



NCUA
National Credit Union Administration

2021

Office of Inspector General
Annual Work Plan





OVERVIEW

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) Annual Work Plan (Plan) for 2021 describes those audits that would most benefit the NCUA's mission. In formulating this Plan, we considered:

- The NCUA's Strategic Plan, Annual Performance Plan, and Diversity and Inclusion Strategic Plan;
- Pertinent legislation, including the Federal Credit Union Act (FCU Act), the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Government Performance Results Act, the Chief Financial Officers Act of 1990, the Federal Information Security Modernization Act of 2014 (FISMA 2014), the Sarbanes-Oxley Act, the Privacy Act, the Government Charge Card Abuse Prevention Act of 2012, and the Inspector General Act;
- Congressional activity and testimony by NCUA officials, as well as areas of significant interest to NCUA Board members and the Congress;
- Audits planned and performed by the Government Accountability Office;
- Input obtained from the NCUA Board and executive staff;
- Complaints received and investigations conducted in prior years;
- Request(s) from the Council of Inspectors General on Financial Oversight; and
- The credit union industry's operating environment.

How We Created the Annual Work Plan

The NCUA OIG plans its work to identify and respond to issues that are of greatest importance to the NCUA's mission and related goals. For purposes of the Plan, we identified prospective audit work that is responsive to the NCUA's strategic goals (see table below).



THE NCUA’S STRATEGIC GOALS¹
<i>STRATEGIC GOAL 1:</i> Ensure a safe and sound credit union system
<i>STRATEGIC GOAL 2:</i> Provide a regulatory framework that is transparent, efficient, and improves consumer access
<i>STRATEGIC GOAL 3:</i> Maximize organizational performance to enable mission success

In preparing our 2021 Annual Work Plan, we considered that we performed one mandatory material loss review (MLR) in 2020. The Dodd-Frank Act requires the OIG to conduct an MLR when a credit union’s loss to the Share Insurance Fund (SIF) is a material loss, defined as a loss that exceeded the sum of \$25 million and 10 percent of the assets of the failed credit union at the time the NCUA Board initiated assistance or was appointed liquidating agent pursuant to the Act. In addition, we conducted one limited scope review of a loss to the SIF that was below the material loss threshold to determine whether unusual circumstances existed that would warrant a full-scope MLR. We concluded that the circumstance resulting in the loss did not warrant a full-scope MLR.

In addition to these and other mandatory audits, we identified other audits to address the agency’s strategic goals. Due to our resource limitations, we considered each of these audits and determined which should form the basis of our work over the coming year (see Appendix C). We considered criteria in the prioritization process that included factors such as the importance to the NCUA’s mission as well as the interests of the NCUA Board and Congress.

¹ Source: The NCUA’s 2018–2022 Strategic Plan.



RESOURCES

The OIG is composed of 10 full-time positions, including the Inspector General. The audit staff consists of five senior auditors and the Deputy Inspector General, who supervises the auditors. In addition, the OIG relies on contractors to supplement resources by assisting the OIG with conducting the annual financial statement audits, the annual independent evaluation required by FISMA, and any required MLRs.

In addition to the annual financial statement audits and the FISMA evaluation, we use contracting dollars for short term, non-recurring projects. In 2021, our contracting budget for audits is approximately \$1.2 million.

We will defer audits that we cannot accomplish in 2021 to 2022.

This 2021 Annual Work Plan includes the following appendices:

- Appendix A: Planned Audits
- Appendix B: Legal Projects and Investigative Work
- Appendix C: Summary of Planned Audits



APPENDIX A: PLANNED AUDITS

Carryover Audits from 2020

NCUA's Governance of Information Technology (IT) Initiatives

The NCUA's Information Technology Prioritization Council (ITPC) prioritizes and recommends IT capital projects to the Board for approval. Additionally, the ITPC identifies opportunities to improve productivity and achieve costs savings through the strategic application of technology.

Objective: Determine whether the NCUA effectively identifies, controls, prioritizes, and implements IT initiatives across the agency.

Financial Statement Audits (4) for the Year Ending December 31, 2020

The OIG will conduct a review of the NCUA's reporting entities for the year ending December 31, 2020. This will include the NCUA's four funds:

- SIF,
- Operating Fund (OF),
- Central Liquidity Facility (CLF), and
- Community Development Revolving Loan Fund (CDRLF).

We conduct these financial statement audits under contract with an independent public accounting firm. Requirements mandate we issue the financial statement audit report within 45 days of NCUA's calendar year-end.

Objectives: Determine whether the four funds the NCUA administers complied with generally accepted accounting principles (GAAP) and whether the NCUA's statements presented fairly, in all material respects, the financial position, results of operations, and changes in cash flows.



