

NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL



2006 ANNUAL
PERFORMANCE PLAN

OVERVIEW

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) Annual Performance Plan for 2006 delineates those audits that would most benefit the NCUA. In formulating this Plan, we considered:

- The agency's strategic and annual performance plans;
- Pertinent legislation, including the Federal Credit Union Act, the Government Performance Results Act (GPRA), the Credit Union Membership Act, Federal Information Security Management Act (FISMA), the Sarbanes-Oxley Act, and the Inspector General Act;
- Congressional activity and testimony by NCUA officials as well as significant areas of interest to NCUA Board members and the Congress;
- Audits planned and performed by the General Accounting Office (GAO);
- Input obtained from the NCUA Board and Executive staff; and
- NCUA and the credit union industry's operating environment.

How the Annual Plan was formulated

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

2005 Strategic Goals¹
<i>Strategic Goal 1</i> A safe, sound and healthy credit union industry.
<i>Strategic Goal 2</i> Access to financial services for all people throughout the United States.
<i>Strategic Goal 3</i> A prudent, flexible and efficient regulatory environment for all federally insured credit unions.

In preparing our 2006 Performance Plan, we identified several audits that address the agency's strategic goals. Due to our resource limitations, we considered each of these

¹ Source: NCUA Draft Strategic Plan 2006 - 2011.

audits and determined which ones should form the basis of our work over the next year (See Appendix C). Criteria considered in the prioritization process included such factors as importance to the NCUA mission as well as NCUA Board and Congressional interest.

Resources

The OIG staff is currently composed of 8 positions (7.55 FTEs) including the Inspector General. In addition, we rely upon contractors to augment our resources. For example, we use independent contracting firms to assist with our financial statement audits and the annual independent evaluation as required by the Federal Information Security Management Act (FISMA).

In addition to the financial statement audits and evaluation under FISMA, we use contracting dollars for short term, non-recurring projects. In 2006, our contracting budget is approximately \$450,000.

Audits that cannot be accomplished in 2006 will be deferred to 2007.

The following appendices are included in our 2006 plan:

- Appendix A: 2006 Planned Audits and Surveys
- Appendix B: 2006 Legal Projects and Investigative Work
- Appendix C: Summary of Audits/Surveys planned for 2006

Appendix A

2006 Planned Audits & Surveys

Carryover Audits and Surveys from 2005

Risk Focused Exams – Internal Control Review

In July of 2001, the National Credit Union Administration (NCUA) implemented a risk focused examination (RFE) program that eliminated the requirement to perform annual examinations in low risk credit unions. Credit unions posing limited risk to the National Credit Union Share Insurance Fund (NCUSIF) could receive an examination twice every three years. The RFE approach focused NCUA resources on high-risk areas within a credit union. The RFE program quality control and monitoring efforts include but are not limited to examination report appraisals performed by the supervisory examiners and examination report quality control reviews performed by the regional office; and management reports.

Objective: Does NCUA have a process in place to provide assurance that high risk areas are identified and addressed through the risk focused examination process?

Indirect Lending

As of December 31, 2004, 1,522 of 9,014 Federally Insured Credit Unions had indirect lending programs. The total indirect lending loans held by credit unions in these programs accounted for 12.43% of total loans. The NCUA has issued indirect lending information and examiner guidance in the form of Instructions, Letters to Credit Unions, Supervisory Letters and Risk Alerts as early as 2001 and as late as 2005. It is important to review areas to determine if they present potential risk to the National Credit Union Share Insurance Fund (NCUSIF).

Objective: Obtain an understanding of indirect lending related to credit unions and determine what vulnerabilities exist in the management of indirect lending portfolios.

Financial Statements Audits (4) for Year Ending December 31, 2005

As required, the OIG will conduct a review of the National Credit Union Administration reporting entities for the year ending December 31, 2005. This will include:

- National Credit Union Share Insurance Fund (NCUSIF)
- National Credit Union Administration Operating Fund (Operating Fund)
- Central Liquidity Facility (CLF), and
- Community Development Revolving Loan Fund (CDRLF)

These audits are conducted under contract with an independent public accounting firm.

