



NCUA
National Credit Union Administration

**OFFICE OF INSPECTOR
GENERAL**

**AUDIT OF THE NCUA'S
QUALITY ASSURANCE PROGRAM**

**Report #OIG-23-07
August 8, 2023**



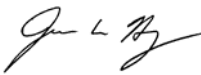


National Credit Union Administration

Office of Inspector General

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FROM: Inspector General James W. Hagen 

SUBJ: Audit of the NCUA's Quality Assurance Program

DATE: August 8, 2023

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) conducted this self-initiated audit to assess the NCUA's Quality Assurance Program. The objective of our audit was to determine whether the NCUA conducts its quality assurance activities in accordance with requirements.

Results of our audit determined the NCUA substantially conducted its Quality Assurance Program in compliance with requirements. However, we did not find full compliance with the requirements for performing or documenting quality assurance reviews and completing quality assurance reviews or issuing response memos within established timeframes. Therefore, we are making three recommendations in our report and note that management has agreed to all the recommendations. Based on our interviews, we also identified areas for potential improvements to the Quality Assurance Program. We are providing the comments we received from our interviews about the program in a separate document to management for its review and consideration.

We appreciate the cooperation and courtesies NCUA management and staff provided to us during the audit. If you have any questions on the report and its recommendation, please contact me at 703-518-6350.

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EXECUTIVE SUMMARY

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) conducted this self-initiated audit to assess the NCUA's Quality Assurance Program. The objective of our audit was to determine whether the NCUA conducts its quality assurance activities in accordance with requirements. The scope of our audit covered the NCUA's actions to execute quality assurance activities from January 1, 2020, through December 31, 2022.

Our audit determined the NCUA substantially conducted its Quality Assurance Program in compliance with requirements. However, we did not find full compliance with the requirements for performing or documenting quality assurance reviews and completing quality assurance reviews or issuing response memos within established timeframes. Based on our interviews, we also identified areas for potential improvements to the Quality Assurance Program. We are making three recommendations in our report to address the issues we identified.

We appreciate the cooperation and courtesies NCUA management and staff provided to us during this audit.



BACKGROUND

The NCUA is an independent federal agency created by the U.S. Congress that insures deposits of federally insured credit unions, protects members who own credit unions, and charters and regulates federal credit unions. The NCUA's organizational structure consists of a Headquarters, Asset Management and Assistance Center, and three regional offices.¹

Office of Examination and Insurance (E&I)

E&I is responsible for NCUA's supervision programs that ensure the safety and soundness of federally insured credit unions. Within E&I, the Division of Policy oversees NCUA's examination and supervision program, including resource management and allocation, and oversees the development and maintenance of examination and supervision policy manuals. The Division of Risk Management (DRM) oversees the agency's problem resolution program and manages risk to the National Credit Union Share Insurance Fund (NCUSIF). DRM is responsible for performing secondary quality control reviews of the Office of National Examinations and Supervision (ONES). DRM reviews supervision plans submitted by ONES; reviews, capital plans submitted by certain ONES credit unions that had been reviewed by ONES; and performs pre-delivery reviews and post-delivery quality control reviews (QCRs) of ONES examination reports, with assistance from other divisions in E&I.

ONES

The mission of ONES is to ensure the safety and soundness of all corporate credit unions² and natural person credit unions³ with assets of \$15 billion⁴ or more by:

1. Providing timely and effective advice to the NCUA Board on legislative, regulatory, and operational issues;
2. Developing, implementing, and maintaining examination and supervisory policies and procedures that timely address corporate credit union issues in an evolving financial market; and
3. Effectively managing ONES resources, the applicable risk to the NCUSIF, and the systemic risk to the credit union system.

¹ The three regional offices are the Eastern, Southern, and Western regions.

² A corporate credit union is an organization that: (1) is chartered under federal or state law as a credit union; (2) receives shares from and provides loan services to credit unions; (3) is operated primarily for the purpose of serving other credit unions; (4) is designated by the NCUA as a corporate credit union; (5) limits natural person members to the minimum required by state or federal law to charter and operate the credit union; and (6) does not condition the eligibility of any credit union to become a member on that credit union's membership in any other organization.

³ A natural person credit union is a federal or state-chartered credit union primarily serving individual people rather than credit unions themselves.

⁴ During the scope period of this audit (2020-2022), the asset threshold was \$10 billion.



ONES' Division of Supervision (DOS) performs pre-delivery examination report reviews and post-delivery QCRs of ONES credit unions. ONES National Field Supervisors also perform quality assurance activities.