New Starts - Mandatory Audits for 2021

Material Loss Reviews (as necessary)

The Federal Credit Union Act, as amended by the Dodd-Frank Act, requires the OIG to review and report on any credit union material losses to the SIF exceeding \$25 million and 10 percent of the assets of the failed credit union at the time in which the NCUA Board initiated assistance or was appointed liquidating agent pursuant to the Act. In addition, the Federal Credit Union Act/Dodd-Frank Act requires the OIG to conduct a limited review of all non-material losses to the SIF and elevate them to an MLR if they present unusual circumstances.

Objective: Determine the cause(s) of the credit union failure(s) and the resulting loss to the SIF and assess the NCUA's supervision of the credit union(s).

Federal Information Security Modernization Act of 2014

The Federal Information Security Modernization Act of 2014 (FISMA) requires each agency to develop, document, and implement an agency-wide program to provide information security for the systems that support the operations and assets of the agency. FISMA includes a requirement that Inspectors General perform an annual evaluation of the agency's program. This evaluation includes testing the effectiveness of information security policies, procedures, and practices of a representative subset of the agency's information systems, and an assessment of the effectiveness of the information security policies, procedures, and practices of the agency. The OIG also assesses the NCUA's privacy program.

Objective: Determine whether the NCUA information security and privacy management policies and procedures complied with FISMA and related federal regulations and standards.

Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act)

The Charge Card Act requires all agencies to establish and maintain safeguards and internal controls for charge cards. The Charge Card Act also establishes the Inspector General's risk assessment, audit, and reporting requirements.

Objective: Identify and analyze the risks of illegal, improper, or erroneous charge card purchases and payments and provide and report recommendations – if warranted – to agency management, the Director of the Office of Management and Budget, and the Congress.

Digital Accountability and Transparency Act of 2014 (DATA Act)

The DATA Act seeks to improve the quality of data submitted to USASpending.gov by holding agencies accountable for the completeness and accuracy of the data submitted. Specifically, the DATA Act requires agencies to disclose direct agency expenditures and link contract, loan, and grant spending information to programs, thereby enabling taxpayers and policy makers to more effectively track federal spending. It also requires that the Office of Management and Budget and the Department of the Treasury establish government-wide data standards for financial data

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as well as ensure they accurately post and display such financial data on USASpending.gov. The DATA Act also requires agency Inspectors General to review statistical samples of the data submitted by the agency and to issue a series of oversight reports that include an analysis of the data, as well as the data standards used by the agency.

Objective: Determine the completeness, timeliness, quality, and accuracy of the data submitted by the NCUA in accordance with the requirements of the DATA Act.

Financial Statements Audits (4) for the Year Ending December 31, 2021

The OIG will conduct a review of the NCUA’s reporting entities for the year ending December 31, 2021. This will include the NCUA’s four funds—SIF, OF, CLF, and CDRLF.

We conduct these audits under contract with an independent public accounting firm. Requirements mandate that we issue the reports within 45 days of NCUA’s calendar year-end.

Objectives: Determine whether the four funds that the agency administers are in compliance with GAAP and whether their statements present fairly, in all material respects, their financial position, results of operations, and changes in cash flows.

Congressional/NCUA Board Requests (as Necessary)

Objective: Conduct OIG audits, investigations, or other work in response to requests received from the Congress or the NCUA Board.



Potential New Starts for 2021 (Discretionary Audits)

Hiring Practices

The Office of Human Resources (OHR), Division of Staffing and Classification is responsible for the hiring practices at the NCUA. Presidential Memorandum—Improving the Federal Recruitment and Hiring Process, issued in May 2010, initiated a hiring reform in the Federal Government focused on improving the quality and timeliness of agency hiring. Among other things, the Presidential Memorandum required agency heads to provide the Office of Personnel Management (OPM) and the Office of Management and Budget timelines and targets to improve the quality and speed of agency hiring by (1) reducing substantially the time it takes to hire mission-critical and commonly filled positions, (2) measuring the quality and speed of the hiring process, and (3) analyzing the causes of agency hiring problems and actions that will be taken to reduce problems. In support of the Presidential Memorandum, OPM developed an end-to-end hiring initiative that encouraged agencies to complete the hiring process within 80 calendar days. OPM recognized that agencies may need to adjust the number of days for each step in the hiring process based on agency practices and procedures.

Objectives: Determine whether the NCUA’s hiring practices 1) were in accordance with OPM, NCUA, and other federal requirements; and 2) facilitated the efficient selection of qualified candidates to help NCUA divisions and offices meet mission requirements.

