NATIONAL CREDIT UNION ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO THE CONGRESS

October 1, 2009 – March 31, 2010

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INSPECTOR GENERAL'S MESSAGE TO THE NCUA BOARD AND THE CONGRESS

I am pleased to provide this semiannual report on the activities and accomplishments of the National Credit Union Administration (NCUA) Office of Inspector General (OIG) from October 1, 2009 to March 31, 2010. The audits, reviews, investigations, and other activities highlighted in this report illustrate the OIG's ongoing commitment to promote efficiency, effectiveness, and integrity and help the NCUA successfully achieve its honorable goal of providing, through regulation and supervision, a safe and sound credit union system which promotes confidence in the national system of cooperative credit.

We continue to commit the bulk of the OIG's resources to conducting Material Loss Reviews (MLRs). In the resulting MLR reports, we address why material losses to the National Credit Union Share Insurance Fund occurred, analyzing the respective roles of the credit union and the agency's supervision. As we conduct and report on the MLRs, we are accumulating information that will allow us to formulate overarching recommendations to NCUA. We intend that these recommendations will provide the agency, in its supervisory capacity, with an opportunity to learn from the past and create the potential for increased accountability in the future.

During this reporting period we also issued a comprehensive report on the NCUA's information security program in accordance with the Federal Information Security Management Act of 2002 (FISMA). FISMA provides a comprehensive framework for ensuring the effectiveness of information security controls over information resources that support federal operations and assets. Consistent with FISMA's requirements, we performed an annual independent evaluation of the NCUA's information security program and practices. In the FISMA report, we highlighted steps that the agency could take to improve the security of its information resources.

On the investigative side, the OIG's investigation into allegations that an examiner was submitting false time sheet and travel vouchers concluded, prior to the official reporting on the investigation, with the employee's resignation.

The OIG's ability to conduct MLRs effectively, given the volume and complexity of the issues involved, would not be possible without the unstinting cooperation we receive from the NCUA Board and management. As we continue to identify and report on the significant issues that the MLRs bring to light, we appreciate greatly the cooperative and productive working relationship we share with the agency.

William A. DeSarno
Inspector General

THE NCUA MISSION

NCUA's charge is to facilitate the availability of credit union services to all eligible consumers, especially those of modest means, through a regulatory environment that fosters a safe and sound credit union system.

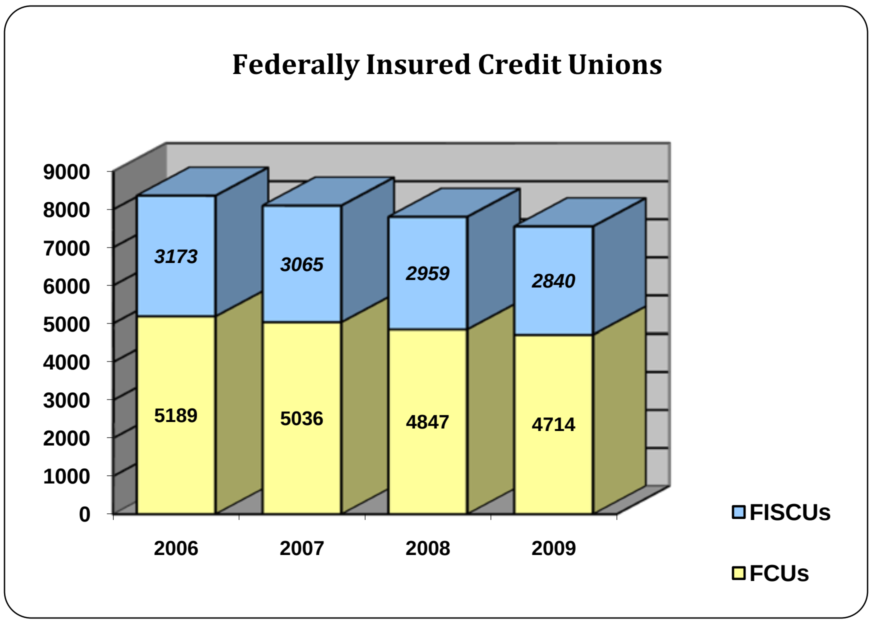
THE OFFICE OF INSPECTOR GENERAL MISSION

The OIG promotes the economy, efficiency, and effectiveness of NCUA programs and operations, and detects and deters fraud, waste, and abuse, thereby supporting the NCUA's mission of monitoring and promoting safe and sound federally insured credit unions.

We accomplish our mission by conducting independent audits, investigations, and other activities, and by keeping the NCUA Board and the Congress fully and currently informed of our work.

