to move forward with H.R. 1537, the Credit Union Regulatory Improvements Act (CURIA). Rep. Frank confirmed that he is optimistic that major provisions of CURIA could clear both the House and Senate, but that not all of the bill is likely to do so. Among other things, CURIA would raise the cap on business lending to 20% of a credit unions’ assets, from 12.25%. It would also let any credit union, regardless of charter type, add underserved areas to its field of membership, increase

lending investment limits, and ease restrictions on mergers and conversions.

SUBPRIME MORTGAGE MARKET PRIORITY ISSUE FOR FINANCIAL SERVICES PANELS

When Congress returned to session on September 4, 2007, House and Senate panels on financial institutions turned their attention back to the subprime mortgage market. On September 5, 2007, Senate Banking Committee Chairman Christopher Dodd (D-Conn.) introduced legislation to curb subprime lending abuses. The bill, in part, would clarify mortgage brokers’ fiduciary duty to borrowers and would expand the protection for those who assume a high-cost loan under the 1994 Home Ownership and Equity Protection Act (HOEPA). On the same day, his counterpart in the House, Financial Services Chairman Barney Frank (D-Mass.), said he expects soon to introduce his legislation to address both the subprime mortgage crisis and predatory lending issues.

NCUA TESTIFIES ON MORTGAGE LENDING CONSUMER PROTECTION LAWS

On July 25, 2007, NCUA Director of Examination and Insurance, David M. Marquis, testified before the House Financial Services Subcommittee on Oversight and Investigations on oversight of consumer laws pertaining to mortgage lending. Mr. Marquis stressed the priority NCUA places on ensuring that credit unions comply with all nondiscrimination laws and work to protect consumers against discriminatory or unfair home mortgage lending practices. NCUA enforces fair lending laws using a comprehensive examination process and Home Mortgage Disclosure Data (HMDA). Further, by reviewing member complaints, NCUA is able to evaluate each credit union’s

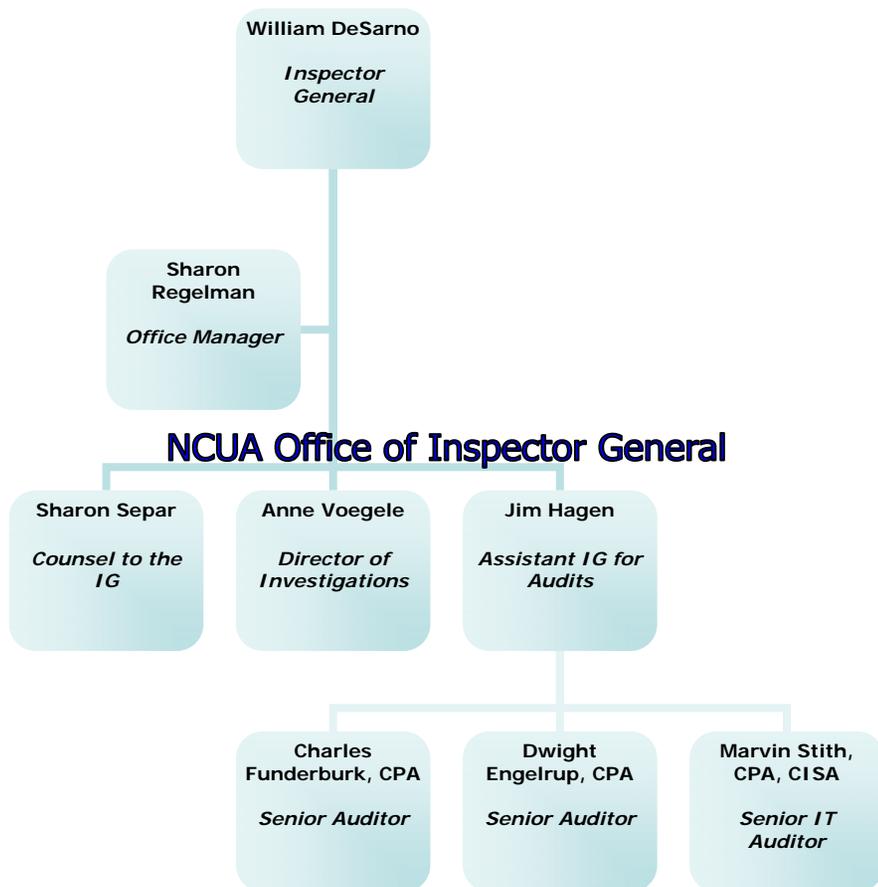
compliance and gain a more complete picture of how a credit union makes mortgage loans. NCUA continues to refine its methods to oversee fair lending law compliance. Moreover, Mr. Marquis testified, NCUA works to ensure that more sophisticated training results in a more complete understanding of lending patterns in specific geographic areas as well as heightened awareness of how to detect patterns of discrimination.