NCUA's Regions

Each of the NCUA's three Regions has a DOS. Among the Regions' DOS roles and responsibilities is performing quality assurance activities that include reviewing examination and supervision reports. The Regions' supervisory examiners also perform quality assurance reviews.

NCUA Guidance for the Quality Assurance Program

National Supervision Policy Manual (NSPM)

NCUA's NSPM states the following related to the Quality Assurance Program:

The NCUA's quality assurance program includes assessing and reviewing all activities relating to the oversight of federally insured credit unions. The NCUA's quality assurance program has two objectives: (1) establishing national requirements that keep pace with ever-changing risks inherent in, or introduced into, the credit union industry, and (2) evaluating whether the agency's supervision program complies with national requirements. The three main contributors to the examination and supervision quality assurance program are DOS, supervisors, and E&I.

The NSPM requires NCUA personnel to use the following reviews to administer the quality assurance program:

Pre-release secondary review – the pre-release secondary review (PSR) is the primary quality assurance process for the examination and supervision function and is completed prior to issuance of examination reports. These reviews are completed on all examination and supervision contact reports where the NCUA issues the report, including federally insured, state-chartered credit unions where the NCUA performs solo examinations or where the State Supervisory Authority (SSA)⁵ participates on examinations led by the NCUA.

⁵ A State Supervisory Authority is the governmental agency of the state in which the credit union is chartered, which regulates state-chartered credit unions.



The level and depth of the pre-release secondary review depends on the credit union's size, CAMELS⁶ rating, and the contact type.

Pre-Release Secondary Review Criteria per NSPM Version 18.0

| Criteria | SE ⁷ /DSA ⁸ | DOS | ARD ⁹ | E&I |
|--|-----------------------------------|-----|------------------|-----|
| < \$50 million CAMELS 1, 2, 3 Exam, Follow-up Exam, Supervision | PSR Scan ¹⁰ | N/A | N/A | N/A |
| < \$50 million CAMELS 4, 5 Exam | PSR | PSR | N/A | N/A |
| < \$50 million CAMELS 4, 5 Follow-up Exam, Supervision | PSR Scan | N/A | N/A | N/A |
| \$50 - <\$250 million CAMELS 1, 2, 3 Exam, Follow-up Exam, Supervision | PSR | N/A | N/A | N/A |
| \$50 - <\$250 million CAMELS 4, 5 Exam, Follow-up Exam, Supervision | PSR | PSR | N/A | N/A |
| \$250 million - \$1 billion All CAMELS Exam, Follow-up Exam, Supervision | PSR | PSR | N/A | N/A |
| > \$1 billion Exam, Follow-up Exam, Supervision | PSR | PSR | PSR | N/A |
| Regional Director-issued administrative action (issue or terminate) | PSR | PSR | N/A | N/A |

The NCUA added the requirement to perform pre-release secondary reviews to the NSPM on September 30, 2021. Pre-release secondary reviews performed by supervisory examiners are to be completed within 10 business days of receiving the completed examination work and draft report. Supervisory examiners are to evaluate the quality of the report, verify that the CAMELS

⁶ Examiners assign a numeric value to each of the CAMELS components based on the evaluation of six critical elements of a credit union's operations over the course of an examination. The six elements are Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk.

⁷ Supervisory Examiner

⁸ Division of Special Actions

⁹ Associate Regional Director

¹⁰ A scan review is a cursory review of the report and supporting documentation to determine whether problems are being adequately addressed and CAMELS and risk ratings are adequately supported. Supervisors may choose to complete all or part of the pre-release secondary review for a pre-release secondary review scan. Supervisors are not required to answer the yes/no questions on the pre-release secondary review.



and risk ratings are appropriate and sufficiently justified in the examination report, and ensure the issues and other required examination components are used properly. DOS is required to complete its pre-release secondary reviews within 15 business days of being notified that the supervisory examiner's review has been completed and is ready for DOS review.

Documented secondary CAMELS review - a documented secondary CAMELS review is required for certain federally insured, state-chartered credit union examinations and supervision contacts where the SSA writes and issues the report and the NCUA is participating and issuing CAMELS ratings. At a minimum, supervisors must complete a review for:

- All examination and follow-up examinations of credit unions with at least one of the following:
 - Assets greater than \$250 million at the examination effective date;
 - A current or proposed CAMELS rating of 4 or 5; or
 - An NCUA-proposed or outstanding letter of understanding and agreement,¹¹ preliminary warning letter,¹² cease and desist, or other discretionary supervisory action provided under Prompt Corrective Action.¹³
- Any federally insured, state-chartered credit union with a proposed or outstanding administrative action issued jointly with or separately by the state regulator where the NCUA participates on the examination.
- Any onsite supervision contact where the composite CAMELS rating changes to or from a 4 or 5.

