

2017 Annual Performance Plan



Office of Inspector General
National Credit Union Administration

OVERVIEW

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) Annual Performance Plan for 2017 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 Modernization Act of 2014 (FISMA 2014), the Sarbanes-Oxley Act, the Privacy 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); and
- NCUA and the credit union industry's operating environment.

HOW WE CREATED 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).

2017 STRATEGIC GOALS ¹
<i>STRATEGIC GOAL 1:</i> Ensure a safe, sound, and sustainable credit union system
<i>STRATEGIC GOAL 2:</i> Promote consumer protection and financial literacy
<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

In preparing our 2017 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 (Share Insurance Fund) 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 Share Insurance Fund 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 2017 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). We considered criteria in the prioritization process that included such factors of importance to the NCUA mission as well as NCUA Board and Congressional interest.

¹ 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 2017, our contracting budget for audits is approximately \$1,248,000 million dollars.

We will defer audits that we cannot accomplish in 2017 to 2018.

The following appendices are included in our 2017 plan:

Appendix A: Planned Audits and Surveys

Appendix B: Legal Projects and Investigative Work

Appendix C: Summary of Audits/Surveys Planned

APPENDIX A: PLANNED AUDITS AND SURVEYS

CARRYOVER AUDITS FROM 2016

Financial Statement Audits (5) for the Year Ending December 31, 2016

As required, the OIG will conduct a review of NCUA's reporting entities for the year ending December 31, 2016. This will include NCUA's five funds:

- National Credit Union Share Insurance Fund,
- National Credit Union Administration Operating Fund,
- Central Liquidity Facility,
- Community Development Revolving Loan Fund, and
- The Temporary Corporate Credit Union Stabilization Fund.

We conduct these financial statement audits as well as agreed upon procedures (AUP) over NCUA's 401k Plan (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 14, 2017. We conduct the AUP over the 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 comply with GAAP and whether their statements present fairly, in all material respects, their financial position, results of operations, and changes in cash flows.

Oversight of Credit Union Cybersecurity

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 information technology (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 cybersecurity 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.

NEW STARTS - MANDATORY AUDITS FOR 2017

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 Share Insurance Fund. In addition, the Dodd-Frank Act requires the OIG to conduct a limited review of all losses to the Share Insurance Fund 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 Share Insurance Fund; and assess NCUA's supervision of the credit union(s).

Federal Information Security Modernization Act of 2014 Review

On December 18, 2014, the President signed into law the Federal Information Security Modernization Act of 2014 (FISMA 2014), Public Law 113-283, which reformed FISMA (Title III of the E-Government Act of 2002). FISMA 2014 requires each agency to develop, document, and implement an agency-wide program to provide information security for the systems that support the operations and assets of the agency. FISMA 2014 includes a requirement that Inspectors General perform an annual evaluation of the agency's program. This evaluation includes testing the effectiveness of information security policies, procedures, and practices of a representative subset of the agency's information systems; and an assessment of the effectiveness of the information security policies, procedures, and practices of the agency. The OIG also assesses NCUA's privacy program.

Objective: To determine whether NCUA information security and privacy management policies and procedures comply with FISMA 2014 and federal regulations and standards.

Government Charge Card Abuse Prevention Act of 2012

The Government Charge Card Abuse Prevention Act of 2012 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, the Director of the Office of Management and Budget, and the 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.

Government-wide Financial Report System

The Treasury Financial Manual requires the Inspector General to provide an opinion on the closing package data populated by the Government-wide Treasury Account Symbol Adjusted Trial Balance System and entered by the Chief Financial Officer (CFO) into the Government-wide Financial Report System (GFRS), as to its consistency with the comparative, audited consolidated, department-level financial statements. Because NCUA has a year-end other than September 30, this opinion is limited to audit assurance on NCUA's Closing Package Schedule, which includes other assets and contributed capital of the NCUA as of September 30, 2016 and the related notes. We conduct this audit of the Closing Package Schedule under contract with an independent public accounting firm. Requirements mandate we issue the audit report 45 days after the end of the fiscal year, or by November 15, 2017.

Objective: To provide an opinion on the Closing Package Schedule as part of the FY 2017 Federal Government's consolidated financial statement audit and provide monitoring and oversight to the CFO's GFRS submission.