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-07-06 – July 10, 2007

NCUA’S RISK-FOCUSED EXAMINATIONS TRACKING IDENTIFIED DOCUMENTS OF RESOLUTION

This survey report follows-up on our prior Risk Focus Exam (RFE) review. Specifically, we evaluated the process in place to identify, track and correct deficiencies identified by examiners in Documents of Resolution (DOR) during supervision and examination contacts at Federal credit unions (FCUs).

We reviewed a judgmental sample of 25 FCUs, five credit unions from each of the five NCUA regions that had at least one outstanding (open) DOR. We concluded that for the 25 DORs we sampled, NCUA examiners were monitoring in a timely manner the progress of the FCUs to address and resolve the deficiencies noted in the DOR. We based our conclusion upon reviews of examiner work papers and NCUA monitoring reports.

We also reviewed a second judgmental sample of 25 FCUs, five credit unions from each of the five NCUA regions with at least one closed or resolved DOR. Based on this sample, we found that in 23 of the 25 instances, FCUs closed the DOR in accordance with the DOR resolution date. In one case, the DOR was no longer applicable and, one DOR was not closed in accordance with the resolution date. The number of months between

problem identification and closure of the DOR was approximately ten months. We based our conclusion upon reviews of examiner work papers and NCUA monitoring reports.

The NCUA Office of Examination and Insurance (E&I) informed us that the agency had developed and implemented a national tool for monitoring contact and DOR information called the AIRES Exam Management Console – Online. Additionally, E & I was in the process of developing, testing, and implementing five on-line DOR monitoring reports that will work outside of the AIRES system.

Based on information we received about agency work in progress for supervision contacts and DOR monitoring, and the results of our review to date, the OIG does not have recommendations to the agency for improvement at this time. We may revisit this area in the future to assess the additional controls being implemented by the new on-line management tools.

OIG-07-07 – September 5, 2007

REAL ESTATE LENDING

As of December 31, 2006, federally chartered credit unions held approximately \$131 billion in real estate loans. In addition, within the past year the U.S. Congress has shown an interest in regulatory practices with regard to sub-prime mortgage lending, particularly with certain types of adjustable rate mortgages.

The Office of Inspector General conducted an audit survey to determine if there were any real estate lending risks in federally chartered credit unions which could lead to an

audit engagement. Initially, we attempted to review the area of sub-prime mortgages. However, we determined that NCUA does not collect data on sub-prime mortgage loans via the credit union quarterly call reports. Currently, these loans are captured for reporting purposes within a much larger group of mortgage loans that include adjustable rate mortgages as well as balloon/hybrid loans. Consequently, it was not possible to specifically identify sub-prime mortgage loans.

The Office of Inspector General determined through this survey that an audit of credit union real estate lending is not warranted at this time primarily because, as explained above, NCUA does not collect data on sub-prime mortgages. Furthermore, our sample review of credit unions with high real estate loans to total loan ratios indicated that such credit unions pose no greater overall risk than all federally chartered credit unions viewed as a whole. In reaching this conclusion, we conducted a survey the objectives of which were to:

1. Determine the significance of real estate lending in the credit union industry;
2. Identify potential real estate lending risks in the credit union industry; and
3. Determine what NCUA is doing to mitigate identified potential real estate lending risks.

Real estate lending is a significant program of federally chartered credit unions. A significant percentage (34%) of federally chartered credit unions has real estate lending programs. Real estate loans comprise 49% of total loans in federally chartered credit unions and 34% of total assets. Approximately 20% of federal credit unions have 25% or more real estate loans to assets and over 4% have 50% or more real estate loans to assets.

Real estate lending potentially impacts all seven risk component areas NCUA has identified in its Examiners Guide:

- Credit risk due to loan underwriting quality and products offered;
- Interest rate risk due to mortgage mismatches with the types of funding and rising interest rates;
- Liquidity risk that can occur with high loan to share ratios and holding of loans;
- Compliance risk with regard to real estate consumer compliance regulations;
- Transaction risk due to the complexity of real estate transactions and products;
- Strategic risk due to the complexity and foresight in planning; and
- Reputation risk whereby a credit union may be impacted by all of the above risks.

NCUA appears to be identifying and addressing most potential real estate lending risks. This is evidenced through the agency's issuance of extensive guidance for examiners and credit unions, identification of risk trends in quarterly reports, and statistical data analysis. However, we identified the following areas where potential risk may be elevated due to current practices:

- A lack of examination documentation¹ in support of examiner loan reviews and consumer compliance reviews;

¹ It is not NCUA policy for examiners to detail work performed during an examination as long as no problems were found by the examiner. Consequently, while we could not identify all of the examination procedures performed, we did find that examiners were following established procedures.