Supervisory examiners are required to complete a documented secondary CAMELS review within 10 business days of receiving a request and supporting documents from the examiner. At a minimum, supervisors must review the following: CAMELS evaluation, scope, risk assessment, document of resolution,¹⁴ if applicable, and examiner findings, if applicable. Examiners must receive the supervisor's completed documented secondary CAMELS review before releasing the CAMELS ratings to credit union officials or management. In addition, a ONES National Field Supervisor told us ONES completes documented secondary CAMELS reviews on all ONES credit unions, not just federally insured, state-chartered credit unions.

¹¹ A letter of understanding and agreement lists a credit union's specific material problems and the corrective actions necessary to resolve them. It formally requests that officials agree to the listed actions in lieu of the agency taking formal administrative action.

¹² A preliminary warning letter is drafted when a credit union's problems are serious and/or persistent and a credit union's board is unwilling to sign a letter of understanding and agreement. It is a warning of potential formal administrative action if corrective action is not taken.

¹³ Prompt corrective action establishes the capital measures and capital levels that are used for determining appropriate supervisory actions for natural person and corporate credit unions that are not adequately capitalized.

¹⁴ A document of resolution identifies problems that management must begin to address immediately or within a compressed timeframe due to the risk associated with the problem.



Supervisory review of state examination— a supervisory review is required for all reviews of state examinations to document the supervisor's concurrence with recommended follow-up actions before the examiner closes the review. Supervisors are required to complete the review within 5 business days of receiving the examiner's notification the contact is ready for review. A ONES official told us, since all examinations (including state charters) completed by ONES go through the pre-delivery review process, there is not a separate review of state examinations. ONES reviews the entire examination file including the work conducted by the SSA. The NCUA added the requirement to perform a supervisory review of state examinations to the NSPM on March 25, 2022.

Specialist feedback form - specialists¹⁵ receive feedback through the specialist feedback form. Specialist supervisors must complete a minimum of three reviews per calendar year (or all, if fewer than three contacts are completed by the specialist). Supervisors must review the quality of the examination scope, identification of risks or problems and solutions, written products developed by the specialist, specialist interactions with the credit union and NCUA staff, and support provided to the Examiner-in-Charge. Supervisors should complete a specialist feedback form within 45 days of the specialist's last day charging hours to the examination or contact. The Directors of Special Actions in each Region's Division of Special Actions provides the specialists this feedback on the specialist feedback form.

A ONES official told us ONES does not use the specialist feedback form. The structure of ONES differs with respect to specialists versus the Regions. In the regions, specialists spend the majority of their time working on examinations that are under the supervision of a supervisory examiner who is not directly responsible for reviewing the work of the specialist or completing the specialists' performance appraisals. In ONES, the National Field Supervisors are responsible for many of the credit unions the specialist is involved in examining and regularly review their work. National Field Supervisors provide regular feedback to specialists throughout the year which rolls up into their performance appraisals.

QCRs -DOS completes QCRs after examinations are closed on solo SSA and joint examinations of credit unions with certain characteristics, including, but not limited to CAMELS 3 with assets greater than \$100 million, CAMELS 4 or 5 with assets greater than \$10 million, and all credit unions with assets greater than \$250 million. DOS' supervision analysts are expected to review the examination report to evaluate quality, verify that CAMELS and risk ratings are adequately justified, and ensure examinations comply with agency policy. QCRs must be completed by DOS within 45 days of closing an examination in the Modern Examination and Risk Identification Tool (MERIT) or, prior to MERIT's implementation in 2022, uploading an examination in the Automated Integrated Regulatory Examination System (AIRES).¹⁶¹⁷

¹⁵ Specialists include Capital Market Specialists, Information System Officers, and Lending Specialists.

¹⁶ In 2022, MERIT officially replaced AIRES for all NCUA examination and supervision contacts.

¹⁷ We note that some examinations performed by ONES were completed in MERIT prior to 2022.