Financial Statements Audits (5) for the Year Ending December 31, 2017

As required, the OIG will conduct a review of the National Credit Union Administration reporting entities for the year ending December 31, 2017. This will include NCUA's five funds:

- National Credit Union Share Insurance Fund,
- National Credit Union Administration Operating Fund,
- Central Liquidity Facility,
- Community Development Revolving Loan Fund, 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 14, 2018.

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

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. The DATA Act also requires agency Inspectors General to review statistical samples of the data submitted by the agency and to issue a series of oversight reports that include an analysis of the data, as well as the data standards used by the agency.

Objective: Determine the completeness, timeliness, quality, and accuracy of the data submitted by NCUA in accordance with the requirements of the DATA Act.

NEW STARTS FOR 2017 (DISCRETIONARY AUDITS)

Comprehensive Records Management

Records are the foundation of open government, supporting the principles of transparency, participation, and collaboration. Well-managed records can be used to assess the impact of programs, to improve business processes, and to share knowledge across the Government. Records protect the rights and interests of people and hold officials accountable for their actions.

The National Archives has provided guidance and requirements to ensure best practices by government agencies in the retention and disposal of both paper and electronic records. Executive Order M-12-18 requires agencies to manage all email records in an electronic format.

Email records must be retained in an appropriate electronic system that supports records management and litigation requirements.

Objective: Determine whether NCUA has a comprehensive records management, retention, and disposal system in place for its headquarters, five regional offices, and the Asset Management and Assistance Center.

CPA Audits or Independent Agreed Upon Procedures for Credit Unions

Credit unions have a fiduciary responsibility to their members to maintain a high level of professional standards as members are entrusting these institutions with their savings. Best practices suggest that financial institutions conduct an independent assessment or CPA audit to help ensure the safety and soundness of internal controls.

In several material loss reviews conducted by the OIG, we determined that a lack of an independent audit of the credit union was a contributing factor to the failure. We also determined that performing independent audits would have included techniques such as analytical procedures over expense and fee income accounts, testing of internal controls, and third party confirmations of material accounts, greatly enhancing the information available to NCUA examiners and allowing them to rely on independent confirmations of credit union information.

Objective: Determine whether all credit unions should be required to have a CPA audit or other independent agreed upon procedures conducted annually.

Enterprise Risk Management

Enterprise Risk Management (ERM) includes the methods and processes used by organizations to manage risks and seize opportunities related to the achievement of their objectives. ERM provides a framework for risk management, which typically involves identifying particular events or circumstances relevant to the organization's objectives (risks and opportunities), assessing them in terms of likelihood and magnitude of impact, determining a response strategy, and monitoring progress. By NCUA identifying and proactively addressing risks and opportunities, it promotes sound financial management and internal controls. ERM will allow NCUA to move away from a "silo" approach of risk management and move towards the "holistic" view of enterprise wide risks.

Objective: Determine whether NCUA has developed and implemented a comprehensive ERM plan that defines measures including a comprehensive risk map showing potential exposure and how that exposure drives NCUA policy.

Real Estate Lending

As of June 30, 2016, real estate loans accounted for 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 Share Insurance Fund 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.

Member Business Loans

A member business loan includes any loan, line of credit, or letter of credit (included unfunded commitments) where the borrower uses the proceeds for commercial, corporate, other business investment property\venture, or agricultural purposes. In 2016 NCUA published a final rule to provide federally insured credit unions with greater flexibility and autonomy to provide commercial and business loans to their members. Specifically, the final rule amends the current regulatory requirements pertaining to credit union commercial lending activities by replacing the “prescriptive requirements” with a broad “principles-based” regulatory approach intended to permit credit unions to “govern safe and sound commercial lending.” Under these new principles, NCUA expects credit unions will maintain prudent risk management practices and sufficient capital commensurate with the risk associated with their commercial lending activities. The final rule becomes effective January 1, 2017.

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

IT Equipment Inventory

NCUA has approximately 1,200 employees and the agency provides employees, state examiners, and contractors with IT equipment such as laptops, external monitors, hard drives, mobile devices, portable printers, etc. 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’s IT equipment.

