



NCUA
National Credit Union Administration

2019

Office of Inspector General
Annual Performance Plan





OVERVIEW

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) Annual Performance Plan (Plan) for 2019 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 Plan, we have identified prospective audit work that is responsive to the NCUA’s strategic goals (see table below).



THE NCUA’S STRATEGIC GOALS¹
<p><i>STRATEGIC GOAL 1:</i> Ensure a safe and sound credit union system</p>
<p><i>STRATEGIC GOAL 2:</i> Provide a regulatory framework that is transparent, efficient and</p>
<p><i>STRATEGIC GOAL 3:</i> Maximize organizational performance to enable mission success</p>

In preparing our 2019 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 2018–2022 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 2019, our contracting budget for audits is approximately \$1.2 million dollars.

We will defer audits that we cannot accomplish in 2019 to 2020.

The following appendices are included in this 2019 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 2018

Information Technology (IT) Equipment Inventory

Information technology equipment has become a valuable commodity to stay connected and to fulfill NCUA's mission anywhere and anytime. The OCIO ensures NCUA staff and contractors are equipped with the required IT equipment by procuring laptops, external monitors, hard drives, mobile devices (smartphones and smart tablets) and portable printers. OCIO is responsible for disseminating IT equipment. The useful life cycle of any equipment encompasses acquisition; receipt and storage; distribution and inventory; transfer, loan, replace and return of equipment and disposition.

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

State Supervisory Authority (SSA) 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 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.

Consumer Complaints Program

The NCUA's Office of Consumer Financial Protection (OCFP) 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. The OCFP forwards complaints involving matters that do not fall within NCUA's purview to either the appropriate state supervisory authority or federal regulator for disposition. The CAC receives complaints online and by email, fax, and regular mail. The 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.



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

As required, the OIG will conduct a review of the NCUA's 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,
- 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, 2019.

Objective: Determine whether the four funds the NCUA administers 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 2019

Material Loss Reviews (as necessary)

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

On December 18, 2014, the President signed into law the Federal Information Security Modernization Act of 2014 (FISMA 2014), 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 for OIG audits, investigations, or other services received from the Congress or the NCUA Board.



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 that the Chief Financial Officer (CFO) enters 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, 2019 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, 2019.

Objective: Provide an opinion on the Closing Package Schedule as part of the Fiscal Year (FY) 2019 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, 2019

As required, the OIG will conduct a review of the NCUA's 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,
- Central Liquidity Facility,
- Community Development Revolving Loan Fund.

We conduct these audits under contract with an independent public accounting firm. Requirements mandate that we issue the reports within 45 days of year-end or by February 15, 2020.

Objective: 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 2019 (DISCRETIONARY AUDITS)

Quality Control Review (QCR) 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 QCRs 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 NCUA's QCR process is effective as a quality assurance tool and feedback mechanism for examiners and supervisors, including whether management tracks and implements QCR recommendations.

Office of National Examinations and Supervision (ONES) Oversight of Credit Union Cybersecurity Programs

The Federal Financial Institutions Examination Council (FFIEC) has 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; technology that introduces varying complexities and potential vulnerabilities to the credit union environment and overall industry. In 2017, we conducted an audit of the Office of Examination and Insurance (E&I's) supervision of the information technology (IT) programs of federal credit unions (FCUs) with assets of \$10 billion or less. NCUA's ONES is responsible for supervising corporate credit unions and natural person credit unions with assets greater than \$10 billion.

Objective: Determine whether ONES supervision provides for adequate oversight of its credit unions' cybersecurity programs to assess whether the credit unions are taking sufficient and appropriate measures to protect the confidentiality, availability, and integrity of credit union assets and sensitive credit union data against cyber-attacks.

Certified Public Accountant (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 we conducted, we determined that a lack of an independent audit contributed to credit union failure. We also determined that performing independent audits would have included procedures such as analytical testing over expense and fee income accounts, testing of internal controls, and independent third party confirmations of material accounts. These procedures greatly enhance the information available to NCUA examiners



when concluding on a credit union's financial and operational condition, and related CAMEL and risk ratings.

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

Real Estate Lending

As of June 2018, real estate lending accounted for approximately 49 percent of total loans issued by federally insured credit unions. The continued growth of real estate loans financed at historically low fixed interest rates has contributed to a significant concentration of credit union assets. Interest rate changes can influence interest-sensitive income and expenses related to real estate loans, thereby affecting credit union earnings. Consequently, real estate loan concentration 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.

Credit Union Service Organizations (CUSO)

A CUSO is a corporation, limited liability corporation, or limited partnership that provides services primarily to credit unions or members of affiliated credit unions. CUSOs 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 CUSOs and credit union management's due diligence over those organizations.

Asset Management Assistance Center (AMAC) Non-Share Payments

The AMAC conducts credit union liquidations and performs management and recovery of assets. The AMAC also commonly organizes Asset Management Estates (AMEs) to hold assets and other property acquired from failed institutions, which facilitates funding and disposition of assets. For FY 2017, the non-share payouts for Natural Person AMEs included over \$4.5 million in administrative liquidation expenses and over \$4 million in pass through payments to third parties such as loan servicers.