Preventing and Detecting Cyber Threats to the NCUA

Security Information and Event Management (SIEM) software collects and aggregates log data generated throughout the organization's technology infrastructure, from host systems and applications to network and security devices such as firewalls and antivirus filters. The software then identifies and categorizes incidents and events, as well as analyzes them. SIEM provides reports on security-related incidents and events, such as successful and failed logins, malware activity and other possible malicious activities, and it send alerts if analysis shows that an activity runs against predetermined rulesets and thus indicates a potential security issue. The NCUA network includes firewalls as part of its defense in depth strategy to protect the agency network.

Objective: Assess the effectiveness of the NCUA’s network firewalls and SIEM tool in preventing and detecting cyber threats.

Contracting Officer Representative (COR) Program

The Contracting Officer may delegate certain responsibilities to CORs to act on behalf of the Contracting Office in overseeing general contractor performance and the technical work of the contractor. CORs must be fully qualified in accordance with the NCUA COR certification program prior to being appointed. The NCUA COR certification program is based on the Federal Acquisition Institute’s (FAI), Federal Acquisition Certification for Contracting Officer’s Representatives or FAC-COR program.



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Objectives: Determine whether 1) the NCUA’s COR program complied with applicable federal laws and regulations and NCUA requirements, policies and procedures; and 2) the NCUA oversaw and evaluated the effectiveness and consistency of COR monitoring activities across the agency.

Continuity of Operations Program (COOP)

The Office of Continuity and Security Management’s (OCSM) mission is to promote confidence in the credit union system by establishing policy and directing agency operations to analyze and share information on threats to the agency and the credit union system. The OCSM Director develops, coordinates, and manages the NCUA COOP program. The OCSM Director serves as the NCUA continuity coordinator and the OCSM emergency management specialists serve as continuity managers and planners. The NCUA emergency management specialists serve as points of contact for the federal government continuity community and represent the NCUA as a member of the Continuity Advisory Group. The federal government has eight national essential functions (NEFs) that represent its overarching responsibilities to lead and sustain the nation and to provide the primary focus of the federal government leadership before, during, and after a catastrophic emergency. The NCUA is responsible for supporting NEF 7: “Protecting and stabilizing the nation’s economy and ensuring public confidence in its financial systems.” On June 1, 2009, the White House further assigned select executive branch departments and agencies with Primary Mission Essential Functions (PMEFs) in support of these NEFs. The NCUA was assigned the PMEF of “Ensure public confidence in the Nation’s credit unions by maintaining continuous system-wide liquidity and preserving member access to funds and services.”

Objective: Determine whether the NCUA executed its COOP in accordance with applicable laws, regulations, policies, and procedures.

Modern Examination and Risk Identification Tool (MERIT)

MERIT is the NCUA’s new web-based examination platform that replaces its Automated Integrated Regulation Examination System (AIRES), a 25-year old legacy examination application. MERIT is intended to streamline the examination process for credit unions and examiners by providing credit unions the ability to more efficiently and securely transfer files during an examination, provide status updates and request due date changes on examination findings and action items, respond to examination findings, and retrieve completed examination reports. MERIT’s development and rollout has taken three years.

Objective: Determine how estimated costs to develop MERIT compare to actual system development life cycle costs (SDLC) and determine whether the NCUA adequately justified and documented changes that may have resulted in increased SDLC costs.

COVID-19 Return-to-Work Policy

In response to the COVID-19 pandemic, the NCUA moved the entire agency to mandatory telework to protect the health and safety of its employees. This telework posture started in



March 2020 and has continued through the present. NCUA adopted a phased approach with three phases. Phases I and II allow employees to voluntarily return to on-site work. Phase III makes return to on-site work mandatory. In an October 22, 2020, webinar, the NCUA said that movement to Phase I would not occur before the end of 2020 but rather would likely occur at some point in 2021. NCUA is working with a public health consultant in making these determinations. Movement to Phase I would occur on a county basis (looking at both a credit union's county and an examiner's county of residence) and would rely on county COVID-19 data.

Objectives: Determine 1) what factors guided NCUA management's policy decisions regarding the pandemic during the initial outbreak, 2) what factors guide management's future decisions to either continue telework or move to on-site work (including NCUA office and credit unions), and 3) what guidelines have been put in place to protect employees when a return to on-site work is approved such as security, social distancing, and the use of Personal Protective Equipment. (Note: Objectives could change if H.R. 7430 or another statute is enacted that requires inspectors general to review agency compliance with specific requirements.)

Review of NCUA's Offsite Examination Program

The NCUA's March 30, 2020, Letter to Credit Unions, *Offsite Examination and Supervision Approach*, NCUA 20-CU-05 stated that all NCUA examinations would take place offsite due to COVID-19. In a follow-up Letter to Credit Unions, 20-CU-17 (May 2020) stated that since March, the NCUA had conducted examination work at over 100 credit unions with a median asset size of \$56 million. The Letter further stated that at most of these credit unions, NCUA staff were able to perform substantial examination procedures and complete the examination, and that while NCUA could conduct the majority of examination work offsite, there remained a few areas that were difficult to complete offsite. NCUA informed credit unions that they generally would not be required to provide information to examiners. Additionally, a new chapter was added on June 30, 2020, to the Examiner's Guide providing examination procedures relating to credit unions' compliance with the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and related NCUA guidance.

Objective: Determine whether the NCUA implemented an effective off-site examination program, including its communication with credit unions and examiners and new examination procedures related to credit union compliance with the CARES Act and other legislation and regulations relating to COVID-19.



Mandatory New Starts for 2022²

Material Loss Reviews (as necessary)

Objective: Determine the cause(s) of the credit union failure(s) and the resulting loss to the SIF; and assess the NCUA's supervision of those credit union(s).

Federal Information Security Modernization Act of 2014

Objective: Determine whether the NCUA information security and privacy management policies and procedures comply with FISMA 2014 and federal regulations and standards.

Financial Statements Audits (4) for the Year Ending December 31, 2021

Objective: Determine whether the four funds the agency administers are in compliance with GAAP and whether their statements present fairly, in all material respects, their financial position, results of operations, and changes in cash flows.

Government Charge Card Abuse Prevention Act of 2012

Objective: Review the NCUA's purchase and travel card programs to analyze risks of illegal, improper, or erroneous purchases and payments and provide and report recommendations – if warranted – to agency management, the Director of the Office of Management and Budget, and the Congress.

Enhanced Personnel Security Program³

Objective: To assess the effectiveness and fairness of the NCUA enhanced personnel security program in accordance with performance measures and standards established by the Director of National Intelligence to covered individuals of the enhanced personnel security program of the agency.

Potential New Starts for 2022

Discretionary

Concentration Risk – Real Estate and Auto Lending

Objective: Determine whether examiners adequately assessed credit union real estate and auto loan portfolios, associated risks, and credit union actions to mitigate any identified risks.

² Based on any number of critical factors, the OIG could decide at any time to move a potential new start listed for 2022 and conduct it in 2021.

³ Dependent on the readiness of the National Archives and Records Administration.



Certified Public Accountant (CPA) Audits or Independent Agreed-Upon Procedures Engagement for Credit Unions

Objective: Determine the feasibility of NCUA requiring all credit unions to have an audit conducted by a CPA or an engagement based on independent agreed-upon procedures conducted annually.

NCUA's Awards Program

Objective: Determine whether the NCUA provided awards to employees in compliance with policy.

Serving the Underserved

Objectives: Determine 1) when chartering credit unions, what process did the NCUA follow to grant the designation of underserved; 2) whether the NCUA adequately followed its processes for granting underserved designations; 3) what challenges, if any, did the NCUA face in granting underserved designations, and 4) what did the NCUA do to ensure that qualified credit unions receive underserved designations.

Capital Planning

Objectives: 1) Determine whether the NCUA ensured that credit unions subject to capital planning requirements, but that are currently in the developmental state of capital policy will not become a concern, as risk to capital appears elevated in internal stress test scenarios or as actual loss of capital, given the negative economic impact from the COVID-19 pandemic; and 2) what benefits, costs, and challenges, if any, are associated with the stress tests of credit unions supervised by the NCUA.

Fair Lending Examination Program

Objective: Determine whether the NCUA: 1) conducted fair lending examinations in compliance with applicable laws, regulations, policies, and procedures and (2) appropriately referred matters to the U.S. Department of Housing and Urban Development or the U.S. Department of Justice.

Examination Program Fraud Detection Techniques

Objectives: Determine whether the NCUA has adequate policies, procedures, and measures in place to deter, detect, and mitigate the risk of credit union fraud.

Electronic Media Sanitization

Objective: Determine whether the NCUA effectively sanitized information systems media before its disposal or reuse to protect sensitive NCUA data and personally identifiable information.

NCUA's Consumer Compliance Examination Program

Objective: Determine whether the NCUA adequately assessed a credit union's ability to effectively manage consumer compliance risks.



Member Business Loans

Objective: Determine whether the NCUA effectively mitigated member business loan risks.