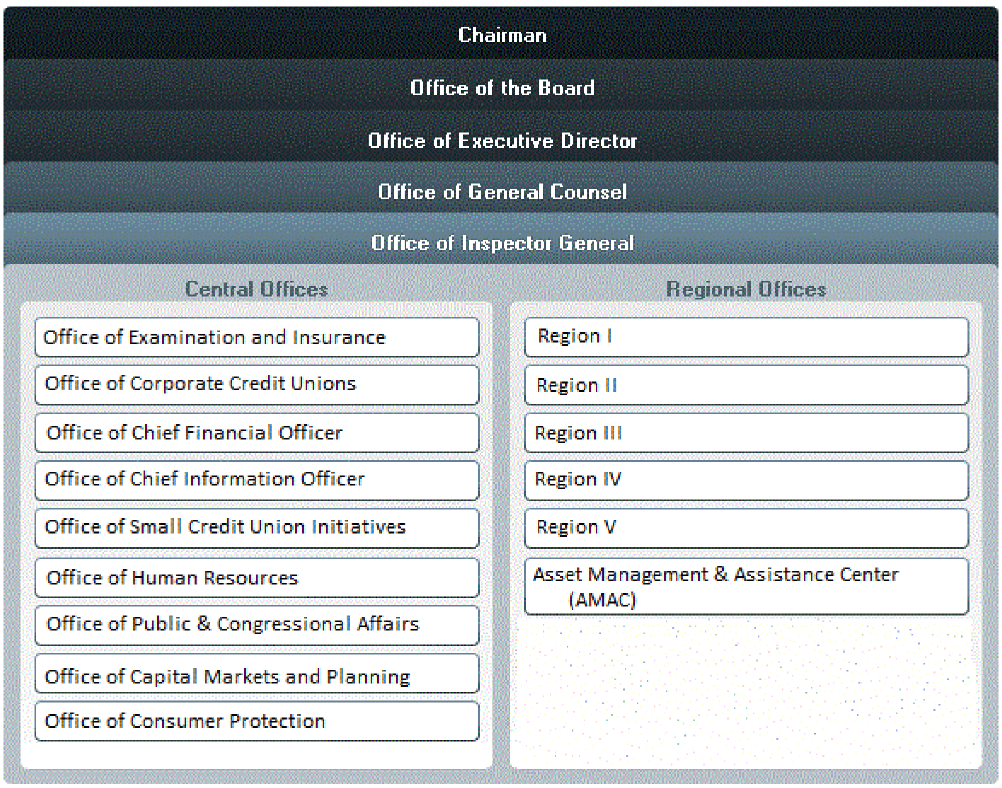
INTRODUCTION

The 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. The NCUA is funded by the credit unions it supervises and insures. As of December 31, 2009, the NCUA was supervising and insuring 4,714 federal credit unions and insuring 2,840 state-chartered credit unions, a total of 7,554 institutions. This represents a decline of 133 federal and 119 state-chartered institutions since December 31, 2008, for a total decline of 252 credit unions nationwide, primarily as a result of mergers.

