



NCUA
National Credit Union Administration



2020

Office of Inspector General
Annual Performance Plan





OVERVIEW

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) Annual Performance Plan (Plan) for 2020 describes those audits that would most benefit the NCUA's mission. 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, the Government Charge Card Abuse Prevention Act of 2012, 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;
- 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's mission and related goals. 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
<i>STRATEGIC GOAL 1:</i> Ensure a safe and sound credit union system
<i>STRATEGIC GOAL 2:</i> Provide a regulatory framework that is transparent, efficient, and improves consumer access
<i>STRATEGIC GOAL 3:</i> Maximize organizational performance to enable mission success

In preparing our 2020 Plan, we considered that we performed two mandatory material loss reviews (MLR) during 2019. 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 supplement resources by assisting the OIG with conducting the annual financial statement audits, the annual independent evaluation required by FISMA 2014, and material loss reviews, as necessary.

In addition to the annual financial statement audits and the FISMA evaluation, we use contracting dollars for short term, non-recurring projects. In 2020, our contracting budget for audits is approximately \$1.2 million dollars.

We will defer audits that we cannot accomplish in 2020 to 2021.

The following appendices are included in this 2020 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 2019

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.

Credit Union Service Organizations (CUSO) and Other (non-CUSO) Third Party Vendors

A CUSO is a corporation, limited liability corporation, or limited partnership that provides services primarily to credit unions or members of affiliated credit unions. Part 712 of NCUA's Rules and Regulations authorizes federal credit unions to invest up to one percent of unimpaired capital and surplus in CUSOs and/or loan up to an aggregate of one percent of unimpaired capital and surplus to CUSOs. CUSOs exist as separate legal entities chartered under state law. NCUA neither charters nor insures CUSOs. Therefore, they are not subject to NCUA regulations or credit union examinations. However, CUSOs must comply with applicable state laws, including state licensing and regulated activities' laws. NCUA maintains contractual rights of "complete access to any books and records of the CUSO, and the ability to review CUSO internal controls..." These rights permit the agency to conduct CUSO reviews. The NCUA performs CUSO reviews when safety and soundness concerns affiliated with credit unions may exist.

Objective: Determine: 1) whether the NCUA complies with applicable policies, procedures, laws and regulations for CUSO and other (non-CUSO) third-party vendor reviews and 2) whether the NCUA's vendor review process effectively helps to assess the adequacy of credit union management's due diligence reviews to identify and reduce the risks vendor relationships impose on credit unions.

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 adequate internal controls over LCU's records that contain personally identifiable information from initial identification to destruction.

Financial Statement 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, 2019. 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, 2020.

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 2020

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: Conduct OIG audits, investigations, or other work in response to requests received from the Congress or the NCUA Board.



Financial Statements Audits (4) for the Year Ending December 31, 2020

As required, the OIG will conduct a review of the NCUA's reporting entities for the year ending December 31, 2020. 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 (February 14, 2021).

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.

Peer Review of another Agency OIG

Government Auditing Standards require audit organizations that perform audits and attestation engagements of federal government programs and operations undergo an external peer review every 3 years.

Objectives: Determine whether another audit organization's system of quality control is suitability designed and whether the audit organization is in compliance with its quality control system so as to provide reasonable assurance the audit organization conforms to applicable professional standards.



NEW STARTS FOR 2020 (DISCRETIONARY AUDITS)

Certified Public Accountant (CPA) Audits or Independent Agreed-Upon Procedures Engagement 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.

As a result of material loss reviews conducted by the OIG of liquidated credit unions, we determined that a lack of a CPA audit or independent agreed-upon procedures engagement may have contributed to the failures. We also determined that performing CPA audits or independent agreed-upon procedures engagement would have included such procedures as analytical testing over expense and fee income accounts, testing of internal controls, and independent third party confirmations of material accounts. These reviews greatly enhance the information available to NCUA examiners when evaluating a credit union's financial and operational condition and determining related CAMEL and risk ratings.

Objective: Determine the feasibility of NCUA requiring all credit unions to have a CPA audit or independent agreed-upon procedures engagement conducted annually.

Concentration Risk – Real Estate and Auto Lending

As of June 2019, real estate and auto lending accounted for approximately 84 percent of total loans issued by federally insured credit unions. The continued growth of these loans financed at historically low fixed interest rates and extended loan terms has contributed to a significant concentration of credit union assets. Interest rate and loan term changes can influence interest-sensitive income and expenses related to real estate and auto loans, thereby affecting credit union earnings. Consequently, real estate and auto 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 and loan term adjustments.

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

NCUA's Governance of Information Technology Initiatives

The NCUA's Information Technology Prioritization Council (ITPC), with the Board's approval, prioritizes and selects all software projects at NCUA. Additionally, the ITPC identifies opportunities to improve productivity and achieve costs savings through the strategic application of technology.

