

NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL



2012 ANNUAL
PERFORMANCE PLAN

OVERVIEW

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) Annual Performance Plan for 2012 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 Dodd-Frank Wall Street Reform and Consumer Protection 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).

2012 Strategic Goals¹
<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.

¹ Source: NCUA Strategic Plan 2011 - 2016.

In preparing our 2012 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) exceeds \$25 million dollars. In addition, we review all losses under \$25 million to the NCUSIF and determine if unusual circumstances exist that would warrant a material loss review. Although we expect that current and future material loss reviews will continue to require a portion of our resources in 2012, we also identified several other 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. 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 2012, our contracting budget for audits is approximately \$2 million dollars.

Audits that cannot be accomplished in 2012 will be deferred to 2013.

The following appendices are included in our 2012 plan:

- Appendix A: 2012 Planned Audits and Surveys
- Appendix B: 2012 Legal Projects and Investigative Work
- Appendix C: Summary of Audits/Surveys planned for 2012

Appendix A

2012 Planned Audits & Surveys

Carryover Audits from 2011

Vensure 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 material loss review. In our limited review of Vensure Credit Union, we determined there were unusual circumstances that warranted a material loss review.

Objective: We will review Vensure 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, 2011

As required, the OIG will conduct a review of the National Credit Union Administration reporting entities for the year ending December 31, 2011. 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, 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 - Mandatory Audits for 2012

Material Loss Reviews

We anticipate additional material loss reviews in 2012 will require a portion of our OIG resources. This could 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 to the NCUSIF. 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 a material loss review 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 instructions to agencies for meeting its reporting requirements under FISMA and includes instructions for reporting on agencies' privacy management programs. It also includes clarification to agencies for implementing and meeting privacy requirements.

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 Service (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, 2012

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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, 2013.

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 2012 (Discretionary Audits)

Review of New Accounting System

NCUA made the decision two years ago to switch to a new accounting system (Delphi). The system went live January 2010. However, the old accounting system (SAP) is still being used to parallel some accounting transactions.

Objective: Determine why NCUA has not fully implemented Delphi and continues to use SAP.

Accounting for Losses to the NCUSIF

NCUA has several methods for accounting for losses and failures of credit unions. Accounting for losses and failures depends upon whether NCUA is recording a loss, assistance, merger or liquidation.

Objective: Determine whether NCUA has a consistent methodology for identifying and tracking credit union failures and losses to the NCUSIF.

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.

Examination of Real Estate Concentration

The continued growth of real estate loans combined with historically low interest rates could pose future risk problems for NCUA.

Objective: Determine what actions NCUA is taking to control the risk posed by high real estate loan concentration and historically low interest rates.

Credit Union Fraud

There has been a high percentage of fraud apparent in the material loss reviews and failures over the last several years. NCUA indicated it would implement a quality control checklist for use by examiners in helping to detect fraud.

Objective: Determine whether the current examination process adequately detects potential fraud.

Red Flag Reports

During our material loss reviews, we analyzed 5300 data that highlighted areas of increased risk that may have helped examiners identify potential safety and soundness issues. NCUA uses red flag reports to target credit unions that have potential high risk areas.

Objective: Determine whether examiners are addressing high risk areas such as concentration, liquidity, and interest rate.

Credit Union Information Systems and Technology (IST) Programs

The examination program for credit unions is a risk-focused program, where examiners supervise and examine credit unions based on an analysis of risk areas at each credit union. The nature and complexity of IST processing may significantly increase the potential risk exposure to disaster, error, or fraud within or outside the credit union or service bureau operation. The examiner's primary responsibility in reviewing IST operation is to recognize the procedures and internal controls that minimize the exposure to loss and disruption of service.

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 Mobile Device Security

Technical innovation has paved the way for mobile device assimilation into the workplace. These mobile devices (e.g., smart phones) can offer enterprises some highly valued benefits. However, (1) loss, theft or corruption of sensitive or confidential data; (2) malware that can affect not only the mobile device itself, but also the enterprise network; and (3) the way in which employees use the devices are just a few of the risks involved with this type of technology. Agencies must assess this technology to ensure that enterprise information assets are protected and available.²

Objective: To determine whether NCUA's security program adequately monitors and controls the security of mobile devices to protect the confidentiality, integrity, and availability of NCUA systems and data.

² Securing Mobile Devices, An ISACA Emerging Technology White Paper, 2010.

Potential New Starts for 2013

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.

Mitigating Credit Union Strategic Risk

Objective: Determine whether the NCUA examination program adequately assesses credit union risk management.

Quality Control Review (QCR) Process

Objective: Determine whether QCRs are an effective quality assurance tool and whether QCR recommendations are being tracked and implemented.

Administrative Actions

Objective: Determine if NCUA has a consistent policy on what administrative actions are available and how and when to use these administrative actions. Determine how administrative actions have been used by NCUA.

IPv6

Objective: Determine NCUA's plan for meeting Federal IPv6 (Internet Protocol version 6) requirements.

Subject Matter Examiners (SME)

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

NCUA Routers, Switches and Firewalls

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

Capital Market Specialist (CMS)

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

Net Worth Requirements

Objective: Determine whether net worth/Prompt Corrective Action is an adequate measure to monitor, assess and correct the fiscal strength of credit unions.

Appendix B

2012 Legal Projects and Investigative Work

2012 LEGAL ACTIVITIES

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

2012 INVESTIGATIONS

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

2012 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 2012

2012 PROJECTS

Audits/Surveys:

- Vensure Material Loss Review (carry over from 2011)
- 2011 Financial Statement Audits (carry over from 2011)
- Material Loss Reviews
- Federal Information Security Management Act (FISMA) Review
- Congressional/NCUA Board Requests
- Government-wide Financial Report System (GFRS)
- 2012 Financial Statement Audits
- Review of New Accounting System
- Accounting for Losses to the NCUSIF
- AMAC Property Management
- Credit Union Fraud
- Red Flag Reports
- Credit Union Information Systems and Technology Programs
- NCUA Mobile Device Security

2013 PROJECTS

Audits/Surveys:

- Third Party Relationships
- Mitigating Credit Union Strategic Risk
- Quality Control Review (QCR) Process
- Administrative Actions
- IPv6
- Subject Matter Experts
- NCUA Routers, Switches and Firewalls
- Corporate Capital Market Specialist
- Net Worth Requirements
- 2013 Financial Statement Audits
- Federal Information Security Management Act (FISMA)
- Material Loss Reviews as required
- Government-wide Financial Report System
- Congressional/NCUA Board Requests