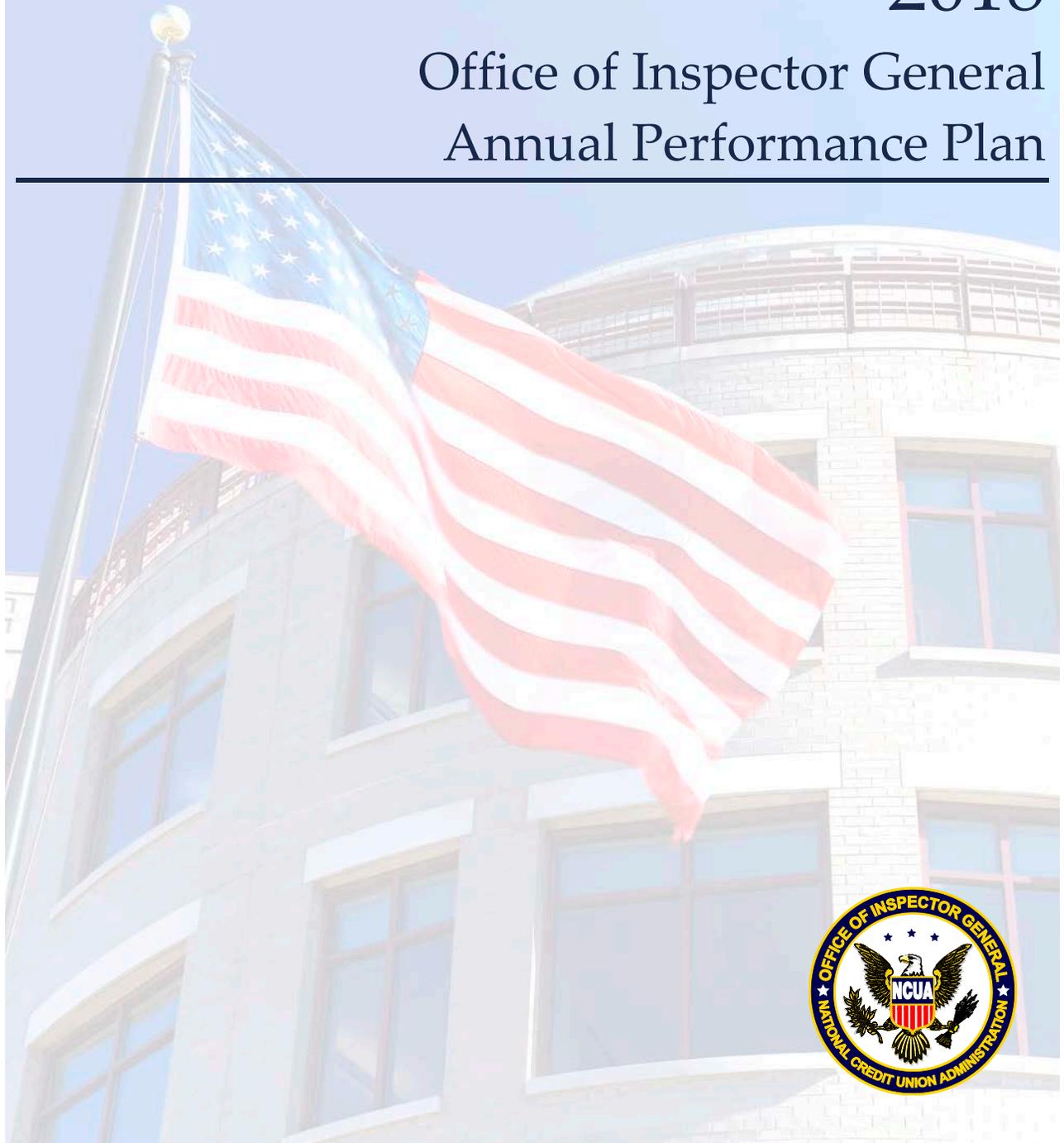




NCUA
National Credit Union Administration

2018

Office of Inspector General
Annual Performance Plan





OVERVIEW

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) Annual Performance Plan for 2018 describes those audits that would most benefit the NCUA. In formulating this Plan, we considered:

- The NCUA’s Strategic Plan, Annual Performance Plan, and Diversity and Inclusion Strategic Plan;
- Pertinent legislation, including the Federal Credit Union Act (FCU Act), the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Government Performance Results Act, The Chief Financial Officers Act of 1990, 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 the NCUA Board members and the Congress;
- Audits planned and performed by the Government Accountability Office;
- Input obtained from the NCUA Board and Executive staff;
- Request(s) from the Council of Inspectors General on Financial Oversight; and
- The credit union industry’s operating environment.