*Office of Examination and Insurance & Office of National Examinations and Supervision
Guideline for Communication and Collaboration (E&I and ONES Guidelines)*

E&I is responsible for conducting pre-delivery quality assurance and post-delivery quality control over reports issued to consumer credit unions assigned to ONES. E&I's analysis is independent of any quality review functions implemented by ONES.

Examination and Supervision Plans - ONES' develops a supervision plan for each consumer credit union assigned. The supervision plan outlines the supervision and examination strategies for the examination cycle. E&I responsibilities are:

- Verify receipt of and review the consumer credit union supervision plans to understand the supervision strategies, resource needs, scope, and examination and supervision plans for the supervision cycle;
- Document staff comments and recommendations after reviewing the supervision plan using the ONES Supervision Plan Review form; and
- Provide a response memo to ONES, with the review form attached, no later than 30 days after receipt, including comments and recommendations on the supervision plan review.

Pre-Delivery CAMELS and Risk Rating Consult - For each examination report, and supervision reports where a change to a risk or CAMELS rating is made, ONES must discuss and consult with E&I on the CAMELS and risk ratings, material supervisory issues, and corresponding resolution plans prior to conducting a final exit meeting or joint conference and issuance of a report. E&I responsibilities include:

- Review the pre-delivery CAMELS and risk rating consult documentation received from ONES within 10 business days of receipt and determine adequacy of CAMELS and risk ratings, and material supervisory issues and corresponding resolution plans; and
- Provide E&I staff comments and recommendations on the ONES Pre-Delivery Quality Control Review form and a response memo, with the review form attached, to ONES, no later than 5 business days after the pre-delivery consult meeting.

Capital Plans - Tier III consumer credit unions (federally insured credit unions with assets of \$20 billion or more as of March 31 of the current calendar year) must submit their capital plans to ONES for approval by May 31 each year. E&I responsibilities are:

- Review the capital plan documentation received from ONES and determine the reasonableness of ONES decision to accept or reject a capital plan based on the plan meeting regulatory requirements and provide concurrence; and
- Provide E&I staff comments and recommendations on the ONES Capital Plan Review form and provide ONES a response memo with the review form attached.



Post-Delivery QCRs - E&I responsibilities are:

- Complete a QCR after each ONES examination or onsite supervision contact. The QCR must be performed based on standard operating procedures for agency quality control reviews (NSPM guidelines); and
- Provide E&I staff comments and recommendations on the appropriate standard NSPM QCR form and provide the QCR to ONES within the timeframes established by the NSPM.

ONES Division of Supervision Policies and Procedures Manual

Per the manual, due to the systemic importance of the credit unions assigned to ONES for supervision, ONES' QCR program goes above and beyond NSPM requirements. As such, all ONES credit unions are subject to a pre-report issuance review process which includes reviewing the proposed supervision scope of review, reviewing the administrative supervision record, documenting the contact, and conducting the report review. Also, ONES DOS performs QCRs on any examinations or follow-up examination in which a credit union is coded CAMELS 3 with assets greater than \$100 million, coded CAMELS 4 or 5, or has assets greater than \$100 million. This results in all ONES credit unions receiving QCRs.



RESULTS IN DETAIL

The objective of our audit was to determine whether the NCUA conducts its quality assurance activities in accordance with requirements. Based on our audit work, we determined the NCUA substantially conducted its Quality Assurance Program in compliance with requirements. However, we did not find full compliance with the requirements for performing or documenting quality assurance reviews and for completing quality assurance reviews or issuing response memos within established timeframes. The Government Accountability Office's Standards for Internal Control in the Federal Government¹⁸ states that management should implement control activities through policies. We believe not fully conducting its Quality Assurance Program in compliance with policy could result in potential issues and recommendations not being identified or communicated timely. Based on our interviews with NCUA personnel, we also identified other areas for potential improvements to the Quality Assurance Program.

The detailed results of our audit follow.

Quality Assurance Reviews Not Consistently Performed

We determined the NCUA substantially complied with the requirements in the NSPM and the ONES Division of Supervision Policies and Procedures Manual for performing quality assurance reviews. Although the NCUA performed some quality assurance reviews without exception, we determined supervisors within the Southern Region and ONES, as well as supervision analysts in ONES DOS did not consistently perform the required quality assurance reviews or document the reviews performed. The NSPM and ONES Division of Supervision Policies and Procedures Manual mandates when, and in the case of reviews of specialists, how many quality assurance reviews are to be conducted. As a result of these quality assurance reviews not being conducted or documented: (1) potential issues and recommendations that may have been identified were not identified, communicated, and addressed; and (2) in the case of reviews of specialists and the pre-release secondary reviews that ONES performed, the reviewers potentially did not provide sufficient feedback to the specialists and examiners.

