

# 2016 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 2016 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 WE FORMULATED THE ANNUAL PLAN

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).



## 2016 STRATEGIC GOALS<sup>1</sup>

### *STRATEGIC GOAL 1:*

Ensure a safe, sound, and sustainable credit union system

### *STRATEGIC GOAL 2:*

Promote consumer protection and financial literacy

### *STRATEGIC GOAL 3:*

Further develop a regulatory environment that is transparent and effective with clearly articulated and easily understood regulations

### *STRATEGIC GOAL 4:*

Cultivate an environment that fosters a diverse, well trained, and motivated staff.

In preparing our 2016 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 or ten percent of the assets of the failed credit union. In addition, we conduct a limited scope review of all losses to the NCUSIF under \$25 million 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 2016 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.

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



## RESOURCES

The OIG staff is composed of ten positions (10 FTEs) including the Inspector General. The audit staff consists of five auditors, 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 2016, our contracting budget for audits is approximately \$1.3 million dollars.

We will defer audits that we cannot accomplish in 2016 to 2017.

The following appendices are included in our 2016 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 2015

#### 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 (TCCUSF).

We conduct these financial statement audits as well as agreed upon procedures (AUP) over NCUA's 401k Plan under contract with an independent public accounting firm. Requirements mandate we issue the financial statement audit report within 45 days of year-end or by February 16, 2016. We conduct the AUP over NCUA's 401k Savings Plan (Plan) to ensure that NCUA properly oversees the Plan's record keeping, investment management, and trustee services.

Objective: To determine whether the five funds administered by NCUA complies with GAAP and whether their statements present fairly, in all material respects, their financial position, results of operations, and changes in cash flows.



## NEW STARTS - MANDATORY AUDITS FOR 2016

### 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.

### GOVERNMENT CHARGE CARD ABUSE PREVENTION ACT OF 2012

The Charge Card Act requires all agencies to establish and maintain safeguards and internal controls for charge 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 agency management, Director of the Office of Management and Budget, and Congress.



## 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, 2016

As required, the OIG will conduct a review of the National Credit Union Administration reporting entities for the year ending December 31, 2016. 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 15, 2017.

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.

## DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT OF 2014 – READINESS AUDIT REVIEW

The Digital Accountability and Transparency Act of 2014 (DATA Act) requires Federal agencies to report financial and payment data in accordance with data standards established by the Department of Treasury and the Office of Management and Budget. In addition, the DATA Act requires agency Inspectors General (IG) review statistical samples of the data submitted by the agency and report on the completeness, timeliness, quality, and accuracy of the data sampled,



and the use of the data standards by the agency. The IG community plans to undertake DATA Act “readiness reviews” at their respective agencies, in advance of the first agency report to help ensure the success of the DATA Act implementation efforts.

Objective: To gain an understanding of the processes, systems, and controls that NCUA has implemented or plans to implement to report financial and payment data in accordance with the requirements of the DATA Act.

## NEW STARTS FOR 2016 (DISCRETIONARY AUDITS)

### FINANCIAL STABILITY OVERSIGHT COUNCIL (FSOC) EFFORTS TO PROMOTE MARKET DISCIPLINE

In 2015, the Council of Inspectors General on Financial Oversight convened a working group with the objective to assess FSOC’s efforts to promote market discipline. Treasury 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. The working group expects to issue a report in 2016.

Objective: To assess FSOC’s efforts to promote market discipline by eliminating expectations on the part of shareholders, creditors, and counterparties of large bank holdings companies or non-bank financial companies that the government will shield them from losses in the event of failure.

### 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.



## NCUA PROCUREMENT PROCESS

NCUA uses contractors for a wide array of assistance to supplement its operations. 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.

## REAL ESTATE LENDING

As of June 30, 2015, real estate loans accounted for over 50 percent of total loans issued by federally insured credit unions. Interest rate changes can influence interest-sensitive income and expenses, such as investment income, loan income and share dividends, thereby affecting credit union earnings. The continued growth of real estate loans financed at historically low fixed interest rates has contributed to a significant concentration of credit union assets. Consequently, this could present future risk to the NCUSIF if credit unions do not have appropriate policies and procedures in place to manage the risks associated with interest rate adjustments.

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

## 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. This will be a follow up review on processes currently in place.

Objective: Determine whether AMAC effectively disposes of credit union property and assets acquired during the liquidation process.

