

NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL



2007 ANNUAL
PERFORMANCE PLAN

OVERVIEW

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) Annual Performance Plan for 2007 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 Government Accountability 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).

2007 Strategic Goals¹
<i>Strategic Goal 1</i> A safe, sound and healthy credit union system
<i>Strategic Goal 2</i> Access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States
<i>Strategic Goal 3</i> A prudent, flexible and efficient regulatory environment for all federally insured credit unions

¹ Source: NCUA Strategic Plan 2006 - 2011.

In preparing our 2007 Performance Plan, we identified several audits that address the agency's strategic goals. Due to our resource limitations, we considered each of these 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 2007, our contracting budget is approximately \$600,000.

Audits that cannot be accomplished in 2007 will be deferred to 2008.

The following appendices are included in our 2007 plan:

- Appendix A: 2007 Planned Audits and Surveys
- Appendix B: 2007 Legal Projects and Investigative Work
- Appendix C: Summary of Audits/Surveys planned for 2007

Appendix A

2007 Planned Audits & Surveys

Carryover Audits from 2006

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.

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 2007

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, 2007

As required, the OIG will conduct a review of the National Credit Union Administration reporting entities for the year ending December 31, 2007. 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. Requirements mandate the report must be issued within 45 days of year end or by February 15, 2008.

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.

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 Government Accountability Office (GAO), the OIG is required to review the National Credit Union Administration's closing package to support the September 30 year-end governmentwide consolidated financial statements.

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

New Starts for 2007 (Discretionary Audits)

Risk Focused Exams – Tracking Identified Documents of Resolution (DOR's)

This audit is a follow on review to the Risk Focused Exams – Internal Control Review. DOR's are issued to correct deficiencies identified during examinations of credit unions. There are 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 and are problems resolved?

Encryption of NCUA Data

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

Objective: Determine if NCUA is adequately protecting sensitive electronic data. Specifically, we will be reviewing examiner notebooks, USB drives, and other media to determine if sensitive credit union member data obtained during examinations are stored in an encrypted format.

Real Estate Lending

During the first nine months ending September 30, 2006, the reporting 8,462 federally insured credit union assets increased 3.28 percent to \$700.9 billion from \$678.7 billion, with loans increasing 6.47 percent to \$487.9 billion from \$458.2 billion. Lending grew across the board with the exception of loan leases. The credit unions reported 1st mortgage real estate loans expanded 8.20 percent and other types of real estate loans grew 13.13 percent. Combined, first mortgage and other types of real estate loans grew 9.86 percent through the third quarter of 2006. Real estate guidance is available to examiners in NCUA issuances such as Supervisory Letter 05-02, and the examiner guide.

Objective: To determine the significance of real estate lending in the credit union system and the risks that real estate lending poses to the share insurance fund and what NCUA is doing to mitigate these risks.

OMB-06-16 Follow Up Review

Following numerous incidents involving the compromise or loss of sensitive personal information, OMB issued memorandum M-06-16 requiring agencies to take specific actions to protect personally identifiable information. In December 2006, the NCUA OIG issued a report regarding NCUA's compliance with M-06-16. During this limited scope review, the OIG determined that NCUA needs to strengthen its privacy program to ensure that personally identifiable information and other sensitive data are appropriately protected

Objective: Follow up on previous recommendations made to NCUA in report OIG-07-01.

Review of AMAC's Protection of Electronic Records

The Asset Management and Assistance Center (AMAC) resolves failed federally insured credit unions. In performing this function, AMAC personnel have access to records containing personally identifiable information on credit union employees and members.

Objective: Determine whether the NCUA adequately protects personal information collected and maintained in electronic form as a result of resolution and receivership activity.

Grant & Loan Program (CDRLF)

The National Credit Union Administration's Community Development Revolving Loan Fund (CDRLF) was established by Congress to support credit unions that serve low-income communities by making loans and Technical Assistance Grants (TAGs) available to qualifying institutions. The NCUA Office of Small Credit Union Initiatives administers the financial and technical assistance (Grants) programs to assist low-income credit unions in providing service and stimulating economic activities in their communities.

Objective: To determine if the credit unions receiving the grants and loans are in compliance with the program; how is funding awarded; are grants competitive; and if there are contingencies, are they met?

Potential New Starts for 2008

Cyber Security

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? What do examiners do to make sure credit unions secure personally identifiable information?

QCR Process

Objective: How do QCR's evaluate examinations if examiners only document on an exception basis during the Risk Focused Exam process?

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.

Electronic 5300 Filing

Objective: Determine the capability of all Federal Credit Unions to file 5300's electronically.

Subject Matter Expert's (SME)

Objective: How effective is the SME program and is it properly utilized? Do SMEs have adequate experience and do they obtain sufficient training?

Bank Secrecy Act – Suspicious Activity Reports

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

Review of NCUA Enforcement of Administrative Actions

Objective: Determine whether the NCUA tracks and provides adequate follow up to ensure the enforcement of administrative actions.

Appendix B

2007 Legal Projects and Investigative Work

2007 LEGAL ACTIVITIES

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

2007 INVESTIGATIONS

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

2007 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 2007

2007 PROJECTS

Audits/Surveys:

- 2006 Financial Statement Audits (carry over from 2006)
- Federal Information Security Management Act (FISMA)
- 2007 Financial Statement Audits
- Material Loss Reviews
- Governmentwide Financial Report System
- Risk Focused Exams – Tracking Identified DOR's
- Encryption OF NCUA Data
- Real Estate Lending
- OMB-06-16 Follow up Review
- AMAC's Protection of Electronic Records
- CDRLFs Grant and Loan Program
- Congressional/NCUA Board Requests

2008 PROJECTS

Audits/Surveys:

- Cyber Security
- QCR Process
- Examination Assessment of Electronic Financial Services
- Electronic 5300 Filing
- Subject Matter Experts (SME's)
- Bank Secrecy Act – Suspicious Activity Reports
- NCUA Enforcement of Administrative Actions
- Financial Statement Audits
- Federal Information Security Management Act (FISMA)
- Material Loss Reviews
- Governmentwide Financial Report System
- Congressional/NCUA Board Requests