

# 2014 Annual Performance Plan



Office of Inspector General  
National Credit Union Administration



## OVERVIEW

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The National Credit Union Administration (NCUA) Office of Inspector General (OIG) Annual Performance Plan for 2014 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 (Dodd-Frank 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;
- Request (s) from the Council of Inspectors General on Financial Oversight (CIGFO).
- 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 below).

2014 STRATEGIC GOALS <sup>1</sup>
<p><i>STRATEGIC GOAL 1</i></p> <p>Ensure a safe, sound and healthy credit union system.</p>
<p><i>STRATEGIC GOAL 2</i></p> <p>Promote credit union access to all eligible persons.</p>
<p><i>STRATEGIC GOAL 3</i></p> <p>Further develop a regulatory environment that is transparent and effective with clearly articulated and easily understood regulations.</p>
<p><i>STRATEGIC GOAL 4</i></p> <p>Cultivate an environment that fosters a diverse, well trained and motivated staff.</p>

In preparing our 2014 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. We expect that future material loss reviews will require a smaller portion of our resources in 2014 than in the past; 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 should form the basis of our work over the coming 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 composed of nine positions (9 FTEs) including the Inspector General. The audit staff consists of four auditors, as well as the Deputy Inspector General position, which is currently vacant. In addition, the OIG relies on independent contracting firms to augment resources by assisting the OIG 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 the evaluation under FISMA, we use contracting dollars for short term, non-recurring projects. In 2014, our contracting budget for audits is approximately \$1.5 million dollars.

Audits that cannot be accomplished in 2014 will be deferred to 2015.

<sup>1</sup> Source: NCUA Strategic Plan 2011 – 2014 (amended).



The following appendices are included in our 2014 plan:

Appendix A: 2014 Planned Audits and Surveys

Appendix B: 2014 Legal Projects and Investigative Work

Appendix C: Summary of Audits/Surveys planned for 2014



## 2014 PLANNED AUDITS & SURVEYS

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### CARRYOVER AUDITS FROM 2013

#### FINANCIAL STATEMENTS AUDITS (5) FOR THE YEAR ENDING DECEMBER 31, 2013

As required, the OIG will conduct a review of the National Credit Union Administration reporting entities for the year ending December 31, 2013. 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).

We conduct these audits under contract with an independent public accounting firm. Requirements mandate the report must be issued within 45 days of year-end or by February 17, 2014.

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

#### 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.

#### MATERIAL LOSS REVIEW OF TAUPA LITHUANIAN CREDIT UNION

In our mandatory review of credit union losses under \$25 million to the NCUSIF, we determined that unusual circumstances warranted a material loss review of Taupa Lithuanian Credit Union.

Objectives: 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.



#### LESSONS LEARNED - NCUA SUCCESS CASES

Regional Management routinely makes critical decisions on credit unions that are on the verge of failure but were saved due to 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.

#### NEW STARTS - MANDATORY AUDITS FOR 2014

##### MATERIAL LOSS REVIEWS

We anticipate additional material loss reviews in 2014 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, the Dodd-Frank Act requires the OIG to conduct a limited review of all losses to the NCUSIF and elevate to a material loss review those that have unusual circumstances 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 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 audits, investigations, or other 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 THE YEAR ENDING DECEMBER 31, 2014

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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.

We conduct these audits 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, 2015.

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

### GOVERNMENT CHARGE CARD ABUSE PREVENTION ACT OF 2012

The Charge Card Act requires all agencies to establish and maintain safeguards and internal controls for travel cards. The Act also establishes reporting and audit requirements to avoid improper payments and protect privacy amount other things.

Objective: Conduct a review of travel card programs to analyze risks of illegal, improper, or erroneous purchases and payments. Provide recommendations if warranted and report those to the agency management, Director of the Office of Management and Budget and Congress.

