

**NATIONAL CREDIT UNION ADMINISTRATION**  
OFFICE OF INSPECTOR GENERAL



2008 ANNUAL  
PERFORMANCE PLAN

## OVERVIEW

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) Annual Performance Plan for 2008 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).

<b>2008 Strategic Goals<sup>1</sup></b>
<b><i>Strategic Goal 1</i></b> A safe, sound and healthy credit union system
<b><i>Strategic Goal 2</i></b> Access to financial services offered by federally insured credit unions for all eligible consumers throughout the United States
<b><i>Strategic Goal 3</i></b> A prudent, flexible and efficient regulatory environment for all federally insured credit unions

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<sup>1</sup> Source: NCUA Strategic Plan 2006 - 2011.

In preparing our 2008 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 (7.75 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 2008, our contracting budget is approximately \$600,000.

Audits that cannot be accomplished in 2008 will be deferred to 2009.

The following appendices are included in our 2008 plan:

- Appendix A: 2008 Planned Audits and Surveys
- Appendix B: 2008 Legal Projects and Investigative Work
- Appendix C: Summary of Audits/Surveys planned for 2008

# **Appendix A**

## **2008 Planned Audits & Surveys**

### **Carryover Audits from 2007**

#### **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.

*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.*

#### **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?*

### **New Starts - Mandatory Audits for 2008**

#### **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, 2008**

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- 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, 2009.

*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 2008 (Discretionary Audits)**

#### **Field of Membership**

Recently there have been several news related stories concerning NCUA's takeover of state-chartered credit unions. Most of these takeovers involve loans to seemingly "members" outside the normal geographic or other fields of membership. The question continually arises as to what rules and enforcement of field of membership exist? Does NCUA have any authority over a state-chartered credit union due to mortgage loan defaults? Does NCUA have any authority over a state-charted credit unions field of membership? What is NCUA doing to increase its presence/oversight of credit unions that pose a greater risk to the share insurance fund?

Objective: Determine whether field of membership practices in Norlarco, Huron River and New Horizon credit unions were a contributing factor in their failures?

#### **Smart Cards**

On August 27, 2004, the President signed HSPD-12 "Policy for a Common Identification Standard for Federal Employees and Contractors" (the Directive). The Directive requires the development and agency implementation of a mandatory, government wide standard for secure and reliable forms of identification for Federal employees and contractors. NCUA is required to meet this directive and its due dates.

The Directive required that by October 2005, NCUA issue ID badge issuance policies and procedures. This was completed. By October 2006, NCUA was required to begin issuance of the new ID badges. NCUA complied with this date by issuing one badge under the new system to the CIO. By October 2008, NCUA must complete its issuance of new HSPD-12 compliant badges to all employees and contractors.

*Objective: Determine the status of NCUA's implementation of Smart Cards and what is the reliability of the data for the cards?*

#### **Review of New Financial System Methodology**

NCUA's current financial accounting software is expected to be unsupported by the vendor within the next one to two years. Therefore, the agency is in the process of selecting new financial accounting software. The OCFO believes the agency needs a system which will support the federal standard general ledger (SGL) and a system which should be hosted off-site. The total estimated cost is over \$5 million dollars. The OCFO has proposed \$2.7 million in the 2008 NCUA capital budget, with the remainder incorporated into the 2009 NCUA capital budget. The NCUA Chief Financial Officer stated that the agency must move quickly on the purchase acquisition process.

Objective: Does NCUA have an adequate methodology for the acquisition of financial accounting software?

## **IPv6 Review**

OMB has required all Federal agencies' network backbones to be IPv6 compliant by June 30, 2008 - any new IP product or system developed, acquired, or produced must interoperate with both IPv6 and IPv4 systems and products. While, the IPv4 and IPv6 backbones will coexist for a number of years, it is an agency's best interest to follow OMB's required timeline to facilitate a smooth transition to IPv6.