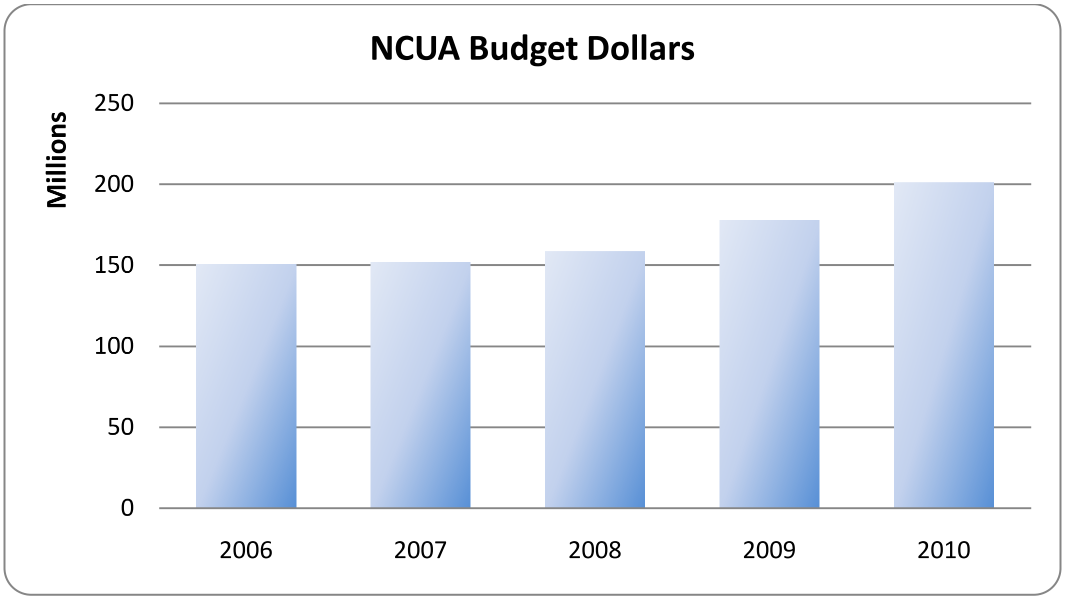


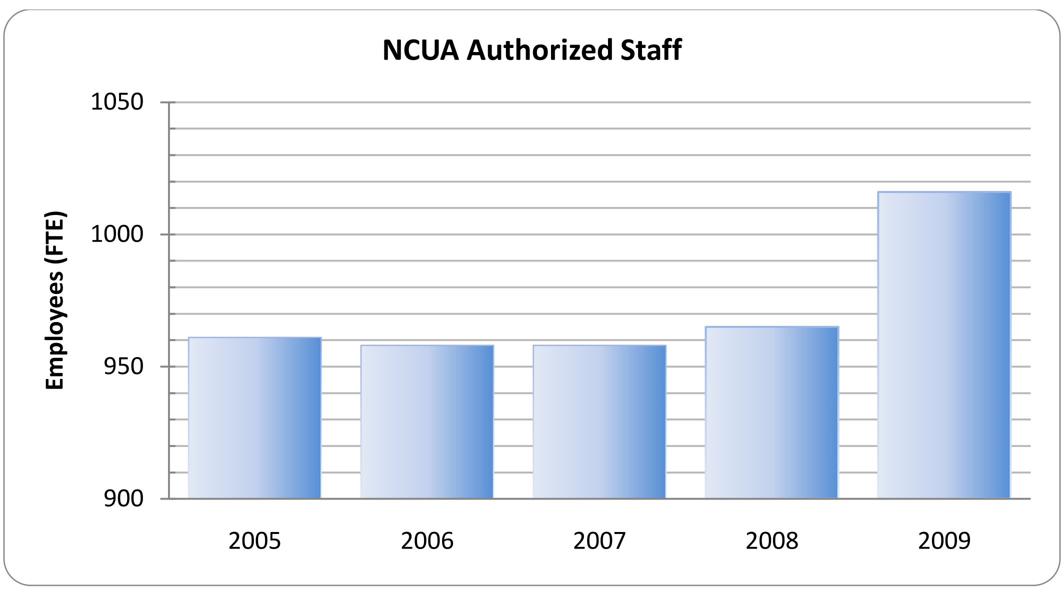
The NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one term expires every two years. The Board is responsible for the management of the NCUA, including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

The NCUA executes its program through its central office in Alexandria, Virginia and regional offices in Albany, New York; Alexandria, Virginia; Atlanta, Georgia; Austin, Texas; and Tempe, Arizona. The NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer to the NCUA organizational chart below.



The NCUA Board adopted its 2010 budget of $200,923,512 on November 19, 2009. The Full-Time Equivalent (FTE) staffing authorization for 2010 is 1,112 representing an increase of 74 FTEs from 2009.





NCUA HIGHLIGHTS

NCUA/NTEU Sign Collaborative Agreement

NCUA Chairman Debbie Matz and National Treasury Employees Union (NTEU) President Colleen M. Kelley signed, on March 2, 2010, an agreement creating an NCUA/NTEU Partnership Council. The agreement was the first such concluded between a federal agency and NTEU in response to President Obama's executive order on labor-management collaboration.

The council, headed by Chairman Matz and President Kelley, includes six NTEU members and six management officials who will collaborate to enhance the work environment at NCUA. The partnership explicitly recognizes employees as NCUA's primary resource, and encourages active participation to ensure the agency delivers the highest quality service to credit unions and the American public. The partnership will also encourage and enhance involvement of NCUA employees in the decision-making process regarding issues affecting the workplace.

NCUA Chairman Matz Assures Treasury Secretary Geithner: NCUA Regulation of Business Lending is Strong

In a letter dated February 24, 2010, to Treasury Secretary Timothy Geithner, Chairman Matz assured the Secretary that if a statutory increase in the member business lending (MBL) cap should become law, NCUA is prepared to enhance the regulation of MBL. Specifically, Chairman Matz stated that if legislative changes to increase or eliminate the current aggregate MBL cap were passed, NCUA would promptly revise its regulation to ensure that additional capacity in the credit union system would not result in unintended safety and soundness concerns. The letter also outlined ongoing NCUA efforts to monitor MBL activities, and specifically cited January guidance to credit unions that reiterated the importance of stringent risk management practices and appropriate staff expertise. This was the second correspondence from Chairman Matz to Secretary Geithner regarding MBLs during the reporting period.

NCUA Board Member Hyland Urges Collaboration at CUNA's 2010 Governmental Affairs Conference

In remarks made to over 4,000 attendees at the Credit Union National Association's (CUNA) 2010 Governmental Affairs Conference, held on February 23, 2010, in Washington D.C., Board Member Gigi Hyland reflected on other times when the credit union movement has been challenged, and encouraged attendees to build on a century of success to shape the future of credit unions. Board Member Hyland also indicated her strong support for a lifting of the MBL cap and her belief that prompt corrective action (PCA) must be accomplished soon. Hyland reported that she was in the process of finalizing a white paper on supplemental capital prepared by a working group within NCUA. Hyland subsequently, on April 12, 2010, presented the "Supplemental Capital White Paper" to Chairman Matz and Board Member Michