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A MESSAGE FROM THE INSPECTOR GENERAL

On behalf of the Office of Inspector General (OIG) of the National Credit Union Administration (NCUA), I am pleased to present our Semiannual Report to the NCUA Board and the Congress highlighting our accomplishments and ongoing work for the six-month period ending September 30, 2014. Over the past six months, in a post crisis environment with no ongoing material loss reviews, we have conducted audits and investigations to protect against fraud, waste and abuse. The following highlights the work of our audit, investigative and legal divisions, which are discussed in more detail in our report.

On the audit side, we received a request from the United States House of Representatives Committee on Financial Services requesting a review regarding diversity. Our overall objective is to assess NCUA’s personnel operations and other efforts to increase agency diversity, create a workplace free of systemic discrimination, and provide equal opportunities for minorities and women to obtain senior management positions. We plan to provide this review to the House Committee before the end of this year. This review has required us to draw extensively from audit resources, requiring the postponement of other critical and ongoing reviews, including one on interest rate risk. Nevertheless, during the reporting period we completed a lessons learned review and issued a report to help NCUA in the supervision of credit unions moving forward. In that review, we identified lessons learned from NCUA cases where specific corrective actions helped revitalize credit unions exhibiting supervisory concerns. We believe this report will provide NCUA regional offices with uniform approaches to potential actions that are needed to correct identified problems.

On the investigative side, we reported on two cases involving employee misconduct: one involving an examiner, which we reported on and closed, and another involving unprofessional conduct on the part of two senior managers, for which we issued a report that management is currently reviewing. We also opened two new cases, one alleging that a senior manager showed a lack of impartiality in dealings with an outside vendor, and one involving an allegation that an employee had misused her position and was improperly engaging in outside employment.

Throughout most of the reporting period, the legal side of the office was involved extensively in responding to subpoenas and discovery requests in civil litigation related to NCUA’s corporate resolution project. In two separate actions, subpoenas and discovery requests encompassed five OIG material loss review reports and underlying audit workpapers.

The past material loss reviews, the additional, mandated Congressional reviews for all IG offices as well as Congressional requests specific to the NCUA OIG, highlighted the ongoing strain on our limited audit resources. Accordingly, in July 2014, I went to the NCUA board and requested an additional FTE for our audit staff. The Board unanimously supported my request at their mid-session budget. We are in the process of recruiting for the new auditor.

I would like to thank Chairman Matz and the Board for their sustained support of the OIG’s work. I would also like to congratulate Board Member Metsger on his appointment as Vice
Chair of the NCUA Board. Finally, I would like to welcome Board Member McWatters to the NCUA Board. Mr. McWatters was appointed to the Board in August and my office looks forward to working with him in the coming years.

The OIG office is diligent in keeping to its core mission of conducting independent audits, investigations, and reviews to improve NCUA’s effectiveness. Both the NCUA Board and management have been responsive in attempting to implement all OIG recommendations. In the coming six months we will continue our efforts to promote economy and efficiency in agency programs.

James W. Hagen
Inspector General
THE NATIONAL CREDIT UNION ADMINISTRATION MISSION

National Credit Union Administration’s (NCUA) charge is to provide, through regulation and supervision, a safe and sound credit union system which promotes confidence in the national system of cooperative credit.

THE OFFICE OF INSPECTOR GENERAL MISSION

The Office of Inspector General (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 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, 2014, the NCUA was supervising and insuring 4,029 federal credit unions and insuring 2,400 state-chartered credit unions, a total of 6,429 institutions. This represents a decline of 76 federal and 49 state-chartered institutions since December 31, 2013, for a total decline of 125 credit unions nationwide, primarily as a result of mergers and liquidations.

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 NCUA, including the NCUA Operating Fund, the Share Insurance Fund, the Central Liquidity Facility, the Community Development Revolving Loan Fund, and the Temporary Corporate Credit Union Stabilization 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 below.
The NCUA Board adopted its 2014 budget of $268,290,296 on November 21, 2013. The Full-Time Equivalent (FTE) staffing authorization for 2014 is 1,262.50 representing an increase of one FTE from 2013.
NCUA HIGHLIGHTS

Stabilization Fund’s Net Position Improves

During the May 2014 NCUA Board meeting the Chief Financial Officer reported that in the first quarter of 2014, the net position of the Temporary Corporate Credit Union Stabilization Fund improved by $101.8 million from a $142.2 million deficit on Dec. 31, 2013, to a $40.4 million deficit on March 31, 2014. The improvement in the net position primarily resulted from improvements in projected cash flows relating to legacy assets in the NCUA Guaranteed Notes (NGN) program.

As of June 30, 2014, the Stabilization Fund reported for the first time a positive net position of $51.2 million, improving by $91.6 million from a $40.4 million deficit at the end of the first quarter. The Stabilization Fund repaid $300 million to the U.S. Treasury during the second quarter of 2014. Outstanding borrowings from the U.S. Treasury were $2.6 billion at the end of the quarter.

Based on a review of the corporate credit union legacy assets and the NCUA Guaranteed Notes, on July 31, 2014, the Board indicated that future Stabilization Fund assessments were unlikely. Continued economic recovery improved the performance of the legacy assets and the NCUA Guaranteed Notes, and that, coupled with more than $1.75 billion in settlements from Wall Street firms over sales of faulty mortgage-backed securities, resulted in improved performance of the Corporate Stabilization Fund. The Board previously announced in November 2013 there was no planned Stabilization Fund assessment for 2014.

