NATIONAL CREDIT UNION ADMINISTRATION

OFFICE OF THE INSPECTOR GENERAL

REPORT TO CONGRESS

October 1, 1999 – March 31, 2000

THE NCUA MISSION

TO ENSURE THE SAFETY AND SOUNDNESS OF CREDIT UNIONS

BY PROVIDING APPROPRIATE REGULATION AND SUPERVISION,

WHILE EFFECTIVELY MANAGING THE AGENCY'S RESOURCES

AND THE SHARE INSURANCE FUND

THE OFFICE OF INSPECTOR GENERAL MISSION

TO PROMOTE ECONOMY, EFFICIENCY, AND EFFECTIVENESS

IN NCUA PROGRAMS AND OPERATIONS,

AS WELL AS PREVENT AND DETECT FRAUD, WASTE, AND ABUSE

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OFFICE OF INSPECTOR GENERAL
NATIONAL CREDIT UNION ADMINISTRATION

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INSPECTOR GENERAL'S MESSAGE TO THE CONGRESS

During this reporting period, we audited several aspects of the agency's preparations for and handling of the century change. The OIG audit staff can take some credit for having alerted the agency to technical computer issues both within the agency and in the credit union community, which the NCUA then appropriately addressed. We supervised the financial audits of NCUA's four funds, and conducted a peer review of the Securities and Exchange Commission's Office of Inspector General. We completed work on our web page to add more information about the office and the agency, and to make it more user-friendly. We also produced a new annual plan, and revised our strategic plan.

On the investigations side, we were able to close investigations that had remained open until the Board received the final investigative report from the Office of Special Counsel on allegations of false duty locations made in the 1997 OPM audit. Once the Board received that report, it proceeded to take disciplinary and other action to address the findings of the Special Counsel, as well as concurrent findings in OIG reports.

During this reporting period, we also completed internal investigative training for all OIG staff.

AUDIT HIGHLIGHTS

The Year 2000 date change consumed the majority of the OIG's audit resources during the past reporting period. We completed work and issued reports on the Y2K progress of high-risk credit unions; Y2K liquidity plans of federally insured credit unions; and the Y2K readiness status of credit union vendors. We also completed a peer review of the Securities and Exchange Commission's Office of Inspector General's audit activities for the year ended September 30, 1999. The Federal Housing Finance Board's Office of Inspector General is currently conducting a peer review of our audit function as required every three years by the President's Council on Integrity and Efficiency (PCIE).

In addition to the audits performed directly by OIG staff, we monitored the financial audits of NCUA's four funds conducted under contract with the OIG by our independent auditors, Deloitte & Touche. All four funds received unqualified opinions.

INVESTIGATIVE HIGHLIGHTS

We issued five formal investigative reports and two Management Implication Reports (MIR). MIRs have become a useful tool for us to bring administrative issues to the attention of agency managers and recommend action to resolve possible systemic problems quickly. The agency responded quickly to the recommendations in the MIRs issued during this reporting period.

In an effort to reach out to NCUA employees, we have prepared and presented integrity awareness training to a management conference, revised our posters and brochure, and issued integrity alerts in the NCUA newsletter. We are preparing short presentations on integrity awareness for the regional conferences this summer, in order to raise awareness of the OIG and stimulate reporting of integrity issues.

FUTURE PLANS

Now that Y2K activities have been successfully completed, the OIG plans to emphasize information security and agency strategic planning activities required by the Results Act. We also plan to perform more management consulting reviews at the regional office level. The management consulting concept that we have developed, involves limited scope reviews of regional office or field activities. A management consulting agreement signed by the Inspector General and Regional Director clearly specifies the subject matter and scope of work to be performed.

Frank Thomas
Inspector General

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NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration (NCUA) was established as an independent, federal regulatory agency on March 10, 1970. The agency is responsible for chartering, examining, supervising, and insuring federal credit unions. It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. NCUA is funded entirely by credit unions; it does not receive any tax dollars. As of December 31, 1999, the NCUA was supervising and insuring 6,566 Federal credit unions and insuring 4,062 state-chartered credit unions, a total of 10,628 institutions. This represents a loss of 167 Federal and 99 State chartered institutions since mid 1999, for a total loss of 266 credit unions nation-wide.

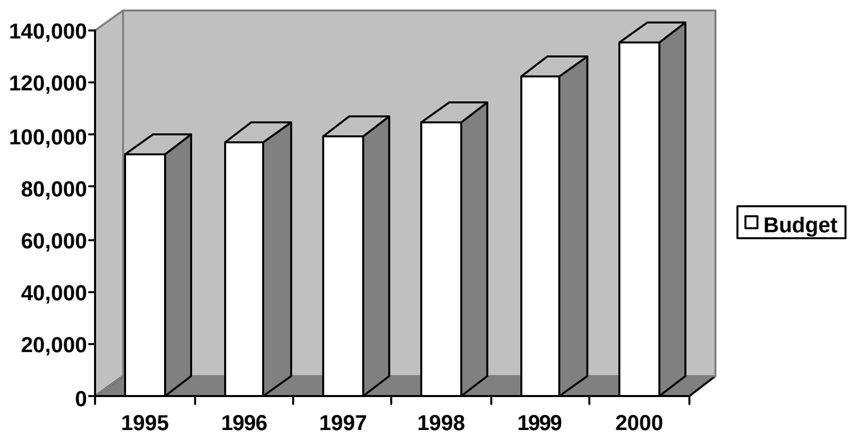
NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one term expires every two years. The Board is responsible for the management of the National Credit Union Administration, the NCUA Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Program.

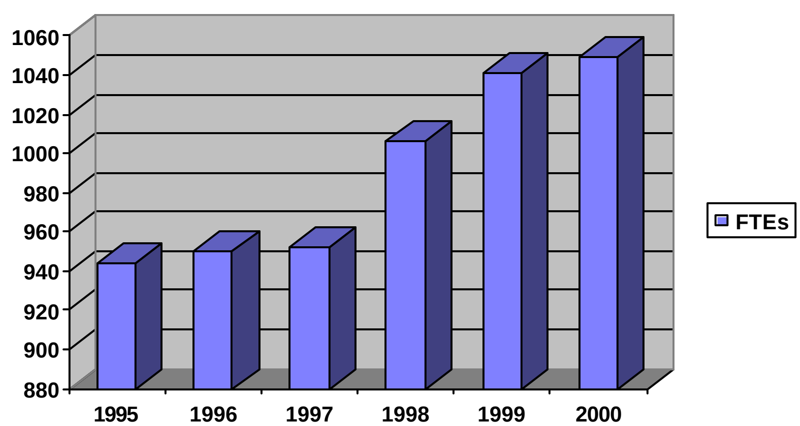
The National Credit Union Administration executes its program through its central office in Alexandria, Virginia and regional offices in Albany, New York; Alexandria, Virginia; Atlanta, Georgia; Lisle, Illinois; Austin, Texas; and Concord, California. NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer to the NCUA organizational chart on page 3.

The NCUA Board adopted its 2000 budget on November 18, 1999. The final revised 2000 budget of $134,942,546 represents an increase of $12.9 million over the 1999 budget. The Full Time Equivalent (FTE) staffing authorization for 2000 is 1049.07, an increase of 7.92 positions over the 1999 total of 1041.15.

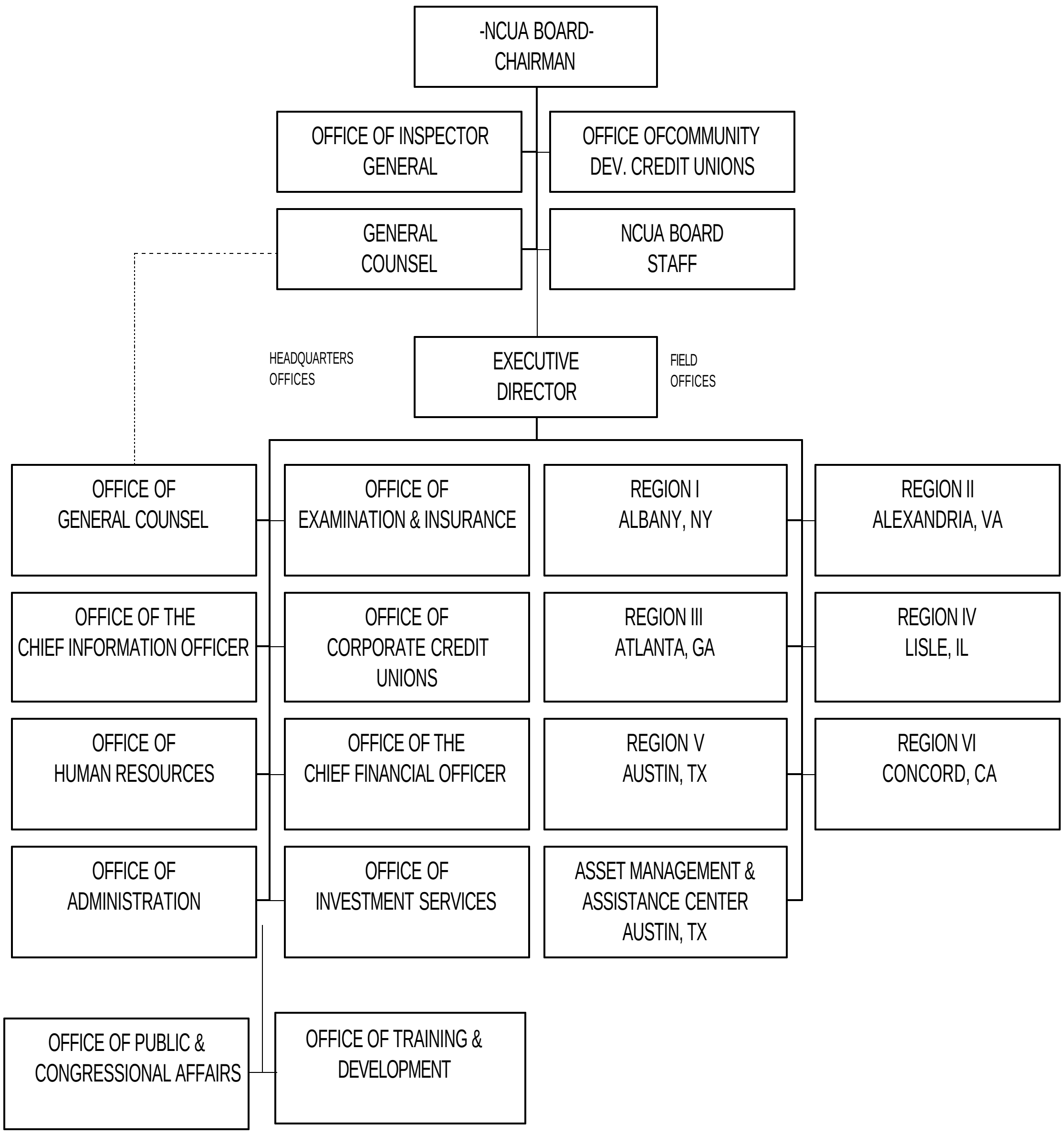
The significant increase in the 2000 budget is necessary in order to provide the resources required to hire and retain competent staff, and to meet the agency's goals and objectives as documented in the 2000 Annual Performance Plan.

LOCATION	2000 FTE	1999 FTE	Difference FTE
Headquarters	**236.40**	**228.40**	**8**
Regional Offices	**173.27**	**167.25**	**2.92**
Field Examiners	**639.50**	**640.50**	**-3**
Total Positions Authorized	**1049.07**	**1041.15**	**7.92**


140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
1995
1996
1997
1998
1999
2000
Budget


1060
1040
1020
1000
980
960
940
920
900
880
1995
1996
1997
1998
1999
2000
FTEs

NCUA ORGANIZATION CHART



NCUA HIGHLIGHTS

Follow-up on last Semiannual's Highlights

NCUA and CREDIT UNIONS HURDLED NEW CENTURY WITHOUT PROBLEMS

Despite doomsday predictions, the credit union community met Y2K with no problems and NCUA's own computer systems continued to operate efficiently. The successful "non-event" was due in large part to the careful preparation by NCUA examiners, who visited every credit union two or more times over the prior two years, and insured that all federally insured credit union systems were updated and tested. The NCUA also assured that major credit union vendors had no Y2K related problems. NCUA staff worked the rollover weekend to track and assist with any problems.

The OIG closely monitored all NCUA Y2K preparedness activities, issuing six audit reports that measured the agency's accomplishments in the months prior to the century change.

BOARD ISSUES ADVANCED NOTICE OF PROPOSED RULEMAKING ON REGULATORY FLEXIBILITY AND EXEMPTION

On March 16, 2000, the NCUA Board passed an initiative by Board Member Dennis Dollar to request public comment on his "Reg-Flex" proposal that would remove credit unions with specified CAMEL ratings and capital asset levels from some regulatory requirements. Mr. Dollar announced the proposal in October 1999, in an attempt to encourage credit union innovation in member service initiatives and to help improve the ability of credit unions to compete in the financial marketplace.

OIG Audit reports have recommended that the examination process could be adjusted to account for credit unions that consistently gain high marks for safety and soundness. Accordingly, we will closely follow this agency effort.

BOARD APPROVES VOLUNTARY SURVEY ON SERVICE TO MEMBERS OF MODEST MEANS

On November 18, 1999, the Board voted two to one, Chairman D'Amours dissenting, to send out a one-time only survey to federal credit unions on service to members of modest means. The purpose of the survey, initiated by Board Member Yolanda Wheat, was to elicit responses from credit unions to enable the NCUA to gain a better understanding of the extent to which credit unions provide service to people of modest means. The agency currently does not gather such data. Chairman D'Amours disagreed with the voluntary nature of the survey, stating that in his view it should have been mandatory, in order to gather meaningful empirical data.

New Highlights

BOARD FINALIZES PROMPT CORRECTIVE ACTION RULE

On February 3, 2000, the Board adopted final Prompt Corrective Action rules, Part 702, 741, and 7647 in response to the requirements of the Credit Union Membership Access Act of 1998. The Act required NCUA to adopt a new system of net worth standards and actions to restore the net worth of inadequately capitalized federally-insured credit unions. Effective August 7, 2000, the final rule will apply to each credit union's net worth ratio reflected in call reports beginning January 22, 2001.

BOARD ADOPTS AGENCY STRATEGIC PLAN

On February 23, 2000, the Board unanimously adopted its Strategic Plan for 2000-2005. Draft versions had been circulated in the agency and in the stakeholder community several times and comments incorporated. The plan sets forth five strategic goals:

1. Promote a system of financially sound, well-managed federally insured credit unions able to withstand economic volatility.
2. Ensure that credit unions are prepared to safely integrate financial services and emerging technology in order to meet the changing needs of their members.
3. Create a regulatory environment that will facilitate credit union innovation to meet member financial service expectations.
4. Enable credit unions to leverage their unique place in the American financial services sector to make service available to all Americans who are not currently being served, particularly those of modest means.
5. Enhance NCUA's ability to serve as a proactive partner with the credit union community in addressing the challenges of the 21st century.

FEDERALLY INSURED CREDIT UNION HIGHLIGHTS

Credit unions submit semiannual call reports (financial statement data) to NCUA. An NCUA staff assessment of the 1999 year end call reports submitted by all federally insured credit unions for the period ending December 31, 1999, found that key financial indicators continue to be strong in all areas.

ASSET GROWTH AND CAPITAL ACCUMULATION CONTINUE

Federally insured credit unions continued to increase assets and capital. Assets increased by $22.7 billion, or 5.8%, up from $389 to $411 billion. Capital increased $2.9 billion, or 6.5%, during 1999, and the capital to assets ratio increased to 11.6%. The net capital to total assets ratio, which measures capital after estimated losses, also increased from 10.9% at the end of 1998 to 11.0% at the end of 1999.

