

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



**2011 ANNUAL**  
**PERFORMANCE PLAN**

# OVERVIEW

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) Annual Performance Plan for 2011 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, 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 areas of significant 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>2011 Strategic Goals<sup>1</sup></b>
<i>Strategic Goal 1</i> Ensure a safe, sound and healthy credit union system.
<i>Strategic Goal 2</i> Promote credit union access to all eligible persons.
<i>Strategic Goal 3</i> Further develop a regulatory environment that is transparent and effective.
<i>Strategic Goal 4</i> Issue clearly articulated and easily understood regulations.
<i>Strategic Goal 5</i> Cultivate an environment that fosters a diverse, well trained and motivated staff.

<sup>1</sup> Source: NCUA Strategic Plan 2011 - 2016.

In preparing our 2011 Performance Plan, we considered the current economic environment that has required ongoing, mandatory material loss reviews. A material loss review is mandated when a credit union's loss to the National Credit Union Share Insurance Fund (NCUSIF) is \$25 million dollars or more. Although we expect that current and future material loss reviews will require a significant amount of our resources in 2011, we identified several audits that address the agency's strategic goals. Due to our resource limitations, we considered each of the 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. The audit staff consists of five auditors, including the Deputy Inspector General. In addition, we rely upon contractors to augment our resources. For example, we use independent contracting firms to assist us with conducting financial statement audits, the annual independent evaluation required by FISMA, and selected material loss reviews.

In addition to the financial statement audits and evaluation under FISMA, we use contracting dollars for short term, non-recurring projects. In 2011, our contracting budget for audits is approximately \$2.4 million dollars.

Audits that cannot be accomplished in 2011 will be deferred to 2012.

The following appendices are included in our 2011 plan:

- Appendix A: 2011 Planned Audits and Surveys
- Appendix B: 2011 Legal Projects and Investigative Work
- Appendix C: Summary of Audits/Surveys planned for 2011

# Appendix A

## 2011 Planned Audits & Surveys

### Carryover Audits from 2010

#### **Beehive Credit Union Material Loss Review**

The Federal Credit Union Act requires the OIG to review and report on any credit union material losses exceeding \$25 million to the NCUSIF. Beehive Credit Union's loss exceeds this amount.

Objective: We will review Beehive 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.

#### **Certified Federal Credit Union Material Loss Review**

The Federal Credit Union Act requires the OIG to review and report on any credit union material losses exceeding \$25 million to the NCUSIF. In addition, we are required to review all losses (regardless of the loss amount) to the NCUSIF and determine if any unusual circumstances warrant a MLR. In our limited review of Certified Federal Credit Union, we determined there were unusual circumstances that warranted a material loss review.

Objective: We will review Certified Federal 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.

#### **Members United Corporate Federal Credit Union Material Loss Review**

The Federal Credit Union Act requires the OIG to review and report on any credit union material losses exceeding \$25 million to the NCUSIF. Members United Corporate Credit Union's loss exceeds this amount.

Objective: We will review Members United Federal Corporate 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.

#### **Southwest Corporate Federal Credit Union Material Loss Review**

The Federal Credit Union Act requires the OIG to review and report on any credit union material losses exceeding \$25 million to the NCUSIF. Southwest Corporate Federal Credit Union's loss exceeds this amount.

Objective: We will review Southwest Corporate Federal 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, 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 (OF)
- Central Liquidity Facility (CLF)
- Community Development Revolving Loan Fund (CDRLF) ), and
- The Temporary Corporate Credit Union Stabilization Fund (TCCUSF).

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 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 2011**

### **Material Loss Reviews**

We anticipate at least 8 to 12 additional material loss reviews in 2011 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 \$25 million and an amount equal to 10 percent of the total assets of the credit union. In addition, legislation passed in 2010 requires the OIG to conduct a limited review of all losses to the NCUSIF and elevate those that have unusual circumstances to an MLR regardless of the loss amount.

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 of 2002 - 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 of the agency's program. 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, the Office of Management and Budget (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. This annual independent evaluation is required by the FISMA. In addition, the OIG prepares an annual report to OMB characterizing NCUA's information security management program.

#### **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 OMB, the Department of Treasury's Financial Management Services (FMS), and the Government Accountability Office (GAO), the OIG is required to review the NCUA'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, 2011**

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- National Credit Union Share Insurance Fund (NCUSIF)
- National Credit Union Administration Operating Fund (OF)
- 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, 2012.

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 for 2010 (Discretionary Audits)**

##### **Document of Resolution (DOR) Follow-Up**

Background: Recent material loss reviews 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 material

loss reviews that unaddressed DOR requirements were relevant 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 is the current system effective.

### **Building Security**

Recent concerns by the NCUA Board over unauthorized building access led to establishing new security procedures at NCUA's central office building. Our review will compare NCUA building security against federal security standards. These standards provide a framework for security measures to address unique risks at a federal facility. The baseline measures provide comprehensive solutions in all five areas of physical security, including site, structural, facility entrance, interior, security systems, and security operations and administration.