HOW WE CREATED THE ANNUAL PERFORMANCE PLAN

The NCUA OIG plans its work to identify and respond to issues that are of greatest importance to the NCUA. For purposes of the Annual Performance Plan, we have identified prospective audit and investigative work that is responsive to the NCUA’s strategic goals (see table below).



THE NCUA’S 2018 STRATEGIC GOALS¹
<i>STRATEGIC GOAL 1:</i> Ensure a safe and sound credit union system
<i>STRATEGIC GOAL 2:</i> Promote consumer protection and financial literacy
<i>STRATEGIC GOAL 3:</i> Cultivate an inclusive, collaborative workplace at NCUA that maximizes productivity and enhances impact

In preparing our 2018 Annual Performance Plan, we considered the current economic environment that has required ongoing, mandatory material loss reviews (MLR). 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 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 the NCUA Board and Congressional interest.

¹ Source: The NCUA’s 2017–2021 Strategic Plan.



RESOURCES

The OIG is composed of ten full-time positions including the Inspector General. The audit staff consists of five auditors, as well as the Deputy Inspector General. In addition, the OIG relies on independent contracting firms to augment resources by assisting the OIG with conducting the annual financial statement audits, the annual independent evaluation required by FISMA 2014, and selected material loss reviews, as necessary.

In addition to the annual financial statement audits and the evaluation under FISMA 2014, we use contracting dollars for short term, non-recurring projects. In 2018, our contracting budget for audits is approximately \$1.2 million dollars.

We will defer audits that we cannot accomplish in 2018 to 2019.

The following appendices are included in this 2018 Annual Performance 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 2017

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.

Objectives: Determine whether the NCUA: (1) has a comprehensive records management, framework, retention, and disposal system in place; and (2) is in compliance with applicable records management policies, procedures, laws and regulations.

Information Technology (IT) Equipment Inventory

The NCUA provides IT equipment such as laptops, external monitors, hard drives, mobile devices, portable printers, etc. to its approximately 1200 employees, as well as state examiners and contractors. The NCUA replaces much of its equipment at least every three years. The NCUA should have inventory/asset management policies and procedures to ensure the agency can account for lost, damaged, stolen, replaced, or reissued equipment.

Objectives: (1) assess the NCUA's IT equipment inventory policies, procedures, and practices, including its system of controls; and (2) determine whether the NCUA adequately monitors and accounts for its IT equipment from acquisition through final disposition.

Financial Statement Audits (4) for the Year Ending December 31, 2017

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

- National Credit Union Share Insurance Fund,
- National Credit Union Administration Operating Fund,

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- Central Liquidity Facility, and
- Community Development Revolving Loan Fund (CDRLF)

We conduct these financial statement audits 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, 2018.

Objective: Determine whether the four funds administered by the NCUA comply with generally accepted accounting principles (GAAP) and whether the NCUA's statements present fairly, in all material respects, the financial position, results of operations, and changes in cash flows.

NEW STARTS - MANDATORY AUDITS FOR 2018

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 the 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 -, 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 the NCUA's privacy program.

Objective: Determine whether the 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: Review the NCUA's purchase and travel card programs to analyze risks of illegal, improper, or erroneous purchases and payments and provide and report recommendations – if warranted – to agency management, the Director of the Office of Management and Budget, and the Congress.

Congressional/NCUA Board Requests (as necessary)

Objective: Respond to requests received from the Congress or the NCUA Board for OIG audits, investigations, or other services.

Government-wide Financial Report System (GFRS)

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 CFO into the GFRS, as to its consistency with the comparative, audited consolidated, department-level financial statements. Because the NCUA has a year-end other than September 30, this opinion is limited to audit assurance on the NCUA's Closing Package Schedule, which includes other assets and contributed capital of the NCUA as of September 30, 2017 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, 2018.

Objective: Provide an opinion on the Closing Package Schedule as part of the FY 2018 Federal Government's Consolidated Financial Statement audit and provide monitoring and oversight to the CFO's GFRS submission.

