

NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL



2010 ANNUAL
PERFORMANCE PLAN

OVERVIEW

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) Annual Performance Plan for 2010 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’s 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).

2010 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 2010 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 union's loss to the Share Insurance Fund is \$10 million dollars or more. Although we expect material loss reviews already assigned to the OIG and those anticipated will take a significant amount of our resources in 2010, 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 nine 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 2010, our contracting budget for audits is approximately \$1.6 million dollars.

Audits that cannot be accomplished in 2010 will be deferred to 2011.

The following appendices are included in our 2010 plan:

- Appendix A: 2010 Planned Audits and Surveys
- Appendix B: 2010 Legal Projects and Investigative Work
- Appendix C: Summary of Audits/Surveys planned for 2010

Appendix A

2010 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.

Carryover Audits from 2009

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.

Center Valley 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. Center Valley Credit Union has an estimated loss of \$16 million dollars.

Objective: We will review Center Valley 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.

High Desert 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. High Desert Credit Union has an estimated loss of \$24.3 million dollars.

Objective: We will review High Desert 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.

Eastern Financial Florida 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. Eastern Financial Florida Credit Union has an estimated loss of \$29 million dollars.

Objective: We will review Eastern Financial Florida 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.

Financial Statements Audits (5) 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, 2009. This will include:

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

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 five 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 Starts - Mandatory Audits for 2010

Material Loss Reviews

We anticipate at least 10 to 15 additional material loss reviews in 2010 will require a significant portion of our OIG resources. This will severely limit our ability to conduct discretionary audits listed in this plan. 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 percent 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).

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.

Clear Star 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. Clear Star Credit Union has an estimated loss of \$11.7 million dollars.

Objective: We will review Clear Star 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.

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.

Financial Statements Audits (5) for Year Ending December 31, 2010

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

- National Credit Union Share Insurance Fund (NCUSIF)

- National Credit Union Administration Operating Fund (Operating Fund)
- Central Liquidity Facility (CLF)
- Community Development Revolving Loan Fund (CDRLF), and
- The Temporary Corporate Credit Union Stabilization Fund.

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, 2011.

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 Starts for 2010 (Discretionary Audits)

Material Loss Review (MLR) Capping Report

Background: In October 2009 the OIG made the decision not to make recommendations in our MLR reports. Instead, as major causes, trends, and common characteristics of financial institution failures are identified in MLR reviews, the OIG will communicate those to management for its consideration. As resources allow, the OIG may also conduct more in-depth reviews of specific aspects of the NCUA's supervision program and make recommendations, as warranted.

Objective: Periodically the OIG will provide NCUA management with recommendations based on observations identified during MLRs.

NCUA Asset Management Assistance Center (AMAC) Property Management

Review AMAC's property management efforts. The review would focus on what actions AMAC has taken to manage assets acquired from failed credit unions in order to maximize recoveries to the NCUSIF. For example, AMAC acquired approximately 1,000 real estate properties in Florida from credit union failures.

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

HSPD-12 Implementation Follow-up

Background: NCUA OIG issued a report on June 4, 2008 regarding the status of NCUA's implementation of HSPD-12, which requires the use of Personal Identity Verification (PIV) credentials. During the audit, NCUA indicated it would issue the PIV credentials (1) with a Microsoft certificate to provide access to the NCUA VPN and (2) without the cross-certified federal certificate, which will provide interagency access control throughout the federal government. NCUA indicated it did not incorporate the federal certificate because (a) of the cost of obtaining and maintaining the credentials and (b) there were no federal applications yet requiring the use of the federal certificate. Subsequent to the OIG report, NCUA issued PIV credentials to agency

employees without federal certificates. In late 2009, OMB required the use of federally certified PIV credentials for access to the FISMA reporting system.

Objective: Determine the status of NCUA's efforts to incorporate federal certificates on its PIV credentials.

Document of Resolution (DOR) Follow-Up

Background: Recent Material Loss Reviews (MLR) indicated that requirements included in DORs issued by examiners to credit unions to correct significant deficiencies had not been timely addressed. For example, the same DOR requirements were repeated over several examination contacts at the same credit union. We observed during MLRs that unaddressed DOR requirements pertained to the issue(s) that led to the failure of credit unions.

Objective: Conduct a sample of open and closed DORs. Determine the process for resolution/closure of the DOR and if this process is working.

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 whether NCUA's network backbone is IPv6 (Internet Protocol version 6) compliant.

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 are an effective quality assurance tool and whether QCR recommendations are being tracked and implemented.

Third Party Relationships

In recent years, NCUA has issued several guidance documents on due diligence over third party relationships and managing third party risk. In April 2008, the NCUA Board issued 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 the risk of third party relationships and the credit union management's due diligence over those relationships.

Potential New Starts for 2011

Unclaimed Share Accounts Held By Asset Management and Assistance Center (AMAC)

Objective: Determine whether AMAC properly manages and disburses unclaimed credit union shares.

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

Objective: Determine whether the NCUA provides adequate oversight of credit union systems and technology 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.

Changes in CAMEL Ratings

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

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.

Economic Development Specialist (EDS)

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

Subject Matter Examiners (SME)

Objective: Determine whether NCUA effectively implements the SME program in terms of identification, selection, and training of staff.

Survey How Credit Unions Utilize Credit Union Service Organizations (CUSOs)

Objective: Conduct a survey to determine the extent and appropriateness of CUSOs.

Appendix B

2010 Legal Projects and Investigative Work

2010 LEGAL ACTIVITIES

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

2010 INVESTIGATIONS

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

2010 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 2010

2010 PROJECTS

Audits/Surveys:

- 2008 Financial Statement Audits (carry over from 2008)
- Cal State 9 Material Loss Review (carry over from 2009)
- Center Valley Material Loss Review (carry over from 2009)
- High Desert Material Loss Review (carry over from 2009)
- Eastern Financial Florida Material Loss Review (carry over from 2009)
- 2009 Financial Statement Audits (carry over from 2009)
- Material Loss Reviews
- Federal Information Security Management Act (FISMA) Review
- Clear Star Material Loss Review
- Congressional/NCUA Board Requests
- Government-wide Financial Report System (GFRS)
- 2010 Financial Statement Audits
- Material Loss Review Capping Report
- AMAC Property Management
- HSPD-12
- Document of Resolution Follow-up
- Internet Protocol Version 6 (IPv6)
- Quality Control Review (QCR) Process
- Third Party Relationships

2011 PROJECTS

Audits/Surveys:

- Unclaimed Share Accounts AMAC
- Credit Union IS&T Programs
- Changes in CAMEL Rating
- NCUA Routers, Switches and Firewalls
- Member Business Lending
- Economic Development Specialist
- Subject Matter Examiners
- Credit Union Service Organization Survey
- 2010 Financial Statement Audits
- Federal Information Security Management Act (FISMA)
- Material Loss Reviews
- Government-wide Financial Report System
- Congressional/NCUA Board Requests