The positive Stabilization Fund balance, however, does not mean there are funds available to provide credit unions with a refund. The improving values of the legacy assets are not available, as they secure the NGNs. NCUA also still must repay the money borrowed from the U.S. Treasury. All obligations are scheduled to be repaid before the Stabilization Fund expires in June 2021.

NCUA Marked 80th Anniversary of Federal Credit Union Act

On June 26, 2014, the NCUA released material marking the anniversary of the Federal Credit Union Act. NCUA released a new video, available online here, documenting the history of the credit union system and its mission of promoting thrift. The agency also has a commemorative web page with features that include special graphics, a timeline and facts about credit unions. Credit unions are welcome to download these products and share them on their own websites.

As of June 26, 2014, federally insured credit unions serve 97.1 million Americans and have nearly $1.1 trillion in assets. No credit union members have ever lost a penny of insured savings at a federally insured credit union.
NCUA Receives Nearly $5.4 Million Recovery from BCT Fraud

On August 14, 2014, the NCUA announced that as the result of a fraud prosecution by the U.S. Attorney’s office of the Northern District of New York, NCUA received a restitution of almost $5.4 million. The fraud led to the 2011 liquidation of BCT Federal Credit Union of Binghamton, New York. Visions Federal Credit Union of Endicott, New York, purchased and assumed BCT’s assets, liabilities and member shares. No former members of BCT suffered losses on their insured shares.

In August 2012, Laura Conarton and her son, Scott Lonzinski, both of Susquehanna County, Pennsylvania, pleaded guilty in U.S. District Court to bank/financial institution fraud and are serving federal prison sentences. The two provided false documents to the credit union in order to obtain approximately $14 million in loans, which BCT Federal Credit Union was required to write off. The U.S. Attorney’s office recovered $5,391,641 through the seizure of bank accounts and property. The recovered money was returned to the National Credit Union Share Insurance Fund.

NCUA Board Swears in J. Mark McWatters as New Board Member

On August 26, 2014, in a private ceremony at the Dallas, Texas district office of Rep. Jeb Hensarling (R-Tex.), the Honorable J. Mark McWatters was sworn in as the newest NCUA Board Member. Outgoing NCUA Board Member Michael Fryzel delivered the oath of office. President Barack Obama nominated McWatters to the NCUA Board on January 7, 2014. The Senate Banking Committee held Mr. McWatters’ confirmation hearing on March 13, 2014, and the U.S. Senate confirmed his nomination on June 19, 2014. Board Member McWatters’ term expires on August 2, 2019.

Prior to joining the NCUA Board, Mr. McWatters was the Assistant Dean for Graduate Programs and as a Professor of Practice at the Southern Methodist University Dedman School of Law and as an Adjunct Professor at the SMU Cox School of Business. He served on the Governing Board of the Texas Department of Housing and Community Affairs and the Advisory Committee of the Texas Emerging Technology Fund. He also served as a member of the Troubled Asset Relief Program Congressional Oversight Panel, as counsel to Rep. Hensarling, and as a judicial clerk to the Honorable Walter Ely of the 9th U.S. Circuit Court of Appeals in Los Angeles. Mr. McWatters is licensed to practice law in Texas and New York and as a Certified Public Accountant in Texas.

Board Member McWatters replaces former Board Member Fryzel on the three-person NCUA Board.

NCUA Board Designates Metsger as Vice Chairman

On September 18, 2014, the National Credit Union Administration Board unanimously voted to designate Board Member Rick Metsger as Vice Chairman of NCUA, effective immediately, pursuant to the requirements of NCUA’s rules.

President Barack Obama nominated Metsger on May 16, 2013, for an NCUA Board term that will expire on August 2, 2017. After confirmation by the U.S. Senate, Metsger participated in his first NCUA Board meeting on September 12, 2013.
On January 1, 2014, Matz appointed Metsger as NCUA’s representative on the Board of NeighborWorks America, one of the nation’s preeminent affordable housing and community development organizations.

Before joining the NCUA Board, Metsger was most recently president of a strategic affairs consulting firm. He served in the Oregon State Senate from 1999 to 2011, and his committee assignments included chairing the Senate Business Committee as well as extensive work in the areas of financial services, transportation and economic development policy. He was elected Senate President Pro Tempore in 2009.

Metsger previously served on the board of the Portland Teachers Credit Union.
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, 2014, quarterly call reports submitted by all federally insured credit unions found that key financial indicators are positive.

Key Financial Indicators Favorable

Looking at the June 30, 2014 quarterly statistics for major balance sheet items and key ratios shows the following for the nation’s 6,429 federally insured credit unions: assets grew 7.79 percent; net worth to assets ratio decreased slightly from 10.78 to 10.77 percent; the loan to share ratio increased from 70.90 percent to 71.66 percent. The delinquency ratio decreased from 1.01 to .85 percent. Credit union return on average assets increased from .78 to .81 percent.

Savings Shifting to Regular Shares

Total share accounts increased 6.65 percent. Regular shares increased 13.25 percent. Regular shares comprise 33.77 percent of total share accounts; share certificates comprise 20.07 percent; money market shares comprise 23.13 percent; share draft accounts comprise 13.46 percent; and all other share accounts comprise 9.57 percent.