LOANS CONTINUE TO INCREASE

Loans increased $25.8 billion, or 10.5%, up from $246 to $272 billion. All loan categories increased, except for unsecured loans (excluding credit cards and lines of credit). Used auto loans increased $6.1 billion, or 12.5% increase. First mortgage real estate loans, which increased $9.5 billion (15.5% increase), accounted for 26.1% of all loans, with $51.8 billion, or 73% reported to be a fixed rate. Federally insured credit unions granted $21.4 billion in fixed rate first mortgage real estate loans in 1999. During this same period, $6.1 billion fixed and adjustable rate first mortgages were granted. Credit unions also report $7.1 billion of first mortgages sold in 1999. This includes both fixed and adjustable rates.

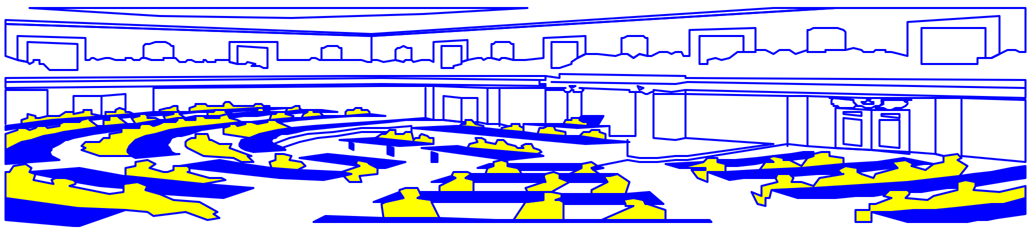
Loan growth of 10.5% was the strongest since 1996. Shares grew at a much slower rate, causing the loan to share ratio to increase to 76.1%.

DELINQUENT LOANS DECREASE

Delinquent loans decreased $115 million or 5.3% causing the delinquency ratio to decline from 0.88% at the end of 1998 to 0.75% at the end of 1999. This represents the lowest delinquency ratio ever noted in federally insured credit unions. Net charged off loan dollars decreased 8%, or $132 million. A decrease in charged off loan dollars, increase in recoveries, and increase in total loans produced a decline in the net charge off to average loans ratio from 0.59% to 0.49%.

Federally insured credit unions reported fewer members filing bankruptcy in 1999. Bankruptcies decreased 12% to 214,700 (0.3% of all members), with an estimated $1 billion in outstanding loans subject to bankruptcy and another $684 million charged off in 1999 as a result of bankruptcies.

LEGISLATIVE HIGHLIGHTS



PRESIDENT'S BUDGET PROPOSAL INCLUDES $1 MILLION FOR CDCU

Chairman D'Amours testified before the VA, HUD, and Independent Agencies Subcommittee of the House Appropriations Committee on March 28, 2000, to support an increase to the Community Development Credit Union (CDCU) Revolving Loan Fund. For the first time ever, the Office of Management and Budget (OMB) included in the President's budget an additional $1 million for technical assistance in the fund. NCUA will not testify at a Senate hearing, but NCUA staff has met with Senate Staff and will submit a statement and justification for the record.

CHAIRMAN ASKS FOR RETENTION OF CLF FY2000 CAP

In his March 28 testimony, Chairman D'Amours also asked the Subcommittee to retain the FY2000 cap enacted last year on the Central Liquidity Facility (CLF), and not to reimpose the lower number. At the request of Senator Leach (R-IA) and Congressmen LaFalce (D-NY), GAO will study the issue and respond to the Subcommittee with its recommendations. As they did last year, Representatives Marge Roukema (R-NJ) and Bruce Vento (R-MN) wrote to the Subcommittee on April 6, 2000, to suggest that there should not be any appropriations cap.

BOARD MEMBERS SUPPORT PREDATORY LENDING BAN

Congressman LaFalce (D-NY) introduced H.R. 3823, which would ban acceptance of checks drawn on Federally insured financial institutions by fringe "payday" lenders. NCUA is monitoring this and two other similar bills.

On December 16, 1999, the Board unanimously adopted a stance against predatory mortgage lending practices and dedicated itself to work against such practices in cooperation with state credit union supervisory authorities. Board Member Wheat sponsored the Board resolution. The effort was strongly praised by Chairman D'Amours.

OFFICE OF INSPECTOR GENERAL

The Office of Inspector General was established at the NCUA in 1989 under the authority of the Inspector General Act of 1978, as amended in 1988. The staff consists of the Inspector General, an Assistant Inspector General for Investigations/Counsel, a part-time Special Agent, an Assistant Inspector General for Audits, two Senior Auditors, a Senior Information Technology Auditor and an Administrative Assistant.