Details

We determined the NCUA fully complied with the requirements for performing quality assurance reviews in some types of reviews. Specifically, we found:

- E&I did conduct (1) pre-delivery reviews on examinations performed by ONES, (2) reviews on capital plans submitted to ONES by credit unions, (3) reviews on supervision plans submitted by ONES, and (4) QCRs after each ONES examination or onsite supervision contact;

¹⁸ GAO-14-704G, Standards for Internal Control in the Federal Government sets internal control standards for federal entities.



- ONES DOS, Regional DOS, and Regional supervisory examiners completed pre-release secondary reviews on all applicable examinations;
- ONES and Regional supervisory examiners completed documented secondary CAMELS reviews on all applicable examinations, and
- Regional DOS completed QCRs on all applicable examinations.

We did not find full compliance with the requirement for performing quality assurance reviews in some types of reviews. Specifically, we found:

- According to the ONES Division of Supervision Policies and Procedures Manual, ONES DOS performs QCRs on any examination or follow-up examination in which a credit union has assets greater than \$100 million. This results in all ONES credit unions receiving QCRs. We determined ONES DOS did not perform 14 percent (2 of 14) required QCRs. As a result of the QCRs not being performed, issues and recommendations that may have been identified during those reviews were not identified, communicated, and addressed. For one of the QCRs not performed, a ONES DOS official told us it was because no one was assigned to perform the QCR.
- The NSPM requires a supervisory review of all reviews of state examinations to document the supervisor's concurrence with the examiner's recommended follow-up actions before closing the review. We determined one of the seven required supervisory reviews of state examinations was not performed. As a result of the supervisory review of the state examination not being performed, issues and recommendations that may have been identified during that review were not identified, communicated, and addressed. Regional DOS personnel told us the review was not performed because of a misunderstanding of the review requirements.
- The NSPM also requires specialist supervisors to complete a minimum of three reviews per calendar year for each specialist on the specialist feedback form. We determined 6 of the 10 Southern Region specialists in our sample did not receive a minimum of 3 reviews on the specialist feedback form in 2022 as required by the NSPM. As a result of the specialists not receiving the minimum number of reviews on the specialist feedback form, these specialists potentially did not receive sufficient feedback on all the elements of their work that are addressed in the form. Southern Region DOS officials told us the Division of Special Actions will consistently use the specialist feedback forms going forward. In addition, DOS is implementing a quality control process to track these forms quarterly to ensure the Division of Special Actions meets its NSPM requirements.
- According to the NSPM, the pre-release secondary review is the primary quality assurance process for the examination and supervision function. The NSPM requires supervisory examiners complete these reviews on all examination and supervision contact reports where the NCUA issues the report and send them to examiners and DOS. We determined that ONES supervisory examiners, prior to 2023, did not document the pre-



release secondary reviews they conducted on the pre-release secondary review form in compliance with the NSPM. As a result, they did not have a formal record of the pre-release secondary review to send to the examiner and DOS. Two ONES officials told us that, for examinations started in 2023 and going forward, ONES supervisory examiners will use the pre-release secondary review form to document the review.

Based on the issues we identified above related to ONES and regional officials not consistently conducting quality assurance reviews, we are making the following recommendations.

Recommendations:

We recommend NCUA management:

1. Ensure the NCUA fully complies with the National Supervision Policy Manual and the ONES DOS Policy and Procedures Manual requirements regarding when quality assurance reviews are to be performed and the number of specialist reviews to be completed.
2. Ensure that ONES supervisory examiners are using the pre-release secondary review form to document their pre-release secondary review of examinations.

Management Response

Management agreed with both recommendations. For recommendation 1, management indicated the Regional Directors and the ONES Director will implement procedures (as applicable) to monitor and enforce the completion of required quality assurance reviews and specialist reviews. For recommendation 2, management indicated the ONES Director will implement a procedure to monitor and enforce the use of the pre-release secondary review form by ONES' supervisory examiners. Management noted that ONES transitioned to the MERIT pre-release secondary review form and process in 2023 and has been using it since. Management plans to implement both procedures by March 31, 2024.

OIG Response

We concur with management's planned actions.