Loan Volume Increasing

Loans increased 8.91 percent resulting in an increase in total loans by $28.75 billion. Total net loans of $674 billion comprise 60.44 percent of credit union assets. First mortgage real estate loans are the largest single asset category with $279 billion accounting for 41.43 percent of all loans. Other real estate loans of $71 billion account for 10.47 percent of all loans. Used car loans of $135 billion were 20.08 percent of all loans, while new car loans amounted to $78 billion or 11.53 percent of total loans. Credit card loans totaled $43 billion or 6.37 percent of total loans and other loans totaled $68 billion for 10.12 percent of total loans.
LEGISLATIVE HIGHLIGHTS

NCUA to Propose Revised Risk-Based Capital Rule for New Comment Period

On September 29, 2014, NCUA Chairman Debbie Matz announced her intention to request that a revised proposed risk-based capital rule be issued with a new comment period as a result of significant structural changes the agency is considering. Because the proposed changes would affect the rule’s structure, Matz determined that it is prudent under the Administrative Procedure Act to ask for additional comments.

Based on stakeholder comments, the amended proposal will include a longer implementation period and revised risk weights for mortgages, investments, member business loans, credit union service organizations and corporate credit unions, among other changes. Stakeholders will also be invited to comment on an alternative approach for addressing interest rate risk using the supervisory process.

Both Vice Chairman Rick Metsger and new Board Member J. Mark McWatters expressed support of the additional comment period. Chairman Matz anticipates the NCUA Board could issue an amended proposal before the end of 2014.

NCUA Office of Examination and Insurance Director, Larry Fazio, Testifies Before Senate Banking, Housing and Urban Affairs Committee

Testifying at the Committee’s hearing, “Examining the State of Small Depository Institutions,” on September 16, 2014, E&I Director Fazio discussed the challenges faced by small credit unions that require NCUA to continually examine options for providing regulatory relief. Fazio testified that “[w]ith one-third of credit unions having less than $10 million in assets and two-thirds of credit unions having less than $50 million in assets, NCUA is acutely aware of the importance of scaling its regulatory, supervisory, and assistance programs to address the unique circumstances of small credit unions.” Fazio further stressed the progress the agency has made to take proactive action, where appropriate, to ease the regulatory burdens small credit unions face. For instance, Fazio testified, in January 2013, NCUA updated the definition of “small entity” from the previous ceiling of less than $10 million in assets to less than $50 million in assets. According to Fazio, that rule nearly doubled the number of small credit unions.

NCUA subsequently provided regulatory relief to small credit unions in several ways, including:

- Exempting small credit unions from risk-based net worth requirements and the associated prompt corrective action mandates.
- Excluding small credit unions from the requirements of the interest-rate risk rule.
Scaling new liquidity rules so small credit unions are required to have a written liquidity management policy, rather than a formal plan or requiring access to a contingent federal source of liquidity.

Streamlining the examination program for smaller credit unions that are financially and operationally sound.

In addition to providing regulatory and supervisory relief, Fazio said, NCUA makes several assistance programs available through its Office of Small Credit Union Initiatives. The office provides one-on-one consulting in strategic management and operations, loans and grants, targeted training and partnership and outreach.

Fazio said Congress has several legislative tools that can help NCUA and small credit unions improve service to credit union members, including providing greater flexibility in writing rules to implement new laws, amending the Federal Credit Union Act to give the agency authority to streamline field-of-membership changes and better reach underserved communities and modifying the current cap on member business lending.

Fazio concluded by stating that “NCUA recognizes the need to address the particular circumstances of small credit unions,” including tailoring its rules and calibrating examinations based on an institution’s size, scope and risk. Moreover, he added, NCUA provides “direct assistance to small credit unions to help them develop strategic plans and provide needed services to their customers.”

NCUA to Monitor Two New Bills

During the reporting period lawmakers introduced two bills that NCUA will continue to monitor: the “Consumer Financial Protection Bureau Examination and Reporting Threshold Act of 2014” (“CFPB Act”) and the “Regulatory Easement for Lending Institutions that Enable a Vibrant Economy Act” (“RELIEVE Act”).

On July 10, 2014, Senators Pat Toomey (R-Pa.) and Joe Donnelly (D-Ind.) introduced the “CFBP Act,” which, if signed and passed into law, would increase the threshold figure at which regulated depository institutions are subject to direct examination and reporting requirements of the CFPB. The threshold would be raised from the existing $10 billion to $50 billion, which meant that only the $69 billion Navy Federal Credit Union would continue to be directly supervised by the CFPB.

The second bill, the “RELIEVE Act,” introduced on July 30, 2014, by Senators Mark Warner (D-Va.) and Angus King (I-Maine), would provide federal deposit and share insurance parity for credit unions with regard to Interest on Lawyers’ Trust Accounts (IOLTA) and other escrow accounts. The bill also improves the definition of “rural,” so CFPB will recognize more counties.
as rural. Further, it increases the annual mortgage origination limit for rural creditors receiving QM relief from 500 to 1,000 per year.

NCUA has interpreted that the Federal Credit Union Act does not support parity for IOLTAs and prepaid debit card master accounts to be treated for deposit insurance purposes on the same basis as similar accounts insured by the FDIC. The “RELIEVE Act” would direct NCUA to issue a regulation extending share insurance to owners of the funds held in trust accounts opened and managed by credit union members.

House Votes to Allow Banking Access to Marijuana-Related Businesses

The House of Representatives voted on July 16, 2014, to provide traditional banking services to marijuana businesses that are legal under state law. Sponsored by Reps. Denny Heck (D-Wash.), Dana Rohrabacher (R-Calif.), Ed Perlmutter (D-Colo.) and Barbara Lee (D-Calif.), the bipartisan amendment to the Financial Services appropriations bill would prevent the Treasury Department from spending funds to penalize banks, credit unions, and other depository institutions that provide services to state-legal marijuana businesses. The amendment passed 231 to 192.

