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# 2015 Annual Performance Plan

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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).



2015 STRATEGIC GOALS <sup>1</sup>
<p><i>STRATEGIC GOAL 1</i> Ensure a safe, sound and healthy credit union system.</p>
<p><i>STRATEGIC GOAL 2</i> Promote consumer protection and financial literacy.</p>
<p><i>STRATEGIC GOAL 3</i> Further develop a regulatory environment that is transparent and effective with clearly articulated and easily understood regulations.</p>
<p><i>STRATEGIC GOAL 4</i> Cultivate an environment that fosters a diverse, well trained and motivated staff.</p>

In preparing our 2015 Performance Plan, we considered the current economic environment that has required ongoing, mandatory material loss reviews (MLRs). The Dodd-Frank Act requires the OIG to conduct an MLR when a credit union's loss to the National Credit Union Share Insurance Fund (NCUSIF) exceeds \$25 million. In addition, we conduct a limited scope review of all losses under \$25 million to the NCUSIF to determine whether unusual circumstances exist that would warrant a full-scope MLR. We expect that future MLRs will require a smaller portion of our resources in 2015 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 ten positions (10 FTEs) including the Inspector General. The audit staff consists of five auditors (one is currently vacant), as well as the Deputy Inspector General position. 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 2015, our contracting budget for audits is approximately \$1.5 million dollars.

We will defer audits that we cannot accomplish in 2015 to 2016.

<sup>1</sup> Source: NCUA Strategic Plan 2014 – 2017.



The following appendices are included in our 2015 plan:

Appendix A: Planned Audits and Surveys

Appendix B: Legal Projects and Investigative Work

Appendix C: Summary of Planned Audits/Surveys



## PLANNED AUDITS AND SURVEYS

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### CARRYOVER AUDITS FROM 2014

#### FINANCIAL STATEMENTS AUDITS (5) FOR THE YEAR ENDING DECEMBER 31, 2014

As required, the OIG will conduct a review of the National Credit Union Administration reporting entities for the year ending December 31, 2014. 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 be issued within 45 days of year-end or by February 16, 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.

### 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 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 in supervisory activities.

#### REVIEW OF NCUA'S 401K PLAN

NCUA established an NCUA Savings Plan (Plan) in January 2012. In accordance with the Employee Retirement Income Security Act of 1974 (ERISA), a governmental plan is defined to include a plan established or maintained for its employees by the Government of the United States, by an agency or instrumentality. As a federal agency of the United States Government, NCUA and the Plan are exempt from ERISA. However, NCUA follows the spirit of the requirements. As of December 31, 2013, the NCUA Savings Plan had 1,251 participants.

Objective: The purpose of this review is to conduct agreed upon procedures to ensure that NCUA properly maintains the Plan's record keeping, investment management, and trustee services.

#### FINANCIAL STABILITY OVERSIGHT COUNCIL (FSOC) OVERSIGHT OF INTEREST RATE RISK

In 2014, the Council of Inspectors General on Financial Oversight convened a working group with the objective to assess the extent to which FSOC is overseeing interest rate risk to the financial system. The Federal Housing Finance Agency Office of Inspector General is leading the review, with participation from other CIGFO members. The working group will conduct audit work at FSOC, the Office of Financial Research and member agencies to the extent those entities support FSOC's oversight of interest rate risk. The audit scope will include FSOC's oversight of interest rate risk during 2013 and 2014. The working group expects to issue a report in April 2015.

Objective: To assess the extent to which FSOC is overseeing interest rate risk to the financial system.

#### NEW STARTS - MANDATORY AUDITS FOR 2015

##### MATERIAL LOSS REVIEWS

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 information technology 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 IT security policies, procedures, and practices; an assessment of program's compliance with the requirements of FISMA. The OIG also assesses NCUA's privacy program.

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 IT 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, 2015

As required, the OIG will conduct a review of the National Credit Union Administration reporting entities for the year ending December 31, 2015. 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.



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 16, 2016.

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, among other things.

Objective: Conduct a review of NCUA's purchase and 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.

#### DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT OF 2014

On May 9, 2014, the President signed into law the "Digital Accountability and Transparency Act of 2014" or the "DATA Act." The Act amends the Federal Funding Accountability and Transparency Act of 2006 to make publicly available specific classes of Federal agency spending data, with more specificity and at a deeper level than is currently reported; require agencies to report this data on USASpending.gov; create Government-wide standards for financial data; apply to all agencies various accounting approaches developed by the Recovery Act's Recovery Accountability and Transparency Board; and streamline agency reporting requirements.

Objective: Conduct a review of a statistically valid sample of the spending data submitted under the Act based on established data standards.