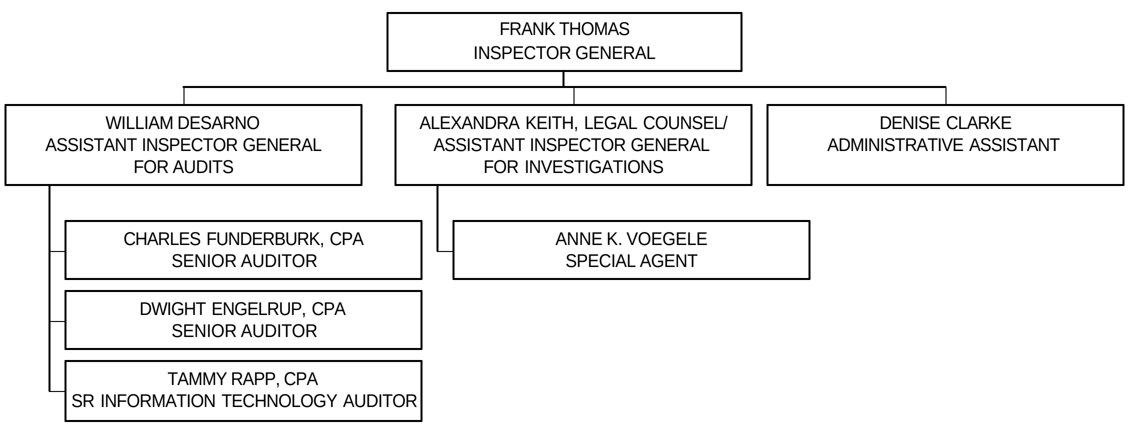
The Inspector General reports to, and is under the general supervision of, the NCUA Board. The Inspector General is responsible for:

1. Conducting, supervising, and coordinating audits and investigations of all NCUA programs and operations;

2. Reviewing policies and procedures to ensure efficient and economic operations as well as preventing and detecting fraud, waste, and abuse;

3. Reviewing existing and proposed legislation and regulations to evaluate their impact on the economic and efficient administration of agency programs; and

4. Keeping the NCUA and Congress apprised of significant findings and recommendations.



AUDIT ACTIVITY

AUDIT REPORTS ISSUED

Financial Audits

Our contract accounting firm, Deloitte & Touche, issued opinions on the 1999 financial statements of the National Credit Union Share Insurance Fund, the National Credit Union Administration Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Program. The auditors found that the financial statements presented fairly the financial position of the agency's funds as of December 31, 1999. The firm issued its opinions on February 25, 2000.

The National Credit Union Share Insurance Fund was established as a revolving fund managed by the NCUA Board to insure member share deposits in all Federal credit unions and qualifying state credit unions up to $100,000 per shareholder account. The auditors issued an **unqualified opinion** on the Share Insurance Fund's financial statements. The Fund's total assets for 1999 were $4.3 billion, up from $3.9 billion in 1998.

The NCUA Operating Fund was established as a revolving fund managed by the NCUA Board for the purpose of providing administration and service to the federal credit union system. The auditors issued an **unqualified opinion** on the Operating Fund's financial statements. The Fund's total assets for 1999 were $54.6 million down from $57.2 million in 1998.

The Central Liquidity Facility was established, as a mixed ownership government corporation managed by the NCUA Board to improve general financial stability by meeting the liquidity needs of credit unions. The auditors issued an **unqualified opinion** on the CLF's financial statements. The CLF's total assets for 1999 were $1,962 million up from $806 million in 1998.

The Community Development Revolving Loan Program's purpose is to stimulate economic activities in the communities served by low-income credit unions. This in turn, will result in increased income, ownership and employment opportunities for low-wealth residents and other economic growth. The auditors issued an **unqualified opinion** on the Program's financial statements. The CDRLP's total assets for 1999 were $11.7 million, up from $10.8 million in 1998.

Y2K Progress of High-Risk Credit Unions, OIG-99-08, dated October 27, 1999

In an August 28, 1998, letter to the NCUA Inspector General, the House Committee on Banking and Financial Services requested information regarding OIG Y2K review activities. The OIG discussed the possibility of reviewing several areas of NCUA Y2K activities including consistent reporting to Congress of credit union readiness with committee staff. The OIG and committee staff was interested to determine if credit unions particularly in the *unsatisfactory* and *needs improvement* reporting categories, were receiving appropriate and timely follow-up to ensure satisfactory progress.

Our specific review objectives were: (a) to evaluate whether credit unions rated *unsatisfactory* (credit unions under administrative actions) and those rated *needs improvement* (examiner rated *high* risk - not progressing satisfactorily) were receiving appropriate and timely follow-up; and (b) to determine if *high* risk credit unions had adequate Y2K contingency plans. In addition, we wanted to review a small sample of credit unions rated *satisfactory* (*low* and *medium* risk rated credit unions) to determine if the rating appeared justified based upon NCUA's criteria.

We reported that at the time of our review, 99.3 percent of the nation's federally insured credit unions had finished repairing, testing and verifying their computer systems to ensure they could process transactions smoothly after January 1, 2000. To determine credit union readiness agency examiners visited every federal credit union twice and we reported that many would have a third visit before the end of 1999. NCUA examiners spent over 90,000 hours onsite conducting Y2K readiness examinations. We found that supervisory contacts were being made in accordance with agency guidance, and staff was following supervision guidance.

Credit unions rated *unsatisfactory* and *needs improvement* had declined dramatically in 1999. As of August 31, 1999, NCUA reported that only .5 percent of the credit unions were rated *unsatisfactory* or *needs improvement*. The results of our review found that, in most instances, follow-up contacts were made as required at *high* risk credit unions in a timely manner and in accordance with agency guidance.