The House also rejected an amendment, sponsored by Rep. John Fleming (R-La.), that would have blocked Department of Treasury guidelines issued in February 2014 that are intended to increase financial institution access for marijuana shops. Due to banks and credit unions' fears of being implicated as money launderers, marijuana-related businesses are often forced into cash-only transactions, putting retailers' safety at risk and creating issues involving taxes and employee payroll. Despite the Treasury Department's guidance, most financial institutions are wary of working with marijuana businesses since the plant remains illegal under federal law.

Representative Perlmutter, who has been paving the way to make it easier for financial institutions to transact with marijuana-related businesses if they choose, said in February that safety should be a top concern of federal officials and financial institution regulators.

The bill still needs to be passed by the Senate and signed by the president to become law.
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. The staff consists of the Inspector General, Deputy Inspector General, Counsel to the Inspector General/Assistant Inspector General for Investigations, Director of Investigations, two Senior Auditors, Senior Information Technology Auditor, Office Manager, and two vacant auditor positions that we are in the process of filling.

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-14-07 – April 3, 2014
Lessons Learned – Successful Outcomes with Credit Unions Exhibiting Supervisory Concerns

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) conducted this self-initiated audit to help NCUA in the supervision of credit unions moving forward. Our objective for this audit was to identify lessons learned from NCUA cases where specific corrective actions helped revitalize credit unions exhibiting supervisory concerns.

We determined examiners and regional staff used various informal and formal actions that were instrumental in helping credit union management correct various supervisory concerns. We also determined that NCUA regional management and staff, as well as credit union management and staff, worked together to revive the credit unions. Furthermore, we determined that with credit unions where management was initially resistant, examiners had to work diligently to convince management of the findings and guidance regarding emerging issues. Finally, we determined that regional staff used uncommon approaches with some of the credit unions to address supervisory concerns.

We determined that the positive outcomes the regions experienced with the revived credit unions were the result of early identification of issues and taking the necessary administrative actions. We also determined that regional staff taking the time to build positive relationships and their diligent efforts to communicate with credit union management helped ensure management’s cooperation and played a major role in overcoming any supervisory concerns.

Audits in Progress

House of Representatives Committee on Financial Services Request

We received a request from the United States House of Representatives Committee on Financial Services to conduct a review of NCUA’s diversity efforts. Our overall objective is to assess agency personnel operations and other efforts to increase agency diversity, create a workplace free of systematic discrimination, and provide equal opportunity for minorities and women to obtain senior management positions. We anticipate issuing the final report in November 2014.
Mobile Security Devices

NCUA provides iPhones and iPads for use by select users. In addition, NCUA allows NCUA users to connect their personally-owned mobile devices such as the Apple iPhone, iPad, Android, and Windows Phone to the NCUA Exchange server to receive corporate email, calendar, and contacts.

Mobile handheld devices can be used not only for voice calls, simple text messages, and Personal Information Management but also for many functions done at a desktop computer. While handheld devices provide many productivity benefits, they also pose new risks to an organization’s security. In this review we will determine whether NCUA has adequate mobile device security controls to adequately protect NCUA information and information systems assets.

Travel and Purchase Card Review

The OIG is currently conducting a review of NCUA’s purchase and travel cards in compliance with the Government Charge Card Abuse Prevention Act of 2012 to: (1) assess, identify, and analyze risks of illegal, improper, or erroneous purchases and payments made through NCUA’s purchase and travel card programs; and (2) determine whether the results of our risk assessments justify performing an audit in compliance with Government Auditing Standards.

Interest Rate Risk

The OIG is conducting an audit of NCUA’s Interest Rate Risk (IRR) policy and program.

NCUA previously issued guidance on Asset and Liability Management (ALM) and IRR management through NCUA Letters to Credit Unions. Federally insured credit unions (FICUs) have relied on this guidance to manage their IRR. However, FICUs experienced increased exposure to IRR due to changes in balance sheet composition and increased uncertainty in the financial markets. This increase heightened the importance for FICUs to have strong policies and programs explicitly addressing the credit union’s management of controls for IRR. Consequently, NCUA implemented 12 CFR Part 741, Interest Rate Risk Policy and Program, effective September 30, 2012. In this review, we will determine whether NCUA’s IRR policy and procedures are having the desired effect of reducing interest rate risk for FICUs.

Financial Stability Oversight Council (FSOC) Interest Rate Risk

The Dodd-Frank Wall Street Reform and Consumer Protect Act authorized the Council of Inspectors General on Financial Oversight (CIGFO) to convene a working group of its members to evaluate the effectiveness and internal operations of the FSOC. The NCUA is a member of this working group.
We are participating in this review to assess the extent to which FSOC is overseeing IRR to the financial system. The Federal Housing Finance Agency is leading the working group with participation from other CIGFO members, including NCUA OIG. The working group’s results will be incorporated into a consolidated report to FSOC. The audit could result in recommendations for FSOC to improve its oversight of IRR.

Independent Evaluation of the NCUA’s Compliance with the Federal Information Security Management Act 2014

The NCUA OIG engaged CliftonLarsonAllen, LLP (CLA) to independently evaluate 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.

CLA is evaluating NCUA’s security program through interviews, documentation reviews, technical configuration reviews, social engineering testing, and sample testing. NCUA is being evaluated against standards and requirements for federal government agencies such as those provided through FISMA, National Institute of Standards and Technology (NIST) Special Publications, and OMB memoranda. We anticipate issuing the final report in November 2014.