Objective: To determine if the four funds that the agency administers are in compliance with GAAP and if their statements present fairly their financial position, results of operations and changes in cash flows.

New Starts - Mandatory Audits for 2006

Federal Information Security Management Act (FISMA)

The President signed into law the E-Government Act (Public Law 107-347), which includes Title III, Information Security, on December 17, 2002. The Federal Information Security Management Act (FISMA) permanently reauthorized the framework laid out in the Government Information Security Reform Act of 2000 (GISRA), which expired in November 2002. FISMA includes a requirement that Inspectors General perform an annual evaluation. This evaluation includes testing the effectiveness of the agency's information security policies, procedures, and practices and an assessment of compliance with the requirements of FISMA.

Annually, OMB issues reporting instructions for the Federal Information Security Management Act report. The reporting instructions provide clarification to agencies for implementing, meeting, and reporting FISMA requirements to OMB and Congress.

Objective: To determine if NCUA is in compliance with the Federal Information Security Management Act. This annual independent evaluation is required by the Act. In addition, the OIG prepares an annual report to OMB characterizing NCUA's information security management program.

Financial Statements Audits (4) for Year Ending December 31, 2006

As required, the OIG will conduct a review of the National Credit Union Administration reporting entities for the year ending December 31, 2006. This will include:

- National Credit Union Share Insurance Fund (NCUSIF)
- National Credit Union Administration Operating Fund (Operating Fund)
- Central Liquidity Facility (CLF), and
- Community Development Revolving Loan Fund (CDRLF)

These audits are conducted under contract with an independent public accounting firm. New requirements for 2006 mandate the report must be issued within 45 days of closing or by February 15, 2007.

Objective: To determine if the four funds that the agency administers are in compliance with GAAP and if their statements present fairly their financial position, results of operations and changes in cash flows.

Material Loss Reviews (as necessary)

The Federal Credit Union Act requires the NCUA Inspector General to review and report on any credit union material losses exceeding \$10 million and an amount equal to 10% of the total assets of the credit union.

Objective: Determine the underlying problem which resulted in the material loss to the insurance fund and make recommendations for preventing any such loss in the future.

Congressional/NCUA Board Requests (as necessary)

Objective: To be responsive to requests received from the Congress or the NCUA Board for OIG services.

PEER Review of Maritime OIG

Every three years it is mandatory that a PEER review be conducted of work performed by the Inspector General Office of Audit. The ECIE provides a rotation for reviews that the National Credit Union OIG is responsible for performing. In 2006, we are responsible for the PEER review of Maritime OIG.

Objective: Conduct an external peer review of the Maritime OIG's audits and attestations to ensure compliance with industry best practices, rules and regulations.

Governmentwide Financial Report System (GFRS)

To meet the joint requirements of the Office of Management and Budget (OMB), Treasury's Financial Management Services (FMS) and the General Accountability Office (GAO), the OIG is required to review the National Credit Union Administration's closing package to support the September 30 year end government consolidated financial statements.

Objective: Perform non-audit and agreed upon procedures for NCUA's submission for the government wide consolidated financial statements and input the information into the FMS GFRS.

Request for Proposals for Federal Information Security Management Act (FISMA) and Financial Statement Audit (FSA)

The Office of Inspector General is required to conduct mandatory reviews of FISMA and FSA on a yearly basis. Because of limited resources we contract with an independent consulting firm for this work.

Objective: Develop a Request for Proposal (RFP) for contracting out the FISMA and FSA for 2006, with option years for 2007 and 2008.