Objective: Determine whether the NCUA properly and accurately pays non-share payments.



Personally Identifiable Information (PII) at Liquidated Credit Unions (LCUs)

Records of LCUs 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 of its business and necessary for the 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 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 the records of LCUs.

OneStop Responsiveness

The OCIO is responsible for OneStop, a web-based portal implemented in September 2017 to provide NCUA staff the ability to report IT issues and request hardware, software, or other IT support. OneStop provides the ability to track the status of any open tickets in real-time and sends email notifications regarding the status of open tickets. The OCIO implemented OneStop to not only ensure that users receive appropriate help in a timely manner, but to also provide a means to efficiently communicate between the user community and the IT service providers.

Objective: Determine whether OCIO consistently and timely responds to and resolves OneStop service requests.

Member Business Loans

A member business loan includes any loan, line of credit, or letter of credit (including unfunded commitments) where the borrower uses the proceeds for commercial, corporate, other business investment property\venture, or agricultural purposes. In 2016, the NCUA published a final rule providing federally insured credit unions with greater flexibility and autonomy to provide commercial and business loans to their members. Specifically, the final rule amended the existing 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, the 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 became effective January 1, 2017.

Objective: Determine whether the NCUA effectively mitigates member business loan risks.



POTENTIAL NEW STARTS FOR 2020²

Insured Share Payments

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

Contracting Officer Representative (COR) Program

Objective: Determine whether the NCUA's COR program complies with applicable federal laws and regulations and NCUA requirements, policies and procedures; and whether the NCUA oversees and evaluates the effectiveness and consistency of COR monitoring activities across the NCUA.

Relocation Program

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

Electronic Media Sanitation

Objective: Determine whether the NCUA effectively sanitizes electronic media (hard drives, smart devices, etc.) before disposal or reuse to protect sensitive NCUA data and PII.

Subject Matter Examiners (SME)

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.

Pre-Hire Screening Process

Objective: Determine whether the NCUA's Office of Continuity and Security Management complies with applicable federal laws, regulations, policies and procedures to screen applicants during the pre-hire process.

Social Media

Objective: Determine whether the NCUA's social media program appropriately considers risks to the agency and determine whether controls within the program provide for the agency to effectively manage and monitor the program's objectives while mitigating 1.) potential negative impacts to its strategic goals, objectives, and reputation, or 2.) inadvertent disclosure of confidential or sensitive information.

² Based on any number of critical factors, the OIG could decide at any time to move a potential new start listed for 2020 and conduct it in 2019.



Electronic Official Personnel Files (e-OPF)

Objective: Determine whether the Office of Human Resources appropriately and timely records personnel documents in the employee’s e-OPF.

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.

Training Examination Staff to Supervise Credit Union Cybersecurity Programs

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

Hiring Practices

Objective: To determine whether the NCUA’s hiring policies and procedures are effective and in compliance with applicable laws and regulations.

Chartering and Fields of Membership

Objective: Determine how promptly Credit Union Resource and Expansion processes applications for new charters and new or revised fields of membership.

Identification of Emerging Risks

Objective: Determine whether the NCUA takes appropriate action to address identified emerging risks related to credit unions’ safety and soundness.



APPENDIX B: LEGAL PROJECTS AND INVESTIGATIVE WORK

2019 LEGAL ACTIVITIES

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

2019 INVESTIGATIONS

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

2019 TRAINING

- Regional staff and 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

2019 PROJECTS

Audits/Surveys:

Carryover Audits from 2018

- Information Technology (IT) Equipment Inventory
- State Supervisory Authority (SSA) Examination Process
- Consumer Complaints Program
- Financial Statement Audits (4) for the Year Ending December 31, 2018

New Starts for 2019 – Mandatory Audits

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

New Starts for 2019 – Discretionary Audits

- Quality Control Review (QCR) Process
- Office of National Examinations and Supervision (ONES) Oversight of Credit Union Cybersecurity Programs
- Certified Public Accountant (CPA) Audits or Independent Agreed Upon Procedures for Credit Unions
- Real Estate Lending

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- Credit Union Service Organizations (CUSO)
- Asset Management Assistance Center (AMAC) Non-Share Payments
- Personally Identifiable Information(PII) at Liquidated Credit Unions (LCUs)
- OneStop Responsiveness
- Member Business Loans

2020 PROJECTS

Audits/Surveys – Mandatory and Discretionary

- 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
- Insured Share Payments
- Contracting Officer Representative (COR) Program
- Relocation Program
- NCUA Electronic Media Sanitation
- Subject Matter Examiners (SME)
- Pre-Hire Screening Process
- Social Media
- Electronic Official Personnel Files (e-OPF)

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- CDRLF Loan Program
- Training Examination Staff to Supervise Credit Union Cybersecurity Programs
- NCUA's Hiring Practices
- Chartering and Fields of Membership
- Identification of Emerging Risks