- A lack of credit union management planning and oversight in such areas as business plans, asset liability management, and budgeted/planned parameters directly related to real estate lending.

OIG-07-08 – September 12, 2007

INDEPENDENT EVALUATION OF THE NATIONAL CREDIT UNION ADMINISTRATION INFORMATION SECURITY PROGRAM 2007

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 June 29, 2007, to discuss evaluation results.

The NCUA made noticeable progress in strengthening its Information Technology (IT) security program during Fiscal Year (FY) 2007. Notable accomplishments include:

- Completion of Certification and Accreditation packages for all of its FISMA systems, and
- Implementation of additional encryption protection for data on examiner laptops.

While NCUA has made commendable progress in addressing deficiencies reported last year, management could still improve IT security controls in the following areas:

- NCUA needs a better document management program.
- NCUA has not implemented continuing education requirements for its Information Technology employees.
- Employee enter/exit/change procedures do not ensure timely removal of terminated employees' access to NCUA systems.
- E-Authentication risk assessments for its systems need to be completed.
- A formal agency wide security configuration guide should be developed.
- Incident response procedures should be followed.
- Personnel security awareness training needs to be completed in FY 2007.
- NCUA's Plan of Actions and Milestones (POA&M) process needs improvement.
- Security controls testing for all of NCUA's FISMA systems needs to be completed.
- Segregation of duties should be maintained or compensating controls established.
- NCUA vulnerability management needs improvement.

OIG-07-09 – September 12, 2007

**OIG REPORT TO OMB ON THE NATIONAL CREDIT UNION
ADMINISTRATION SECURITY PROGRAM 2007**

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 12, 2007, the OIG issued a report containing an Independent Evaluation of the NCUA's Information Security Program - 2007. The content of the independent evaluation report supports the conclusions presented in this report.
- On February 12, 2007, the OIG issued the Financial Statement Audit Report for the year ended December 31, 2006. 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.

AUDITS IN PROGRESS

OFFICIAL PERSONNEL FOLDERS

Official Personnel Folders (OPFs) contain records that document an individual employee's Federal government employment history. The OPF follows an employee throughout his or her Federal career. The OPFs maintained in many federal agencies, including the National Credit Union Administration (NCUA), are hardcopy (paper) versions. In recent years, Congressional hearings have looked at OPF maintenance and the feasibility of agencies' converting from the current paper OPF system to an electronic system. Some federal agencies have already converted and many others are in the process of doing so. Agencies converting from paper to electronic OPFs can reduce paperwork, storage space, and staff hours to maintain the files. In addition, electronic OPFs may improve the accuracy of files, and provide better access to employees requesting to review their own records.

Due to the importance of OPFs, the current Federal emphasis on protecting Personally Identifiable Information (PII), and the attention to this issue by the Office of Management and Budget (OMB), as part of the President's Management Agenda, the Office of Inspector General (OIG) added this survey review to its 2007 Annual Performance Plan. Our objectives were to determine whether NCUA is accurately maintaining and storing OPFs, and to evaluate the agency's ability to migrate to an electronic OPF system. We issued a draft report for comment in September 2007.

REVIEW OF THE OFFICE OF SMALL CREDIT UNION INITIATIVES

The Office of Small Credit Union Initiatives' (OSCUI) mission is to assist in the agency's risk mitigation program and foster credit union development, particularly in the expansion of services provided by small credit unions to all eligible consumers. Individualized assistance is provided for credit union management and staff that will expand services for consumers (strategic assistance) and enhance credit union operations (operational assistance). As part of this assistance, the Community Development Revolving Loan Fund (the "Fund") was established by Congress in 1979, to bring basic financial services to communities; increase economic activities in communities; and aid in the efficient operations of credit unions. The Fund's technical assistance grant and loan programs are administered by OSCUI.

Since inception of the Fund, Congress has appropriated \$13.7 million to the Fund for loans and \$3 million to the fund for grants. In 2007, Congress appropriated \$940,500 to the Fund to be used for grants. The OIG has not reviewed this operation at NCUA in the past and initiated a survey in September 2007, to obtain an understanding of the Office of Small Credit Union Initiatives. Specifically, we will determine (1) How are grant and loan funds awarded? (2) Are grants awarded competitively? and (3) What grant and loan contingencies exist and are they being met?

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 July 2007.