**Quality Assurance
Reviews Not
Completed Timely**

We determined the NCUA substantially complied with the requirements in the NSPM and the E&I and ONES Guidelines for completing quality assurance reviews or providing response memos within established timeframes. The NSPM and E&I and ONES Guidelines have specific requirements for completing reviews for each type of quality assurance review ranging from DOS completing QCRs within 45 days of closing an exam in MERIT or uploading an examination in AIRES, to E&I reviewing the pre-delivery CAMELS and risk rating consult documentation received from ONES within 10 business days of receipt. While the NCUA



completed some quality assurance reviews within the required timeframes without exception, other quality assurance reviews, including pre-delivery reviews, were not. By not fully complying with required timeframes, NCUA personnel may not have received timely feedback on their work, which could have possibly caused identified issues and recommendations to not be timely communicated and acted on by the recipients of the reviews. In addition, delays in the completion of pre-delivery reviews delayed the issuance of examination reports to credit unions.

Details

We determined the NCUA did fully comply with the requirement for performing quality assurance reviews within required timeframes for the following reviews:

- E&I's pre-delivery reviews – E&I provided a response memo to ONES no later than 5 business days after the consult meeting;
- ONES documented secondary CAMELS reviews – ONES supervisory examiners completed these reviews on all applicable examinations within 10 business days of receiving a request and the supporting documents from the examiner;
- Pre-release secondary reviews and QCRS - Regional DOS completed these reviews on all applicable examinations within required timeframes, and
- Supervisory reviews of the state examinations - Regional supervisory examiners completed these reviews within 5 business days of receiving examiner notification the contact was ready for review.

We did not find full compliance with the requirements for performing quality assurance reviews within established timeframes in some types of reviews. Specifically, we found:

- According to the NSPM, supervisors should complete a specialist feedback form within 45 days of the specialist's last day charging hours to the examination or supervision contact. We determined 10 of the 128 reviews performed in 2022 on the 30 specialists sampled were not completed within 45 days. Supervisors completed these 10 reviews in a range from 49 to 164 days. As a result, specialists in those cases did not receive timely feedback on their work on the specialist feedback form. A regional official told us that they thought the issue their region experienced is that once a specialist completes their onsite work, the Director of Special Actions immediately starts providing feedback including having discussions to ensure the work performed by the specialist is reviewed. However, the form is not completed until a later date - after the Director of Special Actions believes a finished product is completed. Because 6 of the 10 reviews that were not completed within 45 days were conducted within this region, the process this region uses should be revised for it to consistently meet the NSPM requirement of completing a specialist review form within 45 days.



- The NSPM requires QCRs to be completed within 45 days of closing an exam in MERIT or uploading an examination in AIRES. We determined ONES DOS completed 50 percent (6 of 12) of the QCRs they performed in a range of 60 to 149 days, with 1 of the 8 QCRs performed by E&I taking 68 days to complete the review, 23 days over the 45-day timeframe. As a result, issues and recommendations potentially identified during the QCRs were delayed in being communicated to and acted on by the recipients of the reviews.
- E&I and ONES Guidelines require E&I to review the pre-delivery CAMELS and risk rating consult documentation received from ONES within 10 business days of receipt and provide a response memo to ONES no later than 5 business days after the pre-delivery consult meeting. Although we determined E&I provided a response memo to ONES within the required 5 business days, E&I did not complete its review of the documentation for 50 percent (4 of 8) of the reviews within the 10-business day timeframe. E&I completed its review of the ONES documentation for these 4 reviews in a range of 11 to 19 days. As a result, potential issues and recommendations identified during these pre-delivery CAMELS and risk rating consults were delayed in being communicated to and acted upon by ONES. In addition, delays in the completion of pre-delivery reviews delayed the issuance of examination reports to credit unions.
- E&I and ONES Guidelines also require E&I to provide a response memo to ONES on E&I's review of the ONES supervision plans no later than 30 days of receipt from ONES. We determined 18 percent (2 of 11) response memos sent to ONES were not provided within 30 days or less from receipt of the ONES supervision plans. The 2 memos in question took 36 and 69 days, respectively. Per an E&I official, while there was ongoing communication with ONES during the review process, the delays were a result of a supervisor not timely signing off on the supervision plan review forms and response memos. As a result of not completing the reviews response memos in compliance with requirements, potential issues and recommendations identified during the supervision plan reviews may have been delayed in being communicated to and acted upon by ONES.
- The NSPM requires supervisory examiners to complete a documented secondary CAMELS review within 10 business days of receiving a request and supporting documents from the examiner. We determined 11 percent (1 of 9) of documented secondary CAMELS reviews performed were not completed within required 10 business days. For the one item we identified, we determined the supervisory examiner took 16 days. The supervisory examiner informed us that he was on vacation when the documents were sent to him for review.
- The NSPM also requires DOS to complete pre-release secondary reviews within 15 business days of being notified that the supervisory examiner's pre-release secondary review has been completed. We determined 20 percent (3 of 15) of pre-release secondary review forms completed by ONES DOS did not include the information needed to determine if staff complied with this requirement.