Financial Statements Audits (4) for the Year Ending December 31, 2018

As required, the OIG will conduct a review of the National Credit Union Administration reporting entities for the year ending December 31, 2018. This will include the NCUA's four funds:

- National Credit Union Share Insurance Fund,
- National Credit Union Administration Operating Fund,

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- 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, 2019.

Objective: To determine whether the four 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.

NEW STARTS FOR 2018 (DISCRETIONARY AUDITS)

Personally Identifiable Information at Liquidated Credit Unions

Records of liquidated credit unions (LCU) include “Any reasonably accessible document, book, paper, map, photograph, microfiche, microfilm, computer or electronically-created record generated or maintained by the liquidated credit union in the course its business and necessary for the Asset Management and Assistance Center (AMAC) to complete the liquidation of the credit union.” Occasionally, the NCUA may need to release original LCU records to third parties outside of the AMAC, such as for litigation or third party loan servicing. Establishing controls to properly handle personally identifiable information (PII) found in these records is critical to mitigating the risk of an unauthorized disclosure that could lead to identity theft, consumer fraud, potential legal liability, or reputational damage to the NCUA.

Objective: Determine whether the NCUA has established internal controls to properly identify, secure, and dispose of PII found within records of LCU.

Payment of Insured Shares

Liquidations result in the dissolution of federal credit unions with the assets being sold or collected, liabilities paid, and shares distributed under the direction of the board of directors or a duly appointed liquidating agent. The NCUA’s Share Insurance Fund insures individual accounts up to \$250,000, and a member’s interest in all joint accounts combined up to \$250,000. In 2017, the NCUA liquidated four federally insured credit unions, which collectively held assets over \$109.5 million and served over 26,000 members. The FCU Act defines the role of the board of directors and provides guidance for the NCUA’s credit union liquidation process. The NCUA’s board of directors is responsible for conserving assets, expediting the liquidation, and for the equitable distribution of the assets to the members. Insured deposits resulting from credit



union liquidations must be paid as soon as possible either by cash or by making to each accountholder a transferred deposit in a new credit union in the same community or in another insured credit union in an amount equal to the insured deposit of the accountholder.

Objective: Determine whether the NCUA timely and accurately pays members' confirmed insured shares upon liquidation of a credit union.

Consumer Complaints Process

The NCUA's Office of Consumer Financial Protection and Access administers the Consumer Assistance Center (CAC). The CAC is responsible for addressing consumer complaints involving federal credit unions with total assets up to \$10 billion, and in certain instances, federally insured state-chartered credit unions. Complaints involving matters that do not fall within NCUA's purview are forwarded to either the appropriate state supervisory authority or federal regulator for disposition. The CAC receives complaints online and by email, fax and regular mail. NCUA's consumer protection website, MyCreditUnion.gov, hosts the online CAC and provides access to complaint forms and information about the CAC's complaint handling process.

Objective: Determine whether the NCUA processes consumer complaints efficiently and effectively.

State Supervisory Authority Examination Process

The NCUA sets forth its guidance regarding the assessment of the financial and operational condition of Federally Insured State Chartered Credit Unions (FISCUs). FISCUs are regulated and monitored by the respective state supervisory authority (SSA) of the state where the credit union is chartered except for applicable federal laws and regulations, which are regulated by the NCUA. The SSA, in conjunction with the NCUA, works with the credit unions to resolve problems that may affect the Share Insurance Fund, with the NCUA participating on joint examinations and supervision contacts.

Objective: Determine whether the NCUA provides shared oversight of FISCUs to assess their condition and address material risks that may negatively affect the Share Insurance Fund.

Real Estate Lending

As of June 2017, real estate lending accounted for approximately 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 any identified risks.

Subject Matter Examiners

The NCUA's subject matter examiners (SME) 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 SME designations include Bank Secrecy Act, Capital Markets, Specialized Lending, Record Keeping and Internal Controls, Consumer Compliance, Electronic Payment Systems, and Information Systems and Technology. The designated areas reflect substantive topics that 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 the NCUA's SME program operates effectively by adequately training, developing, and preparing examiners to provide expert advice and support during examinations.

Quality Control Review Process

The NCUA's Quality Assurance Program (QAP) includes the assessment and review of all activities relating to the oversight of federally insured credit unions. The NCUA's quality assurance objectives are to evaluate whether the agency's supervision program complies with national requirements and whether national requirements keep pace with the ever-changing risks inherent in or introduced into the credit union industry. Regional Quality Control Reviews (QCR) within the QAP identify risks to the Share Insurance Fund, 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 management tracks and implements QCR recommendations.