Annual Financial Statement Audits

Our current contracting audit firm, KPMG, is working on the 2014 financial statement audits of the NCUA Operating Fund, National Credit Union Share Insurance Fund, the Central Liquidity Facility, the Community Development Revolving Loan Fund and the Temporary Corporate Credit Union Stabilization Fund (TCCUSF).

The NCUA Operating Fund 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 National Credit Union Share Insurance Fund 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 Central Liquidity Facility 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 purpose of the Community Development Revolving Loan Fund 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 TCCUSF, established in 2009, allows NCUA to borrow money from the Treasury to pay for corporate credit union losses, and then pay back the Treasury over time with funds obtained from assessments on federally insured credit unions. We expect to issue our report in February 2015.
Material Loss Reviews

The Federal Credit Union Act requires the NCUA OIG to conduct a Material Loss Review (MLR) of an insured credit union if the loss to the National Credit Union Share Insurance Fund (NCUSIF) exceeds $25 million. When losses exceed this materiality, we review the loss to (1) determine the cause(s) of the credit union’s failure and the resulting loss to the NCUSIF; and (2) assess NCUA’s supervision of the credit union. The Dodd-Frank Wall Street Reform and Consumer Protection Act requires the OIG to assess all losses to the NCUSIF under the $25 million threshold to determine whether unusual circumstances exist to warrant conducting a full-scope MLR.

During this reporting period, the NCUA did not have a loss to the NCUSIF greater than the $25 million threshold; therefore, the OIG did not conduct any full-scope MLRs. However, during the reporting period the NCUSIF did sustain losses under the $25 million threshold. We conducted limited scope reviews of these credit union losses to determine whether unusual circumstances existed. We discuss these cases in detail on page 17.

Significant Audit Recommendations on Which Corrective Action Has Not Been Completed

As of September 30, 2014, below is a list of OIG reports with unimplemented recommendations where management has agreed to implement corrective action, but has not yet completed those actions. This information is based on (1) information supplied by NCUA’s Office of Examination and Insurance and (2) the OIG’s report recommendation tracking system.

Report Number, Title, and Date


Significant Open Recommendations and Brief Summary

On November 23, 2010, the OIG issued report #OIG-10-20 titled OIG Capping Report on Material Loss Reviews. There is one (1) open recommendation. The recommendation relates to NCUA management developing regulatory guidance to establish limits or other controls for concentrations that pose an unacceptable safety and soundness risk and determine an appropriate range of examiner response to high-risk concentrations.

NCUA issued a proposed rule to address this issue and has received over 2,000 comments. NCUA is evaluating the comments received and potential adjustments to the risk weights of assets that will address concentration risk. NCUA anticipates a revised rule will be presented to the NCUA Board prior to the end of 2014.
**Report on Credit Union Losses under Materiality Level of $25 Million**

*Dodd Frank* requires the NCUA OIG to perform a limited review where the Share Insurance Fund incurred a loss below the $25 million threshold with respect to an insured credit union. The OIG must report to the NCUA Board and the Congress every 6 months on the results of the limited reviews and the timeframe for performing any subsequent in-depth reviews we determine are necessary.

This report on losses below the $25 million threshold covers the six-month period from April 1 to September 30, 2014. For all losses to the Share Insurance Fund under the MLR threshold, we determined: (1) why NCUA initiated assistance; and (2) whether any unusual circumstances existed that might have warranted an in-depth review of the loss.

For each limited review, we performed procedures that included, but were not limited to: (1) obtaining and analyzing the regulator’s supervisory memoranda and other pertinent documents; (2) preparing a schedule of CAMEL ratings assigned to the institution through full scope or other examinations during the five years preceding the failure; (3) conducting interviews as needed; (4) inquiring about any investigative actions that were taken, planned, or considered involving credit union officials or others; and (5) analyzing supervisory history and other review methods.

We conducted limited scope reviews of six failed credit unions that caused the Share Insurance Fund to incur losses under $25 million between April 1, 2014, and September 30, 2014. Based on those limited reviews, we determined that none of the losses warranted conducting additional work because we found no unusual circumstances during our review, or we had addressed the identified reasons for failure in recommendations to the agency in previous MLR reports.

The chart below provides details on the six credit unions that caused a loss to the Share Insurance Fund below the $25 million threshold. It provides details on the credit union, such as the closure date, the estimated loss to the Share Insurance Fund, and NCUA’s grounds for liquidation. The chart also provides our decision whether to terminate any further review or proceed with a full-scope MLR of the credit union.
### DECISIONS REGARDING LOSSES LESS THAN $25 MILLION

<table>
<thead>
<tr>
<th>OIG Decision**</th>
<th>Credit Union</th>
<th>Region</th>
<th>Date Closed</th>
<th>Est. Loss to NCUSIF</th>
<th>Grounds for Liquidation or Appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terminate</td>
<td>Tombstone Federal Credit Union</td>
<td>V</td>
<td>5/1/14</td>
<td>$900K</td>
<td>Insolvent with no prospect of recovery due to management’s inability to correct identified weaknesses.</td>
</tr>
<tr>
<td>Terminate</td>
<td>Life Line Credit Union</td>
<td>II</td>
<td>5/23/14</td>
<td>$1.3M</td>
<td>Insolvent with no prospect of recovery due to potential fraudulent activities related to unrecorded liabilities.</td>
</tr>
<tr>
<td>Terminate</td>
<td>I.B.E.W. Local 816 Federal Credit Union</td>
<td>III</td>
<td>7/10/14</td>
<td>$1.2M</td>
<td>Insolvent with no prospect of recovery due to potential fraudulent activity related to embezzlement.</td>
</tr>
<tr>
<td>Terminate</td>
<td>Macon County School Employees Federal Credit Union</td>
<td>IV</td>
<td>8/31/14</td>
<td>$84.5K</td>
<td>Insolvent with no prospect of recovery due to management’s inability to correct identified weaknesses.</td>
</tr>
<tr>
<td>Terminate</td>
<td>Louden Depot Community Credit Union</td>
<td>IV</td>
<td>9/5/14</td>
<td>$1.6M</td>
<td>Insolvent with no prospect of recovery due to potential fraudulent activities related to unrecorded share certificates and account shortages.</td>
</tr>
<tr>
<td>Terminate</td>
<td>Republic Hose Employees Federal Credit Union</td>
<td>II</td>
<td>9/30/14</td>
<td>$121K</td>
<td>Insolvent with no prospect of recovery due to weak management, which resulted in serious accounting errors and loan portfolio problems.</td>
</tr>
</tbody>
</table>

**Criteria for each decision included: (1) dollar value and/or percentage of loss; (2) the institution’s background, such as charter type and history, geographic location, affiliations, business strategy; (3) uncommon cause of failure based on prior MLR findings; (4) unusual supervisory history, including the nature and timing of supervisory action taken, noncompliance with statutory examination requirements, and/or indications of rating disagreements between the state regulator and NCUA; and (5) other, such as apparent fraud, request by NCUA Board or management, Congressional interest, or IG request.
Peer Reviews - April 1 through September 30, 2014

Government Auditing Standards require audit organizations that perform audits and attestation engagements of federal government programs and operations undergo an external peer review every three years. The objectives of an external peer review include a review of an audit organization’s system of quality control to determine not only the suitability of the design, but also whether the audit organization is in compliance with its quality control system so as to provide reasonable assurance the audit organization conforms to applicable professional standards.

External Peer Review of NCUA OIG Office of Audit

The Peace Corps OIG completed our most recent peer review on February 4, 2013 for the three-year period ended December 31, 2012. The Peace Corps OIG issued its report entitled System Review Report and rendered the opinion that the system of quality control for the NCUA OIG, Office of Audit, was suitably designed and complied with, thus providing reasonable assurance the system of controls conformed with applicable professional standards in all material respects. As a result, we received a peer rating of pass. In addition, we have no outstanding recommendations from this external peer review. A copy of this report is included herein as Appendix A.

External Peer Review of National Labor Relations Board OIG Office of Audit

The NCUA OIG completed a peer review of the National Labor Relations Board (NLRB) OIG. On October 31, 2011, we issued an external peer review report for the audit function of the NLRB OIG for the three year period ended September 30, 2011. The NLRB received a rating of pass and has no outstanding recommendations related to the peer review report.
INVESTIGATIVE ACTIVITY

In accordance with professional standards and guidelines established by the United States Department of Justice, the NCUA OIG Office of Investigations (OI) conducts investigations of criminal, civil, and administrative wrongdoing involving the agency’s programs, operations, and personnel. Our investigative mission is to fight fraud, waste, and abuse while promoting efficiency and economy within the NCUA and its programs and operations, and to fight fraud, waste, and abuse. In this regard, we investigate referrals and allegations of misconduct on the part of NCUA employees, former employees, and contractors. Investigations may involve possible violations of regulations involving Federal employee responsibilities and conduct, agency policies, Federal criminal law, and other statutes and regulations. Finally, we have a robust training program within the agency that encompasses integrity awareness briefings and orientation presentations regarding the role of the OIG within the agency and how to report wrongdoing to the OI.

Additionally, we routinely receive complaints from credit union officials and their members, which involve NCUA employee program responsibilities. We examine these complaints and determine if there is any indication of misconduct or wrongdoing by an NCUA employee. If not, we refer the complaint to the NCUA Office of Consumer Protection (OCP) or appropriate regional office for response, or close the matter if contact with the OCP or the regional office indicates that the matter has already been appropriately handled.

The instructional guidance the OI provides to new NCUA employees and newly appointed supervisors about the respective roles and responsibilities of the OIG and NCUA employees facilitates more open communication between both. The final product is a stronger agency.

OIG Hotline Contacts

The OIG has and maintains a 24-hour toll free hotline to enable employees and citizens to call in and provide information about suspected fraud, waste, and abuse or mismanagement involving agency programs or operations. Additionally, the OIG receives complaints from an off-site post office box, electronic mail, and facsimile messages. The OI has also developed an electronic version of a hotline complaint form, located on the NCUA intranet. The electronic form offers an additional venue for confidential employee and contractor communication with the OIG. All information received from any of these sources is referred to as a hotline contact. Our Office Manager, under the direction of the Director of Investigations, administers the OIG hotline program.

The majority of hotline contacts received is from consumers seeking assistance with problems encountered within their respective credit unions. As discussed above, these contacts are generally referred to the OCP and regional offices for action.

In recent years, however, the OIG Hotline has also become a valuable repository for reports of potential cases of fraud in credit unions. While the OIG does not, in most cases, have
jurisdiction to investigate fraudulent activity that takes place in credit unions, it analyzes the information obtained through the Hotline and refers potential cases of fraud to the appropriate regional office, the Office of Examination and Insurance, and the Office of General Counsel for immediate review and action. Moreover, the OIG relays general information from these referrals at new employee and supervisor training sessions to alert NCUA employees about the need for heightened fraud awareness.