Based on the issues we identified above related to supervisory officials not consistently performing quality assurance reviews within established timeframes, we are making the following recommendation.

Recommendation

We recommend NCUA management:

3. Ensure NCUA personnel involved in quality assurance activities fully comply with the National Supervision Policy Manual and the E&I & ONES Guidelines for Communication and Collaboration requirements for completing quality assurance reviews within established timeframes.

Management Response

Management agreed with our recommendation. Management indicated the language in the National Supervision Policy Manual and the E&I & ONES Guidelines for Communication and Collaboration will be revised to update the applicable timeframes. Also, the Regional Directors, ONES Director, and E&I Director will implement procedures (as applicable) to monitor and enforce the completion timeframes for required quality assurance reviews. Management plans to complete both actions by June 30, 2024.

OIG Response

We concur with management's planned actions.

Other Areas for Potential Improvement

During our interviews with NCUA personnel about the Quality Assurance Program, we asked the following question: "What are the pros/cons, your likes/dislikes and areas for improvement related to the quality assurance reviews and process?" Overall, NCUA personnel told us they believed the quality assurance reviews and process were effective, but there were areas for potential improvement. Multiple personnel mentioned the value and benefits of performing pre-release secondary reviews and how the reviews result in better reports. Staff also identified several other areas for potential improvement including two that had multiple mentions: (1) reevaluating the NSPM criteria for when DOS is required to do quality assurance reviews; and (2) NSPM timeframes for completing quality assurance reviews are very short. In addition to these, we provided NCUA management with a complete list of the responses we received to this question for its review and consideration. We are not making a formal recommendation to NCUA management regarding our observations.



OBJECTIVE, SCOPE, AND METHODOLOGY

We developed our objective for this engagement based on OIG's 2022 Annual Performance Plan. Specifically, our objective was to determine whether the NCUA conducts its Quality Assurance Program in accordance with requirements.

To accomplish our audit, we performed fieldwork with information relevant to the NCUA's Quality Assurance Program obtained from various NCUA sources. The scope of this audit covered the NCUA's Quality Assurance Program activities from January 1, 2020, through December 31, 2022. To achieve our objective, we:

- Reviewed the NCUA's NSPM, the Office of Examination and Insurance & Office of National Examinations and Supervision Guidelines for Communication and Collaboration, and the ONES Division of Supervision Policies and Procedures Manual.
- Interviewed E&I, ONES, and Regional personnel.
- Obtained an understanding of the NCUA's Quality Assurance Program.
- Sampled quality assurance reviews by NCUA's Regions – With the exception of reviews of specialists, we used a non-statistical random sample of credit unions supervised by the three Regions and reviewed the quality assurance reviews performed on those credit unions. To cover credit unions of all sizes, we selected credit unions from five asset size ranges. We used a random number generator to select one federally insured credit union and one federally insured state-chartered credit union in each of the five ranges of credit union assets for each Region (a total of 30 credit unions).
- Sampled reviews of specialists by NCUA's Regions – We randomly selected 10 specialists from each of the 3 Regions (a total of 30 specialists). We selected a mix of Capital Market Specialists, Lending Specialists, and Information System Officers. We requested and assessed all reviews done in 2022 on the specialist feedback form for these specialists.
- Sampled quality assurance reviews by E&I and ONES – For E&I performed quality assurance reviews, we randomly selected three credit unions from the ONES supervised natural person credit unions. For ONES performed quality assurance reviews, we used the same three credit unions plus randomly selected two corporate credit unions supervised by ONES (a total of five credit unions).
- Reviewed the completed pre-release secondary reviews, documented secondary CAMELS reviews, supervisory reviews of state exams, specialist feedback forms, QCRs, and reviews of capital and supervision plans and compared the reviews to the NCUA requirements.



- Evaluated internal controls.

We did not rely on computer-processed data from NCUA systems to answer the audit objective. To answer the objective, we used the quality assurance review forms completed by NCUA supervisors, supervision analysts, or risk officers based on their review of examination documentation and/or the examination report.