SIGNIFICANT AUDIT RECOMMENDATIONS ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

As of September 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 152 consumer complaints to regional offices. Also during this reporting period, we referred one allegation back to agency management for action.

INVESTIGATIONS

During the last reporting period the Office of Investigations initiated five new matters and closed four.

MISUSE OF GOVERNMENT ISSUED CREDIT CARD

During the last reporting period, we reported 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. During this reporting period, the employee was suspended for 20 days.

FALSE STATEMENTS

During this reporting period, the OIG received an allegation that an NCUA employee may have made false statements and

false representations on his NCUA employment application. The OIG investigated and found the allegations to be unsubstantiated.

ABUSE OF AUTHORITY

The OIG received an allegation that an NCUA senior official had abused his authority and shown preferential treatment. The OIG conducted an initial review during which some of the allegations were disproved and others were unsubstantiated. During the review, the complainant withdrew the allegations and the matter was closed to the file.

SEXUAL HARASSMENT

The OIG received an allegation that an NCUA Examiner sexually harassed several women. This investigation is ongoing.

ABUSE OF FAIR DEBT COLLECTION ACT

The OIG received numerous allegations from a former NCUA Examiner claiming that the agency had falsely denied him leave and had failed to advise him that he owed the agency money after he retired. The former Examiner further alleged that this resulted in damage to his credit report and was seeking recompense. The OIG reviewed the matter and found the allegations to be without merit.

OFFICE OF SPECIAL COUNSEL REQUEST

The OSC referred to the OIG a whistleblower allegation concerning the agency's policies and practices related to documenting and compensating employee hours of work. This matter is ongoing.

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 14 items, including proposed and final legislation and regulations, and comments to proposed regulations. The OIG also responded to three Freedom of Information Act requests.

	Joint Interagency Proposed Guidance on Garnishment Federal Benefit Payments
	Proposed Illustrations of Consumer Information for Subprime Mortgage Lending
12 CFR Parts 703 and 704	Proposed Rule: "Permissible Foreign Currency Investments for Federal Credit Unions and Corporate Credit Unions
12 CFR Part 701	"Purchase, Sale, and Pledge Of Eligible Obligations"-Comments
12 CFR Part 701	"Chartering and Field of Membership for Federal Credit Unions" - Comments
12 CFR Part 701	"Reincorporation of FCU Bylaws Into NCUA Regulations" - Comments
12 CFR Part 701	"Member Inspection of Credit Union Books, Records and Minutes" - Comments
12 CFR Part 708b	"Disclosure of Merger Related Compensation Arrangements" – Comments

SUMMARY OF STATUTES AND REGULATIONS REVIEWED	
Legislation/E.O.	Title
H.R. 928, S. 1783	"The Improving Government Accountability Act"
S. 680	"Accountability in Government Contracting Act of 2007"
H.R. 3268	"Government Accountability Office Act of 2007"

Regulations/Rulings	Title
12 CFR 701.3	Final Rule: "Member Inspection of Credit Union Books, Records and Minutes"
12 CFR Parts 748 and 749	Final Rule: "Catastrophic Act Reporting; Records Preservation Program"
12 CFR Parts 701, 703, 707, 710, 722, 723 and 742	Final Rule: "Technical Corrections"

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 THROUGH SEPTEMBER 30, 2007		
PART I – AUDIT REPORTS ISSUED		
Report Number	Title	Date Issued
OIG-07-06	NCUA's Risk Focused Examinations Tracking Identified Documents of Resolution	07/10/2007
OIG-07-07	Real Estate Lending	09/05/2007
OIG-07-08	Independent Evaluation of the National Credit Union Administration Information Security Program 2007	09/12/2007
OIG-07-09	OIG Report to OMB on the National Credit Union Administration Security Program 2007	09/12/2007
PART II – AUDITS IN PROGRESS <i>(as of September 30, 2007)</i>		
	Official Personnel Folders	
	Review of the Office of Small Credit Union Initiatives	
	Encryption Review	

INDEX OF REPORTING REQUIREMENTS

SECTION	DATA REQUIRED	PAGE REF
4(a)(2)	Review of Legislation and Regulations	29
5(a)(1)	Significant Problems, Abuses, or Deficiencies Relating to the administration of programs and Operations disclosed during the reporting period.	16
5(a)(3)	Recommendations with Respect to Significant Problems, Abuses, or Deficiencies.	16
5(a)(3)	Significant Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed.	25
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.	33
5(a)(7)	Summary of Particularly Significant Reports.	16
5(a)(8)	Statistical Tables on Audit Reports With Questioned Costs.	31
5(a)(9)	Statistical Tables on Audit Reports With Recommendations That Funds Be Put To Better Use.	32
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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