Objective: To determine whether the NCUA has an effective process for identifying, controlling, prioritizing, and implementing IT initiatives across the agency.



Fraud Detection Techniques in NCUA's Examination Program

The primary purpose of NCUA's examination and supervision program is to ensure federally insured credit unions comply with applicable laws and regulations and operate in a safe and sound manner. Safety and soundness expectations for insured credit unions include internal controls to deter and detect fraud. As such, NCUA conducts a review of internal controls on a risk-focused basis, and incorporates fraud detection techniques into some aspects of the examination program.

Objectives: Determine the effectiveness of NCUA's fraud detection techniques conducted during examinations.

Preventing and Detecting Cyber Threats to the NCUA

Security Information and Event Management (SIEM) software collects and aggregates log data generated throughout the organization's technology infrastructure, from host systems and applications to network and security devices such as firewalls and antivirus filters. The software then identifies and categorizes incidents and events, as well as analyzes them. SIEM provides reports on security-related incidents and events, such as successful and failed logins, malware activity and other possible malicious activities, and it send alerts if analysis shows that an activity runs against predetermined rulesets and thus indicates a potential security issue. The NCUA network includes firewalls as part of its defense in depth strategy to protect the agency network.

Objective: To assess the effectiveness of the NCUA's network firewalls and SIEM tool in preventing and detecting cyber threats.

Records Management of Electronic Message Records Including Instant Messages

National Archives and Records Administration (NARA) Bulletin 15-02 recommends that agencies configure electronic messaging systems to allow for automated capture of electronic messages and metadata – removing the reliance on individual users to capture and produce such messages. The NCUA has issued Instructions that provide guidance on the use of media and the need to protect and/or capture content.

Objective: Determine whether the NCUA has policies and procedures that reflect Federal law, regulations, and official guidance on the proper identification, capture, retention, and disposition of all types of electronic message records to meet NARA requirements.

NCUA's Hiring Practices

The Office of Human Resources (OHR), Division of Staffing and Classification (DSC) is responsible for the hiring practices at the NCUA. Presidential Memorandum—Improving the Federal Recruitment and Hiring Process, issued in May 2010, initiated a hiring reform in the Federal Government focused on improving the quality and timeliness of agency hiring. Among other things, the Presidential Memorandum required agency heads to provide the Office of Personnel Management (OPM) and the Office of Management and Budget timelines and targets



to improve the quality and speed of agency hiring by (1) reducing substantially the time it takes to hire mission-critical and commonly filled positions, (2) measuring the quality and speed of the hiring process, and (3) analyzing the causes of agency hiring problems and actions that will be taken to reduce problems. In support of the Presidential Memorandum, OPM developed an end-to-end hiring initiative that encouraged agencies to complete the hiring process within 80 calendar days. OPM recognized that agencies may need to adjust the number of days for each step in the hiring process based on agency practices and procedures.

Objective: Determine whether the NCUA’s hiring process facilitated the efficient selection of high-quality candidates to help NCUA divisions and offices meet mission requirements.

Electronic Media Sanitization

The NCUA OCIO Information Systems Security Manual (NCUA Instruction 9700.04a) indicates that “information system media” includes, but is not limited to:

- Mobile Devices
- Photocopiers, Printers, Fax machines
- Legacy Magnetic Media, such as tapes, ZIP drives
- Removable or locally attached hard drives
- Flashed-Based Storage Devices, such thumb drives, memory cards, etc.
- RAM / ROM-based Storage Devices such as Dynamic Random Access Media. Etc.

Depending on the level the NCUA system was classified, information must be sanitized prior to its disposal or reuse.

Objective: Determine whether the NCUA effectively sanitizes information systems media before its disposal or reuse to protect NCUA data and PII.

NCUA’s Consumer Compliance Examination Program

The Federal Financial Institutions Examination Council (FFIEC) promotes compliance with federal consumer protection laws and regulations through each agency’s supervisory and outreach programs. In November 2016, the FFIEC issued a revised Uniform Interagency Consumer Compliance Rating System (CC Rating System). The revised CC Rating System, which became effective on March 31, 2017, is a supervisory policy for evaluating financial institutions’ adherence to consumer compliance requirements and was designed to more fully align with the FFIEC agencies’ current risk-based, tailored examination approaches. Under the CC Rating System, each financial institution is assigned a consumer compliance rating. The CC Rating System is based upon a scale of 1 through 5 in increasing order of supervisory concern. The NCUA currently integrates the principles and standards of the CC Rating System into the existing CAMEL rating structure, in place of a separate rating.

Objectives: Determine whether the NCUA adequately assesses a credit union’s ability to effectively manage consumer compliance risk.



POTENTIAL NEW STARTS FOR 2021²

Mandatory

Enhanced Personnel Security Program

Objective: To assess the effectiveness and fairness of the NCUA enhanced personnel security program in accordance with performance measures and standards established by the Director of National Intelligence to covered individuals of the enhanced personnel security program of the agency.