![Hotline Complaints](image)

<table>
<thead>
<tr>
<th>Hotline Complaints</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Phone Call/Voicemail</td>
<td>75</td>
</tr>
<tr>
<td>Email</td>
<td>76</td>
</tr>
<tr>
<td>Letter/Facsimile</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>175</strong></td>
</tr>
</tbody>
</table>

**INVESTIGATIONS**

**Employee Misconduct (Alleged Harassment)**

During the reporting period, the OIG received allegations that an NCUA supervisor, on several occasions, received vaguely threatening voicemail messages on his NCUA-issued iPhone. The supervisor alleged that one of his subordinates was the suspected caller, because he had recently placed the employee on a performance improvement plan. Subsequent to the OIG completing the fact finding portion of its investigation, the employee resigned. The investigation is closed.

**Employee Misconduct (Unprofessional Conduct)**

The OIG received a complaint that an NCUA examiner, in the course of conducting an examination at a credit union, made intimidating comments to one of the credit union’s vendors, potentially threatening the vendor’s business standing in the credit union community. While the investigation could not substantiate the allegations, it did find that the examiner’s behavior in dealing with credit union officials and the vendor was unprofessional. The OIG issued a Report of Investigation and closed this case during this reporting period.
Employee Misconduct (Unprofessional Conduct)

During this reporting period, the OIG received allegations from employees concerning misconduct on the part of two senior NCUA managers. The investigation found that both managers exhibited unprofessional conduct in their dealings with subordinate staff members. The OIG issued a Report of Investigation. The case remains open pending notification of agency action, if any.

Employee Misconduct (Alleged Lack of Impartiality)

The OIG received a complaint concerning lack of impartiality on the part of an NCUA senior manager in business dealings with an outside vendor. The investigation is ongoing.

Employee Misconduct (Alleged Unauthorized Outside Employment/Misuse of Position)

During this reporting period, the OIG received an allegation that an NCUA examiner was conducting outside business (secondary employment) during scheduled NCUA examinations. The investigation is ongoing.

Employee Misconduct (Alleged Damage/Destruction of Property)

During this reporting period, the OIG received a complaint that someone had intentionally damaged a personal check which an employee mailed to the central office, as a contribution for a special occasion. The investigation is ongoing.

Employee Misconduct (Alleged Harassment)

The OIG received an allegation that two NCUA examiners behaved in a harassing manner during a recent credit union examination. The investigation is ongoing.

Peer Reviews - April 1 through September 30, 2014

Section 6(e)(7) of the Inspector General Act of 1978, as amended, requires those OIGs that have been granted statutory law enforcement authority pursuant to the Act, to be periodically reviewed by another OIG or a committee of OIGs (Peer Review). The purpose of the peer review is to ascertain whether adequate internal safeguards and management procedures exist to ensure that the law enforcement powers conferred by the 2002 amendments to the Act are properly exercised. The NCUA OIG does not have statutory law enforcement authority. Consequently, our investigative organization is not required to have a peer review and to date, has neither undergone a peer review nor conducted a peer review of another OIG. However, the OI is tentatively scheduled to both receive and conduct, respectively, its first peer review in 2015.
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 agency program and 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 19 items, including proposed legislation, proposed and final regulations, and NCUA Letters to Credit Unions (LCU). The OIG also responded to five (5) Freedom of Information Act (FOIA) requests.

<table>
<thead>
<tr>
<th>SUMMARY OF STATUTES AND REGULATIONS REVIEWED</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legislation</strong></td>
</tr>
<tr>
<td>S. 2698</td>
</tr>
<tr>
<td>S. 1173</td>
</tr>
<tr>
<td>H.R. 1553/S. 727</td>
</tr>
<tr>
<td>H.R. 3468</td>
</tr>
<tr>
<td>H.R. 3584</td>
</tr>
<tr>
<td><strong>Regulations/Rulings</strong></td>
</tr>
<tr>
<td>12 CFR Parts 701, 706, and 790</td>
</tr>
<tr>
<td>12 CFR Part 710</td>
</tr>
<tr>
<td>12 CFR Part 702</td>
</tr>
<tr>
<td>12 CFR Parts 721 and 741</td>
</tr>
<tr>
<td>12 CFR Parts 701 and 722</td>
</tr>
</tbody>
</table>
### Regulations/Rulings (cont.)

<table>
<thead>
<tr>
<th>Part/Federal Register Notice: 12 CFR Chapter VII</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 CFR 701 Appendix B</td>
<td>Proposed Rule: Associational Common Bond Requirements</td>
</tr>
</tbody>
</table>

### Letters to Credit Unions

<table>
<thead>
<tr>
<th>Title</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Equity Lines of Credit Nearing their End-of-Draw Periods</td>
<td>NCUA 14-CU-08</td>
</tr>
<tr>
<td>Contractual Agreements with Credit Union Service Organizations (CUSOs)</td>
<td>NCUA 14-CU-07</td>
</tr>
<tr>
<td>Taxi Medallion Lending</td>
<td>NCUA 14-CU-06</td>
</tr>
<tr>
<td>Unfair or Deceptive Credit Practices</td>
<td>NCUA 14-FCU-03</td>
</tr>
</tbody>
</table>
### TABLE I: ISSUED REPORTS WITH QUESTIONED COSTS

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

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

**Unsupported costs** (included in "Questioned Costs") are those costs the OIG has questioned because of the lack of adequate documentation at the time of the audit.
### TABLE II: ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

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

Recommendations that "Funds to be Put to Better Use" are those OIG recommendations that funds could be used more efficiently if management took actions to reduce outlays, de-obligate funds from programs/operations, avoid unnecessary expenditures noted in pre-award reviews of contracts, or any other specifically identified savings.
TABLE III: SUMMARY OF OIG ACTIVITY
April 1 through September 30, 2014