### FINANCIAL STABILITY OVERSIGHT COUNCIL (FSOC) COMPLIANCE WITH THE FSOC TRANSPARENCY POLICY

In its September 2013 meeting, the CIGFO approved a review of the FSOC's Compliance with Its Transparency Policy. The CIGFO is looking to complete the project and issue a report to the

FSOC by May 2014. As part of this review, the CIGFO will be asking each CIGFO member agency to review their respective agency's role in the process, particularly as it relates to FSOC deliberations and decisions on releasing information to the public.

Objective: To assess the extent to which FSOC is operating in a manner consistent with the expectations outlined in its Transparency Policy.

### NEW STARTS FOR 2014 (DISCRETIONARY AUDITS)

#### COORDINATION AMONG THE CONSUMER FINANCIAL PROTECTION BUREAU (CFPB) AND REGULATORS

The Dodd-Frank Act grants the CFPB exclusive authority to examine insured depository institutions with total assets of more than \$10 billion, and their affiliates, for compliance with federal consumer financial laws. The Act also gives the CFPB authority to examine service providers, but requires coordination with the appropriate regulator and requires CFPB to coordinate its supervisory activities with the prudential regulatory agencies, consisting of the Board of Governors of the Federal Reserve System, (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), and the Office of the Comptroller of the Currency (OCC), and with state financial regulatory authorities. The NCUA, FDIC, Department of the Treasury and FRB OIG's will be working jointly on this review to ensure a complete and comprehensive look at the coordination efforts by the CFPB and other prudential regulators.

Objective: Determine the extent to which coordination between the NCUA and CFPB is occurring and whether these efforts have been effective in avoiding duplication or other conflicts.

#### 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.

#### INTEREST RATE RISK

The continued growth of loans at low fixed rates has contributed to a significant concentration of credit union assets. Historically low interest rates could pose future risk problems for NCUA.





NCUA implemented 12 CFR Part 741, Interest Rate Risk Policy and Program in September 2012. Exposed credit unions without appropriate interest rate risk policies pose unacceptable and preventable risks to the National Credit Union Share Insurance Fund.

Objective: Determine whether NCUA's interest rate risk policies and procedures are helping to effectively reducing interest rate risk.

#### NCUA PROCUREMENT ACTIVITIES

NCUA uses contractors for a wide array of assistance to supplement its operations in AMAC, OCIO, OCFO and E&I. In addition, the Dodd-Frank Act created new contracting requirements for minority and women inclusion. In April 2011, NCUA issued a revised procurement manual providing a structure for a controlled and efficient framework that is fair to competing vendors and beneficial to the NCUA. Although NCUA is exempt from complying with Federal Acquisition Regulations (FAR), NCUA generally conducts its procurement activities in compliance with FAR.

Objective: Determine whether NCUA's procurement practices provide adequate controls to ensure fair and effective competition among vendors.

#### COMPUTER EQUIPMENT INVENTORY

NCUA has approximately 1,200 employees and the agency provides all employees with computers. In addition, NCUA issues external monitors to Central Office and Regional staff and hard drives and portable printers to examiners and other staff.

Objective: Assess NCUA's policies, procedures and practices to determine whether NCUA has adequate controls in place to maintain accurate accountability of and protect NCUA computer equipment (laptops, external monitors, external hard drives, and portable printers) from loss or theft.

#### INTERNATIONAL TRAVEL WITH IT EQUIPMENT

NCUA restricts the use of agency issued IT equipment for international travel. Recently issued iPhones and iPads and the use of personal smartphones for agency email purposes may pose security risks associated with overseas travel. In governing the use of IT equipment associated with international travel, NCUA must consider: (1) the accidental loss or the deliberate theft of sensitive or personally identifiable NCUA information; and (2) the potential added expense of using smart devices internationally. In addition, among other concerns NCUA should consider include that many countries do not have the same privacy protections as the U.S., and overseas Wi-Fi should be considered insecure.