New Starts for 2006 (Discretionary Audits)

Risk Focused Exams – Tracking Identified Deficiencies

This audit is a follow on review to the Risk Focused Exams – Internal Control Reviews. As of August 22, 2005, there were approximately 5,500 Federal Credit Unions. Low risk credit unions as identified by CAMEL ratings 1 and 2 represented ninety-five percent of the insured shares and seventy-seven percent of the number of credit unions. High risk credit unions as identified by CAMEL ratings 3, 4, and 5 represented five percent of the insured shares and twenty-three percent of the number of credit unions.

Objective: Does NCUA have a process in place to track deficiencies identified during exams? In addition, what is the process for follow-up on the identified deficiencies and does follow-up take place in a timely manner?

Bank Secrecy Act – Suspicious Activity Reports

All federal banking regulators, including NCUA, signed an agreement with the Financial Crimes Enforcement Network (FinCEN) to strengthen interagency communication and enhance the reporting system for significant BSA violations. The BSA requires financial institutions to file Suspicious Activity Reports (SARs) when suspected money laundering or BSA violations occur. FinCEN also provides automated systems to review reported SARs. Review of these SARs can be an important tool in protecting the integrity of Credit Unions.

Objective: What process is in place to utilize/review SARs and is this process successful?

Implementation of Gramm-Leach-Bliley Act (GLBA)

Congress enacted several privacy provisions in the Gramm-Leach-Bliley Act (GLBA). Financial institutions have an obligation to respect the privacy of its customers and to protect the security and confidentiality of those customers' nonpublic personal information. GLBA requires the NCUA to prescribe regulations that "establish appropriate standards for the financial institutions subject to their jurisdiction relating to administrative, technical, and physical safeguards – (1) to insure the security and confidentiality of customer records and information; (2) to protect against any anticipated threats or hazards to the security or integrity of such records; and (3) to protect against unauthorized access to or use of such records or information which could result in substantial harm or inconvenience to any customer."

Objective: Determine whether NCUA has provided adequate credit union and examination guidance for implementing the data privacy and security provisions of the Gramm-Leach-Bliley Act.

Potential New Starts for 2007

Security of Credit Union Member Data

Objective: Determine the extent to which examinations ensure that credit unions are adequately protecting member data.

Real Estate Lending

Objective: To determine the significance of real estate lending in the credit union industry and the risks that real estate lending poses to the share insurance fund.

Bank Secrecy Act – Documentation

Objective: Are NCUA examiners documenting their reviews of BSA compliance?

Examination Assessment of Electronic Financial Services

Objective: Determine whether the NCUA examination procedures address the risks associated with electronic banking and the extent to which examiners are following the procedures.

Blackberry Devices Configured to provide Secure Remote Access

Objective: Determine if there is adequate security over blackberry devices?

Appendix B

2006 Legal Projects and Investigative Work

2006 LEGAL ACTIVITIES

General legal support
Administrative/personnel legal work
Investigative assistance & support
Audit assistance & support
Legislation/regulation review

2006 INVESTIGATIONS

Formal investigations
Preliminary/informal investigations
Proactive reviews and/or investigations

2006 TRAINING

Regional staff & integrity awareness training
New supervisor training
Continued briefings on revised instruction, Guidelines and Responsibilities for Reporting Investigative Matters to the Inspector General, 01910.08

Appendix C

Summary of Audits/Surveys Planned for 2006

2006 PROJECTS

Audits/Surveys:

- Risk Focused Exams – Internal Control Review (carry over from 2005)
- Indirect lending (carry over from 2005)
- 2005 Financial Statement Audits (carry over from 2005)
- Federal Information Security Management Act (FISMA)
- 2006 Financial Statement Audits
- Material Loss Reviews
- Congressional/NCUA Board Requests
- PEER Review of Maritime OIG
- Governmentwide Financial Report System
- RFP for FISMA & Financial Statement Audit
- Risk Focused Exams – Tracking Identified Deficiencies
- Bank Secrecy Act – Suspicious Activity Reports
- Implementation of Gramm-Leach-Bliley Act