Credit Union Third Party Relationships

Credit union third party relationships have been a long-standing issue for the NCUA dating back to the financial crisis of 2008. Since that time, the NCUA has indicated "...no credit union



should delegate loan approval authority to a third party. Every credit union has the responsibility to perform its own due diligence, establish effective controls and monitoring systems to mitigate the risks to the credit union's earnings and net worth." Further, in February 2013, NCUA indicated that "As credit unions and third parties become more interconnected, due diligence is more imperative than ever," adding that "credit unions should verify their vendors are in sound financial condition and meet the highest data security standards."

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

POTENTIAL NEW STARTS FOR 2019²

Relocation Program

Objective: Determine whether the NCUA adheres to its employee relocation policies and procedures.

Office of National Examinations and Supervision (ONES) Supervision of Cybersecurity Program

Objective: Assess the NCUA's efforts to supervise cybersecurity programs of corporate credit unions' and of federal credit unions with assets greater than \$10 billion.

Training Examination Staff to Supervise Credit Union Information Technology Programs

Objective: Determine the NCUA's efforts to provide trained examination staff to supervise credit union information technology programs, including cybersecurity.

CDRLF Loan Program

Objective: Determine whether the control framework over the CDRLF loan program is adequate and in compliance with policy, procedures, laws and regulations.

Certified Public Accountant Audits or Independent Agreed Upon Procedures for Credit Unions

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

² Based on any number of critical factors, the OIG could decide at any time to move a potential new start listed for 2019 and conduct it in 2018.



Enterprise Risk Management

Objective: Determine whether the NCUA has developed and implemented a comprehensive Enterprise Risk Management plan that defines measures of risk, including a comprehensive risk map showing potential exposure and how that exposure drives NCUA policy.

Member Business Loans

Objective: Determine whether the NCUA is effectively mitigating Member Business Loan risk.

Office of Continuity and Security Management

Objective: Determine whether the Office of Continuity and Security Management 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.

The NCUA's Hiring Practices

Objective: Determine whether the NCUA's hiring policies and procedures are effective and in compliance with applicable laws and regulations.

CDRLF Grant Program

Objective: Assess the NCUA's process over determining the eligibility of grant recipients and determine whether recipients use these grants for their intended purpose.



APPENDIX B: LEGAL PROJECTS AND INVESTIGATIVE WORK

2018 LEGAL ACTIVITIES

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

2018 INVESTIGATIONS

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

2018 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

2018 PROJECTS

Audits/Surveys:

Carryover Audits from 2017

- Comprehensive Records Management
- IT Equipment Inventory
- Financial Statement Audits for the Year Ending December 31, 2017

New Starts for 2018 – Mandatory Audits

- Material Loss Reviews (as necessary)
- Federal Information Security Modernization Act of 2014 Review
- Government Charge Card Abuse Prevention Act of 2012
- Congressional/NCUA Board Requests (as necessary)
- Governmentwide Financial Report System
- Financial Statement Audits (4) for the Year Ending December 31, 2018

New Starts for 2018 – Discretionary Audits

- Personally Identifiable Information at Liquidated Credit Unions
- Payment of Insured Shares
- Consumer Complaints Process
- State Supervisory Authority Examination Process
- Real Estate Lending
- Subject Matter Examiners
- QCR Process
- Credit Union Third Party Relationships



2019 PROJECTS

Audits/Surveys – Mandatory and Discretionary

- Relocation Program
- ONES Supervision of NCUA’s Cybersecurity Program
- Training Examination Staff to Supervise Credit Union Information Technology Programs
- CDRLF Loan Program
- CPA Audits or Independent Agreed Upon Procedures for Credit Unions
- Enterprise Risk Management
- Member Business Loans
- Office of Continuity and Security Management
- NCUA’s Hiring Practices
- CDRLF Grant Program
- Digital Accountability and Transparency Act of 2014
- 2019 Financial Statement Audits
- Federal Information Security Modernization Act of 2014
- Material Loss Reviews (as required)
- Government-wide Financial Report System
- Congressional/NCUA Board Requests
- Government Charge Card Abuse Prevention Act of 2012