DATA Act

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

Discretionary

Asset Management Assistance Center (AMAC) Non-Share Payments

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

OneStop Responsiveness

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

Member Business Loans

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

NCUA's Examination Efforts over Credit Unions Holding Foreclosed Properties as Foreclosed and Repossessed Assets (FRA)

Objectives: Determine whether: 1) NCUA examiners follow applicable NCUA instructions and guidance during SCUEP examinations when assessing Tier 1 Review Areas for Credit Risk specifically for charge-off policies and procedures related to foreclosed and repossessed assets; and 2) What actions, if any, do examiners take to ensure credit unions are not permanently carrying such income-producing assets.

Chartering Proposed Federal Credit Unions - Evaluating the Scoring Process

Objective: Determine whether CURE adheres to established policies and procedures when reviewing and scoring chartering applications submitted by interested potential organizers forming new credit unions.

² Based on any number of critical factors, the OIG could decide at any time to move a potential new start listed for 2021 and conduct it in 2020.



Loan Collection Process for Liquidated Credit Unions

Objective: Determine whether NCUA, as liquidating agent, follows all applicable Federal and NCUA policies, procedures regarding NCUA's debt collection process, including debt deemed uncollectible and forgiven.

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.

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.

Quality Control Review (QCR) Process

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.

Audit of NCUA's Program to Fund College Courses and Academic Degrees

Objective: Determine whether NCUA officials approving college courses or academic degrees are doing so in compliance with all applicable federal government and/or NCUA Office of Human Resources regulations, policies and procedures.

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.

The NCUA's Allocation and Retention of Safety and Soundness Examination Staff

Objectives: Determine whether: (1) NCUA's process for allocating examination staff and subject-matter experts to safety and soundness examinations was consistent with agency strategic goals, internal control standards, agency initiatives, and best practices, and (2) NCUA's activities for retaining safety and soundness examination staff and subject-matter experts were consistent with agency strategic goals, internal control standards, and best practices.

Insured Share Payments

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



APPENDIX B: LEGAL PROJECTS AND INVESTIGATIVE WORK

2020 Legal Activities

- General legal support
- Administrative/personnel legal work
- Investigative assistance and support
- Audit assistance and support
- Legislation/regulation review
- Freedom of Information Act responses

2020 Investigations

- Investigations into NCUA employee and contractors resulting from complaints/referrals
- Proactive reviews and/or investigations
- Coordination with other law enforcement and the NCUA on credit union-related complaints

2020 Training

- Inclusion of IG authorities in content of new supervisor training
- Briefings as needed on NCUA Instruction 1910.08, Guidelines and Responsibilities for Reporting Investigative Matters to the Inspector General



APPENDIX C: SUMMARY OF AUDITS/SURVEYS PLANNED

2020 PROJECTS

Audits/Surveys:

Carryover Audits from 2019

- Consumer Complaints Program
- Personally Identifiable Information at Liquidated Credit Unions
- Credit Union Service Organizations and Other (non-CUSO) Third Party Vendors
- Financial Statement Audits (4) for the Year Ending December 31, 2019

New Starts for 2020 – 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)
- Financial Statement Audits (4) for the Year Ending December 31, 2020
- Peer Review of Another Agency OIG

New Starts for 2020 – Discretionary Audits

- Certified Public Accountant (CPA) Audits or Independent Agreed-Upon Procedures Engagement for Credit Unions
- Concentration Risk - Real Estate and Auto Lending
- NCUA's Governance of Information Technology Initiatives
- Fraud Detection Techniques in NCUA's Examination Program
- Preventing and Detecting Cyber Threats to the NCUA

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- Records Management of Electronic Message Records Including Instant Messages
- NCUA's Hiring Practices
- Electronic Media Sanitization
- NCUA's Consumer Compliance Examination Program

2021 PROJECTS

Audits/Surveys – Mandatory and Discretionary

- Enhanced Personnel Security Program
- Digital Accountability and Transparency Act of 2014
- 2020 Financial Statement Audits
- Federal Information Security Modernization Act of 2014
- Material Loss Reviews (as required)
- Congressional/NCUA Board Requests
- Government Charge Card Abuse Prevention Act of 2012
- Asset Management Assistance Center (AMAC) Non-Share Payments
- OneStop Responsiveness
- Member Business Loans
- NCUA's Examination Efforts Over Credit Unions Holding Foreclosed Properties as Foreclosed and Repossessed Assets (FRA)
- Chartering Proposed Federal Credit Unions - Evaluating the Scoring Process
- Loan Collection Process for Liquidated Credit Unions
- Electronic Official Personnel Files (e-OPF)
- Contracting Officer Representative (COR) Program

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- Quality Control Review (QCR) Process
- Audit of NCUA's Program to Fund College Courses and Academic Degrees
- Subject Matter Examiners (SME)
- The NCUA's Allocation and Retention of Safety and Soundness Examination Staff
- Insured Share Payments