Subject Matter Examiners

NCUA's Subject Matter Examiner Program requires principal examiners at the CU-12 level to select an area of concentration from among seven different specialty designations, which enables the agency to better allocate resources to credit unions that exhibit risk or potential risk in a particular area. The seven Subject Matter Examiner (SME) designations include Capital Markets, Specialized Lending, Record Keeping and Internal Controls, Consumer Compliance, Small Credit Unions, Electronic Payment Systems, and Information Systems and Technology. The designated areas reflect substantive topics in which an examiner is expected to have a basic level of understanding and which the examiner is likely to encounter during the course of the typical examination.

Objective: Determine whether NCUA's SME program operates effectively by adequately training, developing, and preparing examiners to provide expert advice and support during examinations.

Office of Continuity and Security Management

The Office of Continuity and Security Management (OCSM) evaluates and manages security and continuity programs across NCUA and its regional offices. The office is responsible for continuity of operations, emergency planning and response, critical infrastructure and resource protection, cyber threat and intelligence analysis, insider threats and counterintelligence, as well as facility security and personnel security.

Objective: Determine whether OCSM effectively achieves its policy goals and objectives, whether resources are being used and managed with maximum efficiency, effectiveness, and economy, and whether the activities and operations meet the requirements of applicable laws and regulations.

POTENTIAL NEW STARTS FOR 2018²

Quality Control Review Process

Objective: Determine whether the Quality Control Review (QCR) process is effective as a quality assurance tool and feedback mechanism for the examiner and supervisor, including whether management tracks and implements QCR recommendations.

Call Reports/Collection of Civil Money Penalties

Objective: Determine whether NCUA assessed and collected civil money penalties from federally insured credit unions that did not file Call Reports timely.

Accuracy of eOPF Records

Objective: To determine whether NCUA has adequate controls over official personnel files and personnel documentation.

NCUA's Access Controls over Sensitive Data

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

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

Credit Union Third Party Relationships

Objective: Determine whether the examination process adequately assesses the risk of third party relationships and credit union management's due diligence over those relationships.

Bank Secrecy Act

Objective: Determine how the NCUA has responded to Bank Secrecy Act/Anti-Money Laundering (BSA/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

² Based on any number of critical factors, the OIG could decide at any time to move a potential new start listed for 2018 and conduct it in 2017.

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 Inventory

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

NCUA's Monitoring of Credit Union Implementation of New Products

Objective: To determine what actions NCUA is taking or plans to take to ensure examiners understand and mitigate the risks associated with new products implemented by credit unions, such as member business loans and participation loans.

APPENDIX B: LEGAL PROJECTS AND INVESTIGATIVE WORK

2017 LEGAL ACTIVITIES

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

2017 INVESTIGATIONS

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

2017 TRAINING

- Regional staff & integrity awareness training
- New supervisor training
- Briefings on NCUA Instruction 1910.08, Guidelines and Responsibilities for Reporting Investigative Matters to the Inspector General



APPENDIX C: SUMMARY OF AUDITS/SURVEYS PLANNED

2017 PROJECTS

Audits/Surveys:

- Material Loss Reviews
- Federal Information Security Modernization Act of 2014 (FISMA 2014)
- Government Charge Card Abuse Prevention Act of 2012
- Congressional/NCUA Board Requests
- Government-wide Financial Report System (GFRS)
- 2016 Financial Statement Audits (carry over from 2016)
- Digital Accountability and Transparency Act of 2014
- Comprehensive Records Management
- CPA Audits or Independent Agreed Upon Procedures for Credit Unions
- Enterprise Risk Management
- Real Estate Lending
- AMAC Inventory
- Member Business Loans
- IT Equipment Inventory
- Subject Matter Examiners (SME)
- Office of Continuity and Security Management



2018 PROJECTS

Audits/Surveys:

- Quality Control Review (QCR) Process
- Call Reports/Collection of Civil Money Penalties
- Accuracy of eOPF Records
- NCUA's Access Controls Over Sensitive Data
- Office of Small Credit Unions Grant Programs
- Credit Union Third Party Relationships
- Bank Secrecy Act
- NCUA's Monitoring of Credit Union Implementation of New Products
- 2017 Financial Statement Audits
- Federal Information Security Modernization Act of 2014 (FISMA 2014)
- Material Loss Reviews as required
- Government-wide Financial Report System
- Congressional/NCUA Board Requests
- Government Charge Card Abuse Prevention Act of 2012