We conducted this audit from October 2022 through May 2023 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We assessed the effectiveness of internal controls we determined were significant to the audit objective. Specifically, we assessed 4 of the 5 internal control Components and 5 of the 17 associated underlying Principles defined in the Government Accountability Office's Standards for Internal Control in the Federal Government.¹⁹ We summarize in Table 1 below the Components and Principles we assessed.

Table 1: Internal Control Components and underlying Principles Assessed

| | |
|---|---|
| Component: Control Environment | |
| | Principle #3 – Establish Structure, Responsibility and Authority |
| Component: Risk Assessment | |
| | Principle #7 – Identify, Analyze, and Respond to Risks |
| Component: Control Activities | |
| | Principle #10 – Design Control Activities |
| | Principle #12 – Implement Control Activities |
| Component: Information and Communication | |
| | Principle #15 – Communicate Internally |

The report presents within the findings the internal control deficiency we identified. However, because our audit was focused on these significant internal control Components and underlying Principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

¹⁹ The Standards for Internal Control in the Federal Government organizes internal control through a hierarchical structure of 5 components and 17 principles. The five components, which represent the highest level of the hierarchy, consist of the Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. The 17 principles support the effective design, implementation, and operation of the components, and represent the requirements for establishing an effective internal control system.



NCUA MANAGEMENT RESPONSE



National Credit Union Administration
Office of the Executive Director

SENT BY EMAIL

TO: Inspector General Jim Hagen
FROM: Executive Director Larry Fazio **LARRY FAZIO** Digitally signed by LARRY FAZIO
Date: 2023.08.04 10:50:01 -0400
SUBJ: Management Response – Audit of the NCUA's Quality Assurance Program
DATE: August 4, 2023

Thank you for the opportunity to review the Office of Inspector General's draft report *Audit of the NCUA's Quality Assurance Program*. We are pleased the audit determined the NCUA substantially conducted its Quality Assurance Program in compliance with requirements.

The report highlighted a few areas for potential improvements and made the following three recommendations:

Recommendation 1: Ensure the NCUA fully complies with the National Supervision Policy Manual (NSPM) and the ONES DOS Policy and Procedures Manual requirements regarding when quality assurance reviews are to be performed and the number of specialist reviews to be completed.

Management Response: Management concurs. By March 31, 2024, Regional Directors and the ONES Director will implement procedures (as applicable) to monitor and enforce the completion of required quality assurance reviews and specialist reviews.

Recommendation 2: Ensure that ONES supervisory examiners are using the pre-release secondary review form to document their pre-release secondary review of examinations.

Management Response: Management concurs. By March 31, 2024, the ONES Director will implement a procedure to monitor and enforce the use of the pre-release secondary review form by ONES' supervisory examiners. Please note, ONES transitioned to the MERIT pre-release secondary review form and process in 2023 and has been using it since.

Recommendation 3: Ensure NCUA personnel involved in quality assurance activities fully comply with the National Supervision Policy Manual and the E&I & ONES Guidelines for Communication and Collaboration requirements for completing quality assurance reviews within established timeframes.

Management Response: Management concurs. The language in the National Supervision Policy Manual and the E&I & ONES Guidelines for Communication and Collaboration will be revised by June 30, 2024, to update the applicable timeframes. By June 30, 2024, the Regional

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Directors, ONES Director, and E&I Director will implement procedures (as applicable) to monitor and enforce the completion timeframes for required quality assurance reviews.

Thank you for the opportunity to comment. If you have any questions regarding this response, please contact Shameka Sutton at (703) 548-2485 or ssutton@ncua.gov.



ACRONYMS AND ABBREVIATIONS

| Acronym | Term |
|---------|--|
| AIRES | Automated Integrated Regulatory Examination System |
| ARDO | Associate Regional Director of Operations |
| CAMELS | [C]apital Adequacy, [A]sset Quality, [M]anagement, [E]arnings, [L]iquidity, and [S]ensitivity to Market Risk |
| DOS | Division of Supervision |
| DRM | Division of Risk Management |
| E&I | Office of Examination and Insurance |
| MERIT | Modern Examination and Risk Identification Tool |
| NCUA | National Credit Union Administration |
| NCUSIF | National Credit Union Share Insurance Fund |
| NSPM | National Supervision Policy Manual |
| OIG | Office of Inspector General |
| ONES | Office of National Examinations and Supervision |
| PSR | Pre-release Secondary Review |
| QCR | Quality Control Review |
| SSA | State Supervisory Authority |