NCUA's Examination Efforts over Credit Unions Holding Foreclosed Properties as Foreclosed and Repossessed Assets

Objectives: Determine 1) whether NCUA examiners followed applicable NCUA instructions and guidance during Small Credit Union Examination Program examinations when assessing Tier 1 Review Areas for credit risk specifically for charge-off policies and procedures related to foreclosed and repossessed assets; and 2) what actions, if any, examiners take to ensure credit unions do not permanently carry such income-producing assets.

Subject Matter Examiners (SME)

Objective: Determine whether the NCUA's SME program adequately selects, assigns, trains, develops, and prepares examiners to provide expert advice and support during examinations.

Risk-Based Examination Scheduling

Objective: Determine whether the NCUA 1) followed its risk-based examination schedule, and 2) provided an appropriate level of supervision, including more frequent contacts, for credit unions exhibiting adverse economic trends or other factors, or where offsite monitoring systems indicate higher relative risk.

Development, Communication, and Consistency of NCUA's Supervisory Letters, Examiner's Guide, and the National Supervision Policy Manual (NSPM)

Objective: Determine the NCUA's processes to develop, update, communicate, and make consistent the content of Supervisory Letters, Examiner's Guide, NSPM, and other tools.

Asset Management Assistance Center Non-Share Payments

Objective: Determine whether the NCUA properly and accurately paid non-share payments.

Evaluating the Scoring Process in Chartering Proposed Federal Credit Unions

Objective: Determine whether the NCUA followed established policies and procedures when reviewing and scoring chartering applications.

Office of Foreign Assets Control (OFAC) Requirements Compliance Review

Objective: Determine whether the NCUA provides effective supervision of credit unions' compliance with OFAC requirements.

Review of the NCUA's CDRLF

Objectives: Determine whether the NCUA 1) properly awards CDRLF grants and loans, and 2) verifies the proper use of funds by low-income credit unions.



APPENDIX B: LEGAL PROJECTS AND INVESTIGATIVE WORK

2021 Legal Activities

- General legal support
- Administrative/personnel legal work
- Investigative assistance and support
- Audit assistance and support
- Legislation/regulation review
- Freedom of Information Act responses

2021 Investigations

- Investigations into NCUA employee and contractors resulting from complaints/referrals
- Proactive reviews and/or investigations
- Coordination with other law enforcement and the NCUA on credit union-related complaints

2021 Training

- Briefings as needed on NCUA Instruction 1910.08, Guidelines and Responsibilities for Reporting Investigative Matters to the Inspector General



APPENDIX C: SUMMARY OF PLANNED AUDITS

2021 Projects

Carryover Audits from 2020

- NCUA's Governance of Information Technology Initiatives
- Financial Statement Audits (4) for the Year Ending December 31, 2019

New Starts for 2021 – Mandatory Audits

- Material Loss Reveiws (as necessary)
- Federal Information Security Modernization Act of 2014
- Government Charge Card Abuse Prevention Act of 2012
- Digital Accountability and Transparency Act of 2014
- Financial Statement Audits (4) for the Year Ending December 31, 2020
- Congressional/NCUA Board Requests (as necessary)

New Starts for 2021 – Discretionary Audits

- Hiring Practices
- Preventing and Detecting Cyber Threats to the NCUA
- Contracting Officer Representative Program
- NCUA's Continuity of Operations Program
- Modern Examination and Risk Identification Tool
- COVID-19 Return-to-Work Policy
- Review of NCUA's Offsite Examination Program



2022 Projects

Audits – Mandatory and Discretionary

- Concentration Risk – Real Estate and Auto Lending
- Material Loss Reviews (as necessary)
- Federal Information Security Modernization Act of 2014
- Financial Statement Audits (4) for the Year Ending December 31, 2021
- Government Charge Card Abuse Prevention Act of 2012
- Enhanced Personnel Security Program
- Certified Public Accountant Audits or Independent Agreed-Upon Procedures Engagement for Credit Unions
- NCUA’s Awards Program
- Serving the Underserved
- Capital Planning
- Fair Lending Examination Program
- Examination Program Fraud Detection Techniques
- Electronic Media Sanitization
- NCUA’s Consumer Compliance Examination Program
- Member Business Loans
- NCUA’s Examination Efforts over Credit Unions Holding Foreclosed Properties as Foreclosed and Repossessed Assets
- Subject Matter Examiners

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- Risk-Based Examination Scheduling
- Development, Communication, and Consistency of NCUA's Supervisory Letters, Examiner's Guide, and the National Supervision Policy Manual
- Asset Management Assistance Center Non-Share Payments
- Evaluating the Scoring Process in Chartering Proposed Federal Credit Unions
- Office of Foreign Assets Control Requirements Compliance Review
- Review of the NCUA's Community Development Revolving Loan Fund