In our review of a small sample of credit unions rated *low* risk, we found that credit unions were being rated in a consistent manner in accordance with agency guidance. At the time of our review, follow-up at *satisfactory* rated credit unions was under discussion.

NCUA required that credit unions prepare Business Resumption Contingency Plans (BRCP). We found that BRCPs were prepared by the credit unions in our review sample. The examiner's review documentation indicated most BRCPs were reasonable and acceptable. However, it was difficult to determine the degree of analysis performed by the examiner in determining the acceptability of the plans. At the time of our review, not all BRCPs had been tested. In some instances, testing of the BRCPs was to be done in the third and fourth quarters of 1999. Follow-up plans regarding analysis and testing of BRCPs were in the discussion and developmental stages.

The OIG offered three suggestions for consideration by the NCUA Board and agency management. We suggested that NCUA develop plans to test the actual status of a sample of credit unions making satisfactory progress (*low* risk rated); that NCUA develop appropriate staff guidance for follow-up by examiners at credit unions for analysis of the adequacy of credit union BRCPs and to ensure timely implementation of the plans as needed; and that NCUA develop plans and guidance for staff for the review of testing of credit union BRCPs to ensure that the testing plans are reasonable and that the testing has been successfully performed.

Y2K Review of Credit Union Liquidity Plans, OIG-99-09, dated December 9, 1999

During 1999, concerns had been raised over a potential increase in liquidity and cash demand. Because of this uncertainty, the Federal Reserve, financial regulatory agencies such as NCUA, and other organizations had prepared plans and taken action to deal with a potential liquidity emergency. Although steps had been taken to increase liquidity and cash availability, financial regulatory agencies and credit union trade organizations had encouraged each financial institution to prepare a liquidity plan to ensure they could meet the needs of their customers or members. In order to mitigate the liquidity risks credit unions might face due to the Y2K problem, NCUA required all of its federally insured credit unions to prepare liquidity plans by June 30, 1999.

Our specific review objectives were: (a) to determine if NCUA had taken a proactive role to address emergency liquidity issues and minimize disruption at the credit unions it oversees; and (b) to determine if natural person credit unions had adequate plans to address Y2K liquidity issues.

We reported that NCUA had taken appropriate action to address and minimize potential liquidity emergencies as a result of the century date change. Some of these actions included working with Congress to temporarily lift the CLF borrowing limitation, issuing guidance to credit unions and examiners, requiring credit unions to prepare liquidity plans, and promoting public awareness.

We reviewed a sample of liquidity plans and found that each credit union in our sample prepared a liquidity plan. The examiners review documentation indicated that most liquidity plans were reasonable and adequate. However, it was difficult to determine the degree of analysis performed by the examiner in determining the adequacy of the plans. Our review of the plans indicated that many of the critical attributes suggested in NCUA's guidance were missing and that there was much room for improvement with the plans. As a result of our observations, one of the regions indicated they would issue additional guidance to their examiners and perform a quality control review to ensure the plans were reviewed and, in fact, adequate.

The OIG suggested that NCUA continue to review liquidity plans to ensure that:
critical attributes are considered in plan; assumptions in liquidity and cash needs analysis are reasonable; sufficient backup resources (cash and liquidity) are available to meet estimated needs; significant changes in credit union policy are communicated to members; and examiner review and feedback is documented. We also suggested that NCUA should continue to follow-up on liquidity plans that are incomplete or rated inadequate.

Y2K Readiness Status of Credit Union Vendors, OIG-99-10, dated December 7, 1999

The NCUA supervises 11,019 natural person credit unions - 6,799 federally chartered and 4,220 state chartered. Approximately 92 percent of these credit unions were identified as using Electronic Data Processing (EDP) vendor products for core processing (share and loan systems).

The objectives of our review were: (a) to determine the Y2K status of credit union system vendors, and (b) to determine what action NCUA was taking to ensure that vendors were making satisfactory progress in providing renovated systems to its credit union clients.

We reported that substantially all federally insured credit union mission critical systems were renovated by the NCUA testing milestone of June 30, 1999. All but 48 credit unions reported that they had met the July 31, 1999 substantially implemented milestone date.

We also reported that NCUA staff felt confident that the status of vendors was accurately reported due to the various programs that were put in place by NCUA, which included:

1. NCUA conducted on-site primary vendor reviews
2. FFIEC vendor reviews
3. NCUA examiner and regional office reporting of vendor problems
4. Off-site contacts as needed for problem vendors
5. Issuance of blanket waivers
6. Credit union due diligence in testing vendor products

Since NCUA had reported that 99.97 percent of all federally insured credit unions were fully implemented as of September 30, 1999, we offered no recommendations in this report. However, we encouraged NCUA to continue to post NCUA vendor reports to the NCUA website and distribute appropriately; to continue to distribute FFIEC reports, as appropriate; and as new vendor problems arise, if any, promptly notify affected regions, state regulators and client credit unions.

AUDITS IN PROCESS

Review of Notebook Computers

We are in the process of issuing a draft report on NCUA's notebook computer inventory. Our review objectives were to determine the accuracy of NCUA's notebook inventory and to evaluate the adequacy of internal controls over notebook computers.