## COMPUTER EQUIPMENT INVENTORY

NCUA has approximately 1,200 employees and the agency provides all employees and state examiners with computers. NCUA also issues external monitors and hard drives, mobile devices, and portable printers. NCUA replaces much of its equipment at least every three years. NCUA should have inventory/asset management policies and procedures to ensure the agency can account for lost, damaged, stolen, replaced, or reissued equipment.



Objective: Assess NCUA’s policies, procedures, and practices to determine whether NCUA has adequate controls in place to maintain accurate accountability of NCUA computer equipment.

#### 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. 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.

#### NCUA’S ACCESS CONTROLS OVER SENSITIVE DATA

NCUA mission and business function and internal agency support functions result in the agency collecting and storing sensitive personally identifiable information about employees and contractors, and credit union employees and members in electronic form. In storing and allowing access to this sensitive data, NCUA should consider the security principles of “least privilege” and “need to know.” Specifically, NCUA should *limit* access by its management and staff to this data based on what the users *need to know* to perform their official duties.

Objective: Determine whether NCUA adequately limits/controls employee (and contractor) access to sensitive NCUA and credit union data (e.g., CAMEL ratings, Personally Identifiable Information) stored within NCUA’s IT infrastructure.

#### OFFICE OF SMALL CREDIT UNIONS GRANT PROGRAMS

NCUA formed the Office of Small Credit Union Initiatives (OSCUI) to foster credit union development and improve the viability and successful operation of credit unions. One of OSCUI’s responsibilities is to administer grant programs for low-income designated credit unions.

Objective: Assess OSCUI’s process over eligibility determination when selecting grant recipients, and determine whether grant expenditures are used for their intended purpose.



## POTENTIAL NEW STARTS FOR 2017<sup>2</sup>

### DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT OF 2014

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

### MEMBER BUSINESS LOANS

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

### 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.

### NCUA'S CONTINGENCY PLANNING

Objective: Determine whether NCUA's Contingency Planning procedures adequately provide for recovery and continuity of its mission critical operational and financial systems in the event of a contingency.

### NCUA'S SHARED SERVICE PROVIDERS

Objective: Determine whether NCUA has adequate controls over its shared service providers.

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

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

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<sup>2</sup> Based on any number of critical factors, the OIG could decide at any time to move a potential new start listed for 2017 and conduct it in 2016.



#### 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 controls in place to protect the loss/theft of sensitive or personally identifiable information or unauthorized or excessive financial expenses.

#### BANK SECRECY ACT (BSA)

Objective: The audit objective is to determine how the NCUA has responded to BSA/Anti-Money Laundering (AML) concerns identified in examination reports. Specifically, we plan to determine the extent and types of actions the NCUA has taken that address identified BSA/AML concerns, and assess the extent to which the NCUA's actions, including referrals of matters to appropriate agencies, complied with applicable statutes, interagency guidance, and NCUA policies and procedures.

#### AMAC RECORDS RETENTION

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

#### 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.



## LEGAL PROJECTS AND INVESTIGATIVE WORK

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### 2016 LEGAL ACTIVITIES

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

### 2016 INVESTIGATIONS

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

### 2016 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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### 2016 PROJECTS

#### AUDITS/SURVEYS:

- Material Loss Reviews
- Federal Information Security Management Act (FISMA) Review
- Government Charge Card Abuse Prevention Act of 2012
- Congressional/NCUA Board Requests
- Government-wide Financial Report System (GFRS)
- 2015 Financial Statement Audits (carry over from 2015)
- Digital Accountability and Transparency Act of 2014
- Financial Stability Oversight Council (FSOC) Oversight Efforts to Promote Market Discipline
- Oversight of Credit Union Cyber Security
- NCUA Procurement Process
- Real Estate Lending
- Review of AMAC Inventory
- Computer Equipment Inventory
- Quality Control Review (QCR) Process
- NCUA's Access Controls Over Sensitive Data
- Office of Small Credit Unions Grants Program



## 2017 PROJECTS

### AUDITS/SURVEYS:

- Digital Accountability and Transparency Act of 2014
- Member Business Loans
- Subject Matter Examiners (SME)
- Third Party Relationships
- NCUA's Contingency Planning
- NCUA's Shared Service Providers
- CPA Opinion Audits or Agreed Upon Procedures for Credit Unions
- International Travel with IT Equipment
- Bank Secrecy Act
- AMAC Records Retention
- Trends in Credit Union Failures
- 2016 Financial Statement Audits
- Federal Information Security Management Act (FISMA)
- Material Loss Reviews as required
- Government-wide Financial Report System
- Congressional/NCUA Board Requests