

NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL



2009 ANNUAL
PERFORMANCE PLAN

OVERVIEW

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) Annual Performance Plan for 2009 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).

2009 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

In preparing our 2009 Performance Plan, we had to consider the current economic environment that has produced several mandatory material loss reviews. A material

¹ Source: NCUA Strategic Plan 2006 - 2011.

loss review is mandated when a credit unions loss to the Share Insurance Fund is \$10 million dollars or more. We expect that material loss reviews already assigned to the OIG and those anticipated will take a significant amount of our resources in 2009. 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 9 positions (9 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 2009, our contracting budget for audits is approximately \$775,000.

Audits that cannot be accomplished in 2009 will be deferred to 2010.

The following appendices are included in our 2009 plan:

- Appendix A: 2009 Planned Audits and Surveys
- Appendix B: 2009 Legal Projects and Investigative Work
- Appendix C: Summary of Audits/Surveys planned for 2009

Appendix A

2009 Planned Audits & Surveys

Carryover Audits from 2008

Financial Statements Audits (4) for Year Ending December 31, 2008

As required, the OIG will conduct a review of the National Credit Union Administration reporting entities for the year ending December 31, 2008. 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 whether 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.

Norlarco Material Loss Review

The Federal Credit Union Act requires the OIG to review and report on any credit union material losses exceeding \$10 million to the Share Insurance Fund. Norlarco Credit Union has an estimated loss of \$12 million dollars.

Objective: We will review Norlarco to: (1) determine the cause(s) of its failure and the resulting loss to the NCUSIF; and (2) assess NCUA's supervision of the credit union.

PEER Review of National Science Foundation 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 2009, we are responsible for the PEER review of National Science Foundation OIG.

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

New Starts - Mandatory Audits for 2009

Federal Information Security Management Act (FISMA) Review

Title III of the E-Government Act - the Federal Information Security Management Act (FISMA) - requires each federal agency to develop, document, and implement an agency-wide security program. 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 FISMA report. The reporting instructions provide clarification to agencies for implementing, meeting, and reporting FISMA requirements to OMB and Congress.

Objective: To determine whether NCUA is in compliance with FISMA (the 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, 2009

As required, the OIG will conduct a review of the National Credit Union Administration reporting entities for the year ending December 31, 2008. 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, 2010.

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

New London Credit Union Material Loss Review

The Federal Credit Union Act requires the OIG to review and report on any credit union material losses exceeding \$10 million to the Share Insurance Fund. New London Credit Union has an estimated loss of \$12 million dollars.

Objective: We will review New London Credit Union to: (1) determine the cause(s) of its failure and the resulting loss to the NCUSIF; and (2) assess NCUA's supervision of the credit union.

Cal State 9 Credit Union Material Loss Review

The Federal Credit Union Act requires the OIG to review and report on any credit union material losses exceeding \$10 million to the Share Insurance Fund. Cal State 9 Credit Union has an estimated loss of \$206 million dollars.

Objective: We will review Cal State 9 Credit Union to: (1) determine the cause(s) of its failure and the resulting loss to the NCUSIF; and (2) assess NCUA's supervision of the credit union.

Material Loss Reviews (as necessary)

We anticipate several other material loss reviews in 2009 utilizing a significant portion of our OIG resources. The Federal Credit Union Act requires the OIG 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 cause(s) of the credit union failure(s) and the resulting loss to the NCUSIF; and assess NCUA's supervision of the credit union(s).

Congressional/NCUA Board Requests (as necessary)

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

Review of Government wide 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 government-wide 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 2009 (Discretionary Audits)

NCUA Asset Management Assistance Center (AMAC) Property Management

Review AMAC's property management efforts. The review would concentrate on the approximately 1,000 real estate properties in Florida that AMAC acquired from recent credit union failures. The review would focus on what actions AMAC has taken to divest the portfolio in order to maximize recoveries to the NCUSIF.

Objective: Review AMAC's asset management process to determine whether AMAC is disposing of assets in the most cost effective manner.

IPv6

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.

Corporate Credit Unions

Review the examination history of the five corporate credit unions that entered a distressed state in 2008. Determine whether a Global tracking system was used to identify existing problems and what actions were taken. Consider GAO reviews completed on corporate credit unions and the recommendations made in those reports.

Objective: How effective is the Corporate Credit Union exam process in identifying and correcting problems?

Examination and Insurance Postmortems

Review the NCUA's latest quarterly postmortem status report to determine the status of each postmortem in terms of completion. Conduct an aging of all postmortems to identify those in "open" status and NCUA plans for closure. Conduct an analysis of any conclusions reached and "lessons learned" identified in any ongoing open postmortems to determine what impact, if any, delays in completing the postmortem(s) have had on the NCUA.

Objective: Determine whether E&I post mortem reviews are conducted in a timely manner.

Credit Union Information Systems and Technology (IS&T) Programs

The nature and complexity of IS&T processing may significantly increase the potential risk exposure to disaster, error, or fraud within or outside the credit union or service bureau operation. While the fundamental concepts of internal control (e.g., separation of duties, audit trails, back-up, monitoring, and contingency plans) remain the same in either a computerized or manual system, the techniques and approach required to review these systems differ. The examiner's primary responsibility in reviewing IS&T operations is to recognize the procedures and internal controls that minimize the exposure to loss and disruption of service.

Objective: Determine whether the NCUA Examination program provides adequate oversight of credit union IS&T programs to assess whether credit unions are taking sufficient measures to protect the confidentiality, availability, and integrity of credit union assets and sensitive credit union data.

Quality Control Review (QCR) Process

The Regional Division of Supervision is required to perform an independent QCR, and document on a review form, selected examination reports. QCRs are supposed to 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. Under the risk-focused examination process, examiners only document issues on an exception basis.

Objective: Determine whether QCRs adequately evaluate examinations.

Third Party Relationships

In recent years, NCUA has issued several pieces of guidance on managing third party risk and due diligence. In April 2008, the NCUA Board issued new guidance through Supervisory Letter 08-CU-09 to assist examiners in determining whether credit unions are managing their third party relationships in a sound manner. The letter requires examiners to use a questionnaire developed to assist in the evaluation of a credit union's due diligence over its third party relationships.

Objective: Determine whether the examination process adequately assesses third party relationships.

CAMEL Rating System

The NCUA is preparing to change the CAMEL code system to eliminate the use of the quantitative matrix. The credit unions and the NAFCU are concerned that without the quantitative factors in the matrix, examiners will not be able to consistently rate credit unions.

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

Potential New Starts for 2010

Natural Person Credit Union Exam Process

Objective: Determine whether NCUA has an adequate process to monitor Natural Person Credit Unions to identify and track potential systemic issues/problems.

Changes in CAMEL Ratings

Objective: To determine whether there is adequate support for changes in CAMEL ratings.

Credit Union Website Security

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.

NCUA Routers Switches and Firewalls

Objective: Determine whether controls over routers, switches and firewalls adequately protect the NCUA's network.

Member Business Lending

Objective: Determine how many credit unions are exceeding the cap for member business loans and how well NCUA is monitoring and enforcing the Member Business Lending rules

Field of Membership

Objective: Determine whether field of membership practices in Norlarco, Huron River and Cal State 9 credit unions were a contributing factor in their failures?

Economic Development Specialist (EDS)

Objective: Has the effectiveness of the EDS program improved since moving from the field to the central office?

Appendix B

2009 Legal Projects and Investigative Work

2009 LEGAL ACTIVITIES

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

2009 INVESTIGATIONS

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

2009 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 2009

2009 PROJECTS

Audits/Surveys:

- 2008 Financial Statement Audits (carry over from 2008)
- Norlarco Material Loss Review (carry over from 2008)
- Peer Review of National Science Foundation OIG (carry over from 2008)
- Federal Information Security Management Act (FISMA) Review
- 2009 Financial Statement Audits
- New London Credit Union Material Loss Review
- CAL State 9 Credit Union Material Loss Review
- Material Loss Reviews (as necessary)
- Government-wide Financial Report System (GFRS)
- AMAC Property Management
- IPv6
- Corporate Credit Unions
- E&I Post Mortem's
- Credit Union IS&T Programs
- Quality Control (QCR) Process
- Third Party Relationships
- CAMEL Rating System
- Congressional/NCUA Board Requests

2010 PROJECTS

Audits/Surveys:

- Natural Person Credit Union Exam Process
- Changes in CAMEL Rating
- Credit Union Web Site Security
- NCUA Routers, Switches and Firewalls
- Member Business Lending
- Field of Membership
- Economic Development Specialist
- 2009 Financial Statement Audits
- Federal Information Security Management Act (FISMA)
- Material Loss Reviews
- Government-wide Financial Report System
- Congressional/NCUA Board Requests