Objective: Assess NCUA's policies, procedures, and practices governing use of agency laptops and smart devices associated with international travel to determine whether NCUA has adequate controls in place to protect the loss/theft of sensitive or personally identifiable information or unauthorized or excessive financial expenses.



### QUALITY CONTROL REVIEW (QCR) PROCESS

NCUA's Quality Assurance Program (QAP) includes the assessment and review of all activities relating to the oversight of Federally Insured Credit Unions (FICU). NCUA's quality assurance objectives are to evaluate whether the agency's supervision program complies with national requirements and that national requirements keep pace with the ever-changing risks inherent in or introduced into the credit union industry. Regional Quality Control Reviews within the QAP identify risks to the NCUSIF, evaluate whether an individual examination or supervision contact report meets national standards, and provide a written assessment of that report.

#### Objective:

Determine whether the QCR process is effective as a quality assurance tool and feedback mechanism for the examiner and supervisor, including whether QCR recommendations are being tracked and implemented.

### POTENTIAL NEW STARTS FOR 2015<sup>2</sup>

#### JOINT EXAMINATIONS WITH SSAs

Objective: Determine whether NCUA is in compliance with its requirements to conduct joint examinations with State Supervisory Authorities.

#### TRENDS IN CREDIT UNION FAILURES

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

#### MEMBER BUSINESS LOANS

Objective: Determine whether NCUA is effectively mitigating member business loan risk effectively.

#### 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.

#### EXAMINATION AND INSURANCE (E&I) QUALITY CONTROL REVIEW (QCR) PROCESS

Objective: Determine whether the E&I QCR process has effectively improved the overall examination process.

#### POSTMORTEM REVIEW BENEFITS

Objective: Determine whether NCUA adequately conducts postmortem reviews of failed credit unions and whether NCUA addresses or implements the results/recommendations.

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<sup>2</sup> Based on a number of critical factors a decision could be made at any time to move a potential 2015 start and conduct in 2014.



**SUBJECT MATTER EXAMINERS (SME)**

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

**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 MANAGEMENT**

Objective: Determine whether NCUA effectively assesses the Management component of the CAMEL rating system.



## 2014 LEGAL PROJECTS AND INVESTIGATIVE WORK

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### 2014 LEGAL ACTIVITIES

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

### 2014 INVESTIGATIONS

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

### 2014 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

**SUMMARY OF AUDITS/SURVEYS PLANNED FOR 2014**

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**2014 PROJECTS**AUDITS/SURVEYS:

- 2013 Financial Statement Audits (carry over from 2013)
- NCUA Mobile Device Security (carry over from 2013)
- Taupa Lithuanian Material Loss Review (carry over from 2013)
- Lessons Learned – NCUA Success Cases (carry over from 2013)
- Material Loss Reviews
- Federal Information Security Management Act (FISMA) Review
- Congressional/NCUA Board Requests
- Government-wide Financial Report System (GFRS)
- 2014 Financial Statement Audits
- Government Charge Card Abuse Prevention Act of 2012
- Financial Stability Oversight Council (FSOC) Compliance with the FSOC Transparency Policy
- Coordination Among the CFPB and Regulators
- Collections on Restitution Orders at AMAC
- Interest Rate Risk
- NCUA Procurement Activities
- Computer Equipment Inventory
- International Travel with IT Equipment
- Quality Control Review Process



## 2015 PROJECTS

### AUDITS/SURVEYS:

- Joint Examinations with SSAs
- Trends in Credit Union Failures
- Member Business Loans
- Credit Union Information Systems and Technology (IST) Programs
- Examination and Insurance (E&I) Quality Control Review (QCR) Process
- Postmortem Review Benefits
- Subject Matter Examiners (SME)
- Third Party Relationships
- Credit Union Management
- 2015 Financial Statement Audits
- Federal Information Security Management Act (FISMA)
- Material Loss Reviews as required
- Government-wide Financial Report System
- Congressional/NCUA Board Requests