SAP Security and Control Audit

We are in the planning phase of a SAP security and control review that will be performed in partnership with an independent public accounting firm. Our overall objective is to ensure that the existing control environment and security infrastructure of the SAP R/3 system is adequate. Specifically, determine whether the controls are adequate to reduce the risks to an acceptable level for BASIS and the FI, CO, and MM-Purchasing modules and provide recommendations for corrections of noted deficiencies. In addition, we will identify the current functionality of the HR module and perform an overall high-level risk assessment. These assessments will serve as a baseline for future audits and reviews by the OIG. To assist us in our audit of SAP Security and Controls, we have solicited proposals from seven large audit firms. We plan to complete this audit by September 2000.

SEC OIG Peer Review

We completed the fieldwork and draft report for a peer review of audit operations at the Securities and Exchange Commission (SEC) Office of Inspector General (OIG). The review period was for the fiscal year ended September 30, 1999. The review was conducted in accordance with the guidance adopted by the President's Council on Integrity and Efficiency (PCIE). The objective of the PCIE external quality control review program is to foster quality audits by OIGs through an independent assessment of the effectiveness of the internal quality control system in providing reasonable assurance that applicable audit standards and requirements are being followed. The program is intended to be positive and constructive rather than negative or punitive. The scope of our review included evaluations of the SEC OIG (1) description of internal quality control policies and procedures, (2) written audit policies and procedures, (3) discussions with the SEC Inspector General and staff, (4) documents describing auditor qualifications and training, and (5) audit work papers for four audits. We provided five suggestions to improve the audit operations of the SEC OIG. The SEC Inspector General accepted all suggestions for action.

Region I Management Consulting Agreement – Accuracy of 5300 Reports

We completed fieldwork for a Region I management consulting project. The project was not a formal audit. However, the project scope was outlined in a management consulting agreement signed by the Inspector General and the Regional Director. The objective of the review was to provide assistance to the Regional Director in determining the accuracy of financial and other data supplied to NCUA on a periodic basis by federally insured credit union. The review period was calendar year 1999. Specific review procedures included:

- An evaluation of the relationship of the 5300 program to written staff guidance, regional goals, regional performance plan, and national strategic plan;

- Interviews of regional staff to determine and evaluate regional office program to ensure accuracy of 5300 reports; and
- A review of the regional office process for distribution of forms to credit unions, input of credit union data, preparation of risk management and other quality control reports.

INVESTIGATION ACTIVITY

Investigative matters pursued by this office are generally initiated as a result of allegations, or because of potential findings of fraud, waste, abuse, corruption, or mismanagement. Investigations may involve possible violations of regulations regarding employee responsibilities and conduct, Federal criminal law, and other statutes and regulations pertaining to the activities of NCUA employees. Investigative findings may lead to criminal prosecution, civil prosecution, or administrative action.

The OIG also receives complaints from credit union members that involve NCUA employee program responsibilities. These complaints are usually examined to determine whether there is any allegation of NCUA employee misconduct. If not, the complaint is referred to the appropriate regional office or closed if contact with the regional office indicates that the complaint has been appropriately handled.

Investigative Contacts	
Contacts/inquiries/investigations carried forward from previous reporting period	10
Contacts initiated during report period	8
Total contacts during reporting period	18
Less:	
Contacts closed for lack of verifiable evidence or referred to another office	7
Reports issued and matters closed	6
MIR's issued and closed	2
Pending contacts	3

OFFICE OF INVESTIGATIONS ACTIVITIES

During the reporting period, the Office of Investigations issued five formal investigative reports, two Management Implication Reports, and closed seven other matters. In an effort to reach out to agency employees, the Office of Investigations created and distributed a new OIG hotline poster and is revising the OIG brochure. The OIG Investigations staff has also contributed articles and Integrity Tips for the NCUA newsletter, Inside NCUA.

BOARD TAKES FINAL ACTION ON OIG PER DIEM REPORT

In taking personnel actions as a result of the recommendations of the Office of Special Counsel on issues arising from the OPM report of August 1997, the NCUA Board also considered OIG recommendations regarding the payment of per diem to examiners assigned to false duty locations. Certain NCUA officials approved payment of per diem to new examiners who were residing in their own homes. Per diem is normally used to reimburse employees' meal, lodging and some other expenses when on official travel away from the permanent duty station. The Board also committed to ensure that the Travel Manual is revised to make clear that no per diem expense may be claimed when an employee is residing at his or her residence, no matter where the duty station is, except for specific limited exceptions.

BOARD DISCIPLINES MANAGER FOR GRANTING ILLEGAL PREFERENCES TO TWO EMPLOYEES

Also in connection with the OPM report issues, the Board disciplined a manager involved with assigning examiners to false duty locations, who also granted illegal preferences and advantages to two employees in a region. The OIG report found that the manager had performed a prohibited personnel practice by "pre-selecting" two employees in an attempt to bypass merit principles prescribing fair competition.

NCUA REQUIRES GUIDANCE ON DISCLOSURE OF CREDIT UNION FINANCIAL INFORMATION

An OIG report found that an examiner had provided a member of the public detailed delinquent loan information from a troubled credit union, in violation of NCUA regulations. The examiner was under the impression that the person to whom the examiner provided the information would have been in a position to assist the institution. Nevertheless, at the time the information was provided, the examiner was unaware of the individual's need for the delinquency information. Accordingly, the agency has asked the Office of Examination and Insurance to issue detailed guidance to examiners to assist them in determining when they may appropriately provide credit union members' financial information to a member of the public.

