

NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL



2013 ANNUAL
PERFORMANCE PLAN

OVERVIEW

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) Annual Performance Plan for 2013 delineates those audits that would most benefit 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).

2013 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 with clearly articulated and easily understood regulations.
<i>Strategic Goal 4</i> Cultivate an environment that fosters a diverse, well trained and motivated staff.

¹ Source: NCUA Strategic Plan 2011 – 2014 (amended).

In preparing our 2013 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 2013, 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 2013, our contracting budget for audits is approximately \$1.5 million dollars.

Audits that cannot be accomplished in 2013 will be deferred to 2014.

The following appendices are included in our 2013 plan:

- Appendix A: 2013 Planned Audits and Surveys
- Appendix B: 2013 Legal Projects and Investigative Work
- Appendix C: Summary of Audits/Surveys planned for 2013

Appendix A

2013 Planned Audits & Surveys

Carryover Audits from 2012

Financial Statements Audits (5) for Year Ending December 31, 2012

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, 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.

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.

Congressional Request – NCUA’s Use of Contingency Fees

Darrell Issa, Chairman, Committee on Oversight and Government Reform requested that the OIG look at NCUA’s use of contingency fee arrangements with outside counsel hired to handle certain financial securities related litigation. In addition, the Chairman asked the OIG to determine whether NCUA is covered by Executive Order #13433.

Objective: Determine whether the contingency fee arrangements utilized by NCUA are the best possible alternative available and whether NCUA is required to follow Executive Order #13433.

Material Loss Review of Telesis Community Credit Union

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

Objective: Determine the cause(s) of the credit union failure and the resulting loss to the NCUSIF; and assess NCUA's supervision of the credit union.

New Starts - Mandatory Audits for 2013

Material Loss Reviews

We anticipate additional material loss reviews in 2013 will require a portion of our OIG resources. 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 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, 2013

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- 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, 2014.

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New Starts for 2013 (Discretionary Audits)

Conference-Related Activities and Expenses

NCUA sponsors national and regional conferences for employees to provide information about emerging issues, divisional priorities and initiatives, group training, and networking opportunities. While NCUA is not required to follow Office of Management and Budget (OMB) guidance, OMB instructed agencies and departments to review policies and controls associated with conference-related activities and expenses (OMB memorandum M-11-35).

Objective: Determine whether NCUA's conference-related activities and expenses comply with the spirit of OMB's instructions.

NCUA Headquarters Data Center

The NCUA Board recently approved a significant budget expense to upgrade information technology equipment in the NCUA data center. The Board expressed concerns regarding whether the fire suppression system and physical controls adequately protect NCUA equipment and data.

Objective: Determine whether the NCUA data center has adequate controls in place to protect the equipment and data.

Collections on Restitution Orders at AMAC

NCUA is owed money through restitution orders related to losses to the Share Insurance Fund. However, these restitution orders may not be satisfied in a timely manner.

Objective: Determine whether NCUA has an effective program in place to recover money owed from restitution orders.

Trends in Credit Union Failures

In conducting reviews of credit union failures, we observed trends that contributed to losses to the Share Insurance Fund. These trends included issues such as fraud, concentration risk, and third party relationships, as well as other trends that have contributed to failures.

Objective: Determine what trends have contributed to credit union failures and whether the current examination process adequately addresses the issues identified.

NCUA Mobile Device Security

NCUA uses smart phones to conduct official business within its network. Mobile device use exposes NCUA to increased risk of loss, theft, or corruption of sensitive or confidential data. Agencies must manage this technology to ensure that information assets are adequately protected.

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

Real Estate Loan Concentration

The continued growth of real estate loans has led to these loans making up a significant concentration of credit union assets. This 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.

Estimated vs. Actual Losses to the Share Insurance Fund

AMAC provides the Regions and NCUA with an initial loss estimate for any credit union failure it is required to liquidate. The liquidation process can be quick in some cases or could take many years to conclude and determine the actual loss.

Objective: Determine the accuracy of AMAC's initial estimated loss for any credit union failure compared to the final realized loss.

Lessons Learned - NCUA Success Cases

Regional Management routinely makes critical decisions on credit unions that are on the verge of failure but were saved because of the intervening actions taken by the Regions. Using the lessons learned from these successful resolutions could help examiners and management in reducing future failures.

Objective: Determine the successful cases where specific corrective actions helped revive the failing credit unions.

Potential New Starts for 2014

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.

Credit Union Information Systems and Technology (IST) Programs

Objective: Determine whether 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.

Quality Control Review (QCR) Process

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

System Development Life Cycle Management

Objective: Determine whether NCUA has an adequate SDLC management process in place to deliver systems timely and cost effectively.

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 NCUA's network.

NCUA Procurement Activities

Objective: Determine whether NCUA Central Office and Regional offices follow best practices when procuring goods and services.

New Credit Union Programs and Products

Objective: Determine what actions NCUA has planned or taken to ensure examiners understand and mitigate risks associated with new programs or products implemented by credit unions.

Appendix B

2013 Legal Projects and Investigative Work

2013 LEGAL ACTIVITIES

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

2013 INVESTIGATIONS

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

2013 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 2013

2013 PROJECTS

Audits/Surveys:

- 2012 Financial Statement Audits (carry over from 2012)
- Telesis Material Loss Review (carry over from 2012)
- Accounting for Losses to NCUSIF (carry over from 2012)
- Material Loss Reviews
- Federal Information Security Management Act (FISMA) Review
- Congressional/NCUA Board Requests
- Government-wide Financial Report System (GFRS)
- 2013 Financial Statement Audits
- Conference Related Activities and Expenses
- NCUA Headquarters Data Center
- Collections on Restitution Orders at AMAC
- Trends In Credit Union Failures
- NCUA Mobile Device Security
- Real Estate Loan Concentration
- Estimated vs. Actual Losses to the NCUSIF
- Lessons Learned – NCUA Success Cases

2014 PROJECTS

Audits/Surveys:

- Third Party Relationships
- Credit Union Information Systems and Technology (IST) Programs
- Quality Control Review (QCR) Process
- System Development Life Cycle Management
- Subject Matter Examiners (SME)
- NCUA Routers, Switches and Firewalls
- NCUA Procurement Activities
- New Credit Union Programs and Products
- 2014 Financial Statement Audits
- Federal Information Security Management Act (FISMA)
- Material Loss Reviews as required
- Government-wide Financial Report System
- Congressional/NCUA Board Requests