#### NEW STARTS FOR 2015 (DISCRETIONARY AUDITS)

##### OVERSIGHT OF CREDIT UNION CYBER SECURITY

During the summer of 2014, Federal Financial Institutions Examination Council (FFIEC) members piloted a cybersecurity examination work program at over 500 community financial institutions to evaluate their preparedness to mitigate cyber risks. The FFIEC indicated that financial institutions are critically dependent on IT to conduct business operations and use a vast array of technologies to support their customers and employees, including core systems, automated teller machines (ATM), Internet and mobile applications, and cloud computing, each of which introduces complexity and potential vulnerabilities. The FFIEC added that this dependence on IT, coupled with increasing sector interconnectedness and rapidly evolving cyber threats, reinforces the need for institutions to establish and maintain a dynamic control



environment; manage connections to third parties; and develop and test business continuity and disaster recovery plans that incorporate cyber incident scenarios.

Objective: Determine whether NCUA provides adequate oversight of credit union cyber security 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.

#### 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 reduce interest rate risk.

#### NCUA PROCUREMENT ACTIVITIES

NCUA uses contractors for a wide array of assistance to supplement its operations. 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 process is fair and effective.

#### 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.

#### CPA OPINION AUDITS OR AGREED UPON PROCEDURES FOR CREDIT UNIONS

Part 715.5 of NCUA Rules and Regulations requires federally chartered credit unions with \$500 million or more in total assets to have a financial statement audit performed by a licensed independent auditor.

Material loss reviews conducted by the NCUA OIG, as well as Post Mortem reviews conducted by NCUA have questioned whether the amount requiring CPA audits or agreed upon procedures should be lowered or required. We have received feedback from regional officials that they believe this would significantly curtail credit union failures.



Objective: Determine whether a correlation exists between failed credit unions that have had a CPA audit and those that have not.

#### REVIEW OF AMAC INVENTORY

In March 2012, the OIG issued a report that reviewed AMAC's valuation process and disposal of property and assets. At that time, we found that AMAC needed to perform and document their analysis when determining whether to maintain properties versus selling them in a bulk sale. We also recommended AMAC document potential financial outcomes for maintaining or selling in bulk. Recently AMAC obtained a large inventory of automobiles. This will be a follow up review on processes currently in place.

Objective: Determine whether AMAC has corrected deficiencies identified in our 2012 review of AMAC (OIG-12-06) regarding the disposition of its inventory of foreclosed houses held by AMAC. Based on those lessons learned, determine how AMAC is handling the large inventory of automobiles it recently obtained.

#### 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, mobile devices 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, mobile devices and portable printers) from loss or theft.

#### POTENTIAL NEW STARTS FOR 2016<sup>2</sup>

##### REAL ESTATE LENDING

Objective: Determine whether examiners adequately assess credit union real estate loan portfolios, associated risks, and credit union actions to mitigate the risks.

##### AMAC RECORDS RETENTION

Objective: Determine whether AMAC's current records retention practices are the most cost beneficial for NCUA.

##### INTERNATIONAL TRAVEL WITH IT EQUIPMENT

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

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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 2016 start and conduct in 2015.



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

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.

#### 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.

#### 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.

#### 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 credit union managements' due diligence over those relationships.

#### CREDIT UNION MANAGEMENT

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



## LEGAL PROJECTS AND INVESTIGATIVE WORK

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### 2015 LEGAL ACTIVITIES

General legal support

Administrative/personnel legal work

Investigative assistance & support

Audit assistance & support

Legislation/regulation review

### 2015 INVESTIGATIONS

Formal investigations

Preliminary/informal investigations

Proactive reviews and/or investigations

### 2015 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

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### 2015 PROJECTS

#### AUDITS/SURVEYS:

- 2014 Financial Statement Audits (carry over from 2014)
- Coordination Among the Consumer Financial Protection Bureau (CFPB) and Regulators (carry over from 2014)
- Review of NCUAs 401k Plan (carry over from 2014)
- Financial Stability Oversight Council (FSOC) Oversight of Interest Rate Risk (carry over from 2014)
- Material Loss Reviews
- Federal Information Security Management Act (FISMA) Review
- Congressional/NCUA Board Requests
- Government-wide Financial Report System (GFRS)
- 2015 Financial Statement Audits
- Government Charge Card Abuse Prevention Act of 2012
- Digital Accountability and Transparency Act of 2014
- Oversight of Credit Union Cyber Security
- Interest Rate Risk
- NCUA Procurement Activities
- Collections on Restitution Orders at AMAC
- CPA Opinion Audits or Agreed Upon Procedures for Credit Unions
- Review of AMAC Inventory
- Computer Equipment Inventory



## 2016 PROJECTS

### AUDITS/SURVEYS:

- Real Estate Lending
- AMAC Records Retention
- International Travel with IT Equipment
- Quality Control Review Process
- Joint Exam with State Supervisory Authorities
- Trends in Credit Union Failures
- Member Business Loans
- 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