LEGISLATIVE AND REGULATORY REVIEWS

Pursuant to its charge under the IG Act, we continually review proposed legislation and regulations, as well as proposed agency instructions and other policy guidance, in order to make recommendations concerning economy and efficiency in the administration of NCUA programs and operations and the prevention and detection of fraud, waste and abuse.

During the reporting period, the OIG reviewed 23 items, including 18 proposed regulations, one proposed policy instruction, two EEO Reports, one legislative proposal, and the draft "Best Practices" document for the Designated Federal Agency OIG's. We provided extensive comments on the Best Practices document.

OTHER OIG ACTIVITIES

STAFF TRAINING AND DEVELOPMENT

The Inspector General (IG) continued to participate in the Financial Institutions Regulatory Committee of the Executive Council on Integrity and Efficiency (ECIE). The Committee provides a forum for Inspectors General of the NCUA, the Federal Reserve System, the Department of the Treasury, the FDIC, the Federal Housing Finance Board, the Securities and Exchange Commission, and the Farm Credit Administration to: discuss matters of mutual interest; coordinate relevant audits, investigations, legislative, and regulatory matters; and seek uniform approaches to handling similar issues.

The Assistant IG for Audits, William DeSarno, attended the Institute of Internal Auditors Annual Internal Auditing in Government Conference, the Federal Audit Executive Council Conference, and the Federal Financial Institutions Regulatory OIG Council Meetings. Senior Auditors Dwight Engelrup and Charles Funderburk also attended the Institute of Internal Auditors Annual Internal Auditing in Government Conference. Information Technology Auditor, Tammy Rapp, attended the Institute of Internal Auditors Annual Internal Auditing in Government Conference and several Information Systems Audit and Control Association seminars.

The Assistant IG for Investigations, Alexandra Keith, attended the Annual Office of Government Ethics conference and the Association of Directors of Investigation Conference at the Federal Law Enforcement Training Center in Glynco, Georgia. Ms. Keith participated in a panel on legal issues in investigations for the Office of Investigations of the Nuclear Regulatory Commission Office of Inspector General. She presented a course on Legal Issues in Fraud Auditing at the Inspector General Audit Training Institute, and completed presentation of an investigative training program for the OIG/NCUA staff. Ms. Keith created and presented a new Integrity Awareness training module to the NCUA Management Conference for Regions I, II, III, and V. Ms. Keith is also a Vice Chairman of the Council of Counsels to Inspectors General (CCIG) and the custodian of the CCIG Library.

TABLE I

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS				
		Number of Reports	Questioned Costs	Unsupported Costs
A.	For which no management decision had been made by the start of the reporting period.	0	$0	$0
B.	Which were issued during the reporting period.	1	15,000*	0
	Subtotals (A + B)	1	15,000*	0
C.	For which management decision was made during the reporting period.	0	0	0
	(i) Dollar value of disallowed costs	0	0	0
	(ii) Dollar value of costs not disallowed	0	0	0
D.	For which no management decision has been made by the end of the reporting period.	0	0	0
E.	Reports for which no management decision was made within six months of issuance.	0	0	0
			*approximate	

Questioned costs are those costs the OIG has questioned because of alleged violations of laws, regulations, contracts, or other agreements; findings which at the time of the audit are not supported by adequate documentation; or the expenditure for the intended purpose is unnecessary or unreasonable.

Unsupported costs (included in "Questioned Costs") are those costs the OIG has questioned because of the lack of adequate documentation at the time of the audit.

TABLE II

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

		Number of Reports	Dollar Value
A.	For which no management decision had been made by the start of the reporting period.	0	$0
B.	Which were issued during the reporting period.	0	0
	Subtotals (A + B)	0	0
C.	For which management decision was made during the reporting period.	0	0
	(i) Dollar value of recommendations agreed to by management.	N/A	0
	(ii) Dollar value of recommendations not agreed to by management.	N/A	0
D.	For which no management decision was made by the end of the reporting period.	0	0
E.	For which no management decision was made within six months of issuance.	0	0

Recommendations that "Funds to be Put to Better Use" are those OIG recommendations that funds could be used more efficiently if management took actions to reduce outlays, de-obligate funds from programs/operations, avoid unnecessary expenditures noted in pre-award reviews of contracts, or any other specifically identified savings.

TABLE III

SUMMARY OF OIG ACTIVITY OCTOBER 1, 1999 THROUGH MARCH 31, 2000		
PART I – AUDIT REPORTS ISSUED		
Report Number	Title	Date Issued
OIG-99-08	Y2K Progress of High Risk Credit Unions	10/27/99
OIG-99-09	Y2K Review of Credit Union Liquidity Plans	12/09/99
OIG-99-10	Y2K Readiness Status of Credit Union Vendors	12/07/99
OIG-00-01	Financial Audit: Share Insurance Fund	3/31/00
OIG-00-02	Financial Audit: NCUA Operating Fund	3/31/00
OIG-00-03	Financial Audit: Central Liquidity Facility	3/31/00
OIG-00-04	Financial Audit: Community Development Revolving Loan Program	3/31/00
PART II – AUDITS IN PROCESS (as of March 31, 2000)		
	Review of Notebook Computers	
	SAP Security and Control Audit	
	SEC OIG Peer Review	
	Region I Management Consulting Agreement – Accuracy of 5300 Reports	

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