*Objective: Determine what steps NCUA has taken to make its network backbone IPv6 (Internet Protocol version 6) compliant.*

## **Home Mortgage Disclosure Act Data**

"NCUA places a priority on ensuring that credit unions comply with all nondiscrimination laws and works to protect consumers against discriminatory or unfair home mortgage lending practices" stated Examination and Insurance Director at testimony in July 2007. During 2006, nearly 5,600 federally insured credit unions provided mortgage loans, comprising approximately 2 percent of the national mortgage market.

NCUA works with the credit unions subject to HMDA to ensure timely filing. Materially late filers are subject to civil money penalties. 17 penalties were assessed in 2005 and 22 in 2006. The Office of Examination and Insurance (E&I) has responsibility for properly monitoring HMDA data however this division has very limited resources to complete this task.

*Objective: Determine what NCUA is doing to ensure that HMDA data is used and followed up on to prevent instances of possible discriminatory lending practices?*

## **Quality Control (QCR) Process**

The Regional Division of Supervision will perform an independent Quality Control Review (QCR), and document on a review form, selected examination reports. QCRs will focus on risk identification, scope development, proper solutions, and continuing plans to determine whether the examination report addresses: all areas of material risk; contains results-oriented plans of action to timely correct areas of concern; addresses negative trends and includes sound recommendations to promptly resolve major problems; complies with standards; and provides a complete administrative record.

*Objective: Determine how Quality Control Reviews (QCRs) evaluate examinations if examiners only document on an exception basis during the Risk Focused Exam process?*

## **Potential New Starts for 2009**

### **CAMEL Rating System**

Objective: Determine if there is proper documentation for changes in CAMEL ratings and has NCUA updated AIREs for CAMEL change documentation?

### **Oversight of Credit Union IT Infrastructure**

Objective: Determine whether the NCUA Examination Program provides oversight of credit union IT infrastructures to adequately assess whether credit unions are taking sufficient measures to protect the confidentiality, availability, and integrity of sensitive credit union data and member PII.

### **Post Mortem Review**

Objective: Determine whether the NCUA process for reviewing failed credit unions is mitigating common causes of the failures to protect other credit unions?

### **Subject Matter Expert's (SME)**

Objective: Review the set up of the SME program and determine how well the program functions?

### **Member Business Lending**

Objective: Determine how many CUs are exceeding the cap for member business loans and how well NCUA is monitoring and enforcing these rules?

### **Credit Union Websites**

Objective: Determine whether credit union web sites include controls to adequately protect sensitive credit union data and member PII from threats specific to web applications.

### **Change in CAMEL Ratings**

Objective: To determine whether examiners consistently apply CAMEL ratings to credit unions using the revised (2008) CAMEL rating system.

## **Appendix B**

### **2008 Legal Projects and Investigative Work**

#### ***2008 LEGAL ACTIVITIES***

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

#### ***2008 INVESTIGATIONS***

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

#### ***2008 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 2008**

#### **2008 PROJECTS**

**Audits/Surveys:**

- 2006 Financial Statement Audits (carry over from 2007)
- CDRLFs Grant and Loan Program (carry over from 2007)
- Federal Information Security Management Act (FISMA)
- 2008 Financial Statement Audits
- Material Loss Reviews
- Governmentwide Financial Report System
- Field of Membership
- Smart Cards
- New Financial System Methodology
- IPv6
- Home Mortgage Disclosure Act Data
- Quality Control Process
- Congressional/NCUA Board Requests

#### **2009 PROJECTS**

**Audits/Surveys:**

- CAMEL Rating System
- Oversight of Credit Union IT Infrastructure
- Post Mortem Review
- Subject Matter Expert
- Member Business Lending
- Credit Union Websites
- Change In CAMEL Rating
- 2009 Financial Statement Audits
- Federal Information Security Management Act (FISMA)
- Material Loss Reviews
- Governmentwide Financial Report System
- Congressional/NCUA Board Requests