Objective: Conduct a review of building security at 1775 Duke Street and determine adequacy of NCUA's current system.

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

Each Regional Division of Supervision is required to perform and document an independent QCR of selected examination reports. QCRs are meant to focus on risk identification, scope development, proper solutions, and continuing plans to determine whether the examination report: (1) addresses all areas of material risk; (2) contains results-oriented plans of action to timely correct areas of concern; (3) addresses negative trends and includes sound recommendations to promptly resolve major problems; (4) complies with standards; and (5) 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.

### **NCUA Asset Management Assistance Center (AMAC) Property Management**

Review AMAC's property management efforts. This 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.

### **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.

### **CAMEL Rating Justification**

The CAMEL rating system is based upon an evaluation of five critical elements of a credit union's operations: Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity/Asset-Liability Management. CAMEL is designed to take into account and reflect all significant financial, operational, and management factors examiners assess in their evaluation of a credit union's performance and risk profile.

Since numbers are often lagging indicators of a credit union's condition, the examiner must also conduct a qualitative analysis of current and projected operations when assigning CAMEL ratings. In Risk Focused Examinations (RFEs), examiners assess the amount and direction of risk exposure in seven categories: Credit, Interest Rate, Liquidity, Transaction, Compliance, Reputation, and Strategic (seven risk categories) and determine how the nature and extent of these risks affect one or more CAMEL components. In conducting this review we will assess current CAMEL ratings and examiner support of those ratings for their applicability and appropriateness.

Objective: To determine whether there is adequate support to justify CAMEL ratings at natural person credit unions.

### **Credit Union Fraud**

We have determined over the past year that fraud has been a reoccurring cause of credit union failures. We will conduct a review of these credit unions to determine whether examiners are using the red flag checklist and if there are other common indicators from past failures that could serve as red flag items to help examiners detect fraud on future examinations.

Objective: Determine whether the current exam process adequately prevents or detects potential fraud.

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

When a federally insured credit union is liquidated, AMAC is responsible for paying the share accounts to the members. Some items may remain unclaimed, some checks are never cashed, or the credit union's address information was incomplete. There are also cases when AMAC does not have a recent address and are unable to receive a forwarding address from the post office. As part of our objective we will determine what policies and procedures (internal controls) AMAC has in place to oversee this process and ensure that all funds are properly disbursed and accounted for.

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

### **Subject Matter Examiners (SME)**

A Subject Matter Examiner (SME) is an examiner with above average knowledge and experience in a particular focus area and who serves as a resource in specific risk areas. SMEs serve as a resource to expand the knowledge base of examiners and provide on-the-job training to examiners in their subject matter area and supplement the region's training process. In developing this program, it was determined that principal examiners (CU12) should have a subject area concentration. This concentration enables the agency to better allocate resources to credit unions in need of specialized knowledge and experience.

As part of our review we will look at the effectiveness of the SME program, including use of the SMEs, types of SMEs and whether the program has evolved as envisioned.

Objective: Determine whether NCUA's SME program is operating effectively.

### **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**

#### **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.

#### **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.

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

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

**Corporate Capital Market Specialist (CMS)**

Objective: Determine the effectiveness of the CMS program. Specifically, how are CMS's selected, trained and utilized.

**Foreclosures**

Objective: Determine the volume of foreclosures in the credit unions and what steps are taken by examiners to ensure that proper documentation of foreclosures takes place.

**Net Worth Requirements**

Objective: Determine whether current net worth requirements adequately measure the safety and soundness of natural person credit unions.

## **Appendix B**

### **2011 Legal Projects and Investigative Work**

#### ***2011 LEGAL ACTIVITIES***

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

#### ***2011 INVESTIGATIONS***

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

#### ***2011 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 2011**

#### **2011 PROJECTS**

**Audits/Surveys:**

- Beehive Material Loss Review (carry over from 2010)
- Certified Material Loss Review (carry over from 2010)
- Members United Material Loss Review (carry over from 2010)
- Southwest Corporate Material Loss Review (carry over from 2010)
- 2010 Financial Statement Audits (carry over from 2010)
- Material Loss Reviews
- Federal Information Security Management Act (FISMA) Review
- Congressional/NCUA Board Requests
- Government-wide Financial Report System (GFRS)
- 2011 Financial Statement Audits
- Document of Resolution Follow-up
- Building Security
- Quality Control Review (QCR) Process
- AMAC Property Management
- Internet Protocol Version 6 (IPv6)
- CAMEL Rating Justification
- Credit Union Fraud
- Unclaimed Share Accounts Held By AMAC
- Subject Matter Examiners (SME)
- Third Party Relationships

#### **2012 PROJECTS**

**Audits/Surveys:**

- Credit Union IS&T Programs
- NCUA Routers, Switches and Firewalls
- Member Business Lending
- Credit Union Service Organization Survey
- Corporate Capital Market Specialist
- Foreclosures
- Net Worth Requirements
- 2011 Financial Statement Audits
- Federal Information Security Management Act (FISMA)
- Material Loss Reviews
- Government-wide Financial Report System
- Congressional/NCUA Board Requests