Part I – Audit Reports Issued

<table>
<thead>
<tr>
<th>Report Number</th>
<th>Title</th>
<th>Date Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>OIG-14-07</td>
<td>Lessons Learned – Successful Outcomes with Credit Unions Exhibiting Supervisory Concerns</td>
<td>4/3/2014</td>
</tr>
</tbody>
</table>

Part II – Audits in Progress (as of September 30, 2014)

- House of Representatives Committee on Financial Services Request
- Mobile Security Devices
- Travel and Purchase Card Review
- Interest Rate Risk
- Financial Stability Oversight Council (FSOC) Interest Rate Risk
- Independent Evaluation of the NCUA’s Compliance with the Federal Information Security Management Act (FISMA) 2014
- NCUA Financial Statements 2014
## INDEX OF REPORTING REQUIREMENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Data Required</th>
<th>Page Ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>4(a)(2)</td>
<td>Review of legislation and regulations</td>
<td>23</td>
</tr>
<tr>
<td>5(a)(1)</td>
<td>Significant problems, abuses, or deficiencies relating to the administration of programs and operations disclosed during the reporting period.</td>
<td>13</td>
</tr>
<tr>
<td>5(a)(3)</td>
<td>Recommendations with respect to significant problems, abuses or deficiencies</td>
<td>13</td>
</tr>
<tr>
<td>5(a)(3)</td>
<td>Significant recommendations described in previous semiannual reports on which corrective action has not been completed.</td>
<td>16</td>
</tr>
<tr>
<td>5(a)(4)</td>
<td>Summary of matters referred to prosecution authorities and prosecutions which have resulted.</td>
<td>None</td>
</tr>
<tr>
<td>5(a)(5)</td>
<td>Summary of each report to the Board detailing cases where access to all records was not provided or where information was refused.</td>
<td>None</td>
</tr>
<tr>
<td>5(a)(6)</td>
<td>List of audit reports issued during the reporting period.</td>
<td>27</td>
</tr>
<tr>
<td>5(a)(7)</td>
<td>Summary of particularly significant reports.</td>
<td>13</td>
</tr>
<tr>
<td>5(a)(8)</td>
<td>Statistical tables on audit reports with questioned costs.</td>
<td>25</td>
</tr>
<tr>
<td>5(a)(9)</td>
<td>Statistical tables on audit reports with recommendations that funds be put to better use.</td>
<td>26</td>
</tr>
<tr>
<td>5(a)(10)</td>
<td>Summary of each audit report issued before the start of the reporting period for which no management decision has been made by the end of the reporting period.</td>
<td>None</td>
</tr>
<tr>
<td>5(a)(11)</td>
<td>Description and explanation of reasons for any significant revised management decision made during the reporting period.</td>
<td>None</td>
</tr>
<tr>
<td>5(a)(12)</td>
<td>Information concerning significant management decisions with which the Inspector General is in disagreement.</td>
<td>None</td>
</tr>
<tr>
<td>5(a)(14)</td>
<td>An appendix containing the results of any peer review conducted by another OIG during the reporting period or, if no peer review was conducted within that reporting period, a statement identifying the date of the last peer review conducted by another OIG.</td>
<td>29</td>
</tr>
<tr>
<td>5(a)(15)</td>
<td>List of outstanding recommendations from any peer review conducted by another OIG that have not been fully implemented.</td>
<td>None</td>
</tr>
<tr>
<td>5(a)(16)</td>
<td>A list of any peer reviews conducted by the IG of another OIG during the reporting period, including a list of any outstanding recommendations made that remain outstanding or have not been fully implemented.</td>
<td>19</td>
</tr>
</tbody>
</table>
Appendix A: System Review Report (Peer Review of NCUA OIG)

System Review Report
February 4, 2013

William DeSarno
Inspector General
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Mr. DeSarno,

We have reviewed the system of quality control for the audit organization of National Credit Union Administration (NCUA), Office of Inspector General (OIG) in effect for the year ended December 31, 2012. A system of quality control encompasses NCUA OIG’s organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with Government Auditing Standards. The elements of quality control are described in Government Auditing Standards. NCUA OIG is responsible for designing a system of quality control and complying with it to provide NCUA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and NCUA OIG’s compliance therewith based on our review.

Our review was conducted in accordance with Government Auditing Standards and guidelines established by the Council of the Inspector General on Integrity and Efficiency (CIGIE). During our review, we interviewed NCUA OIG personnel and obtained an understanding of the nature of the NCUA OIG audit organization, and the design of the NCUA OIG’s system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the NCUA OIG’s system of quality control. The engagements selected represented a reasonable cross-section of the NCUA OIG’s audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with NCUA OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the NCUA OIG’s audit organization. In addition, we tested compliance with the NCUA OIG’s quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the NCUA OIG’s policies and procedures on selected engagements Enclosure 1 to this report identifies the offices of the NCUA OIG that we visited and the engagements that we reviewed. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control, and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.
In our opinion, the system of quality control for the audit organization of NCUA OIG in effect for the year ended December 31, 2012, has been suitably designed and complied with to provide NCUA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail. NCUA OIG has received a peer review rating of pass.

In addition to reviewing its system of quality control to ensure adherence with Government Auditing Standards, we applied certain limited procedures in accordance with guidance established by the CIGIE related to NCUA OIG’s monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and therefore is not subject to the requirements of Government Auditing Standards. The purpose of our limited procedures was to determine whether NCUA OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on NCUA OIG’s monitoring of work performed by IPAs.

Sincerely,

Kathy A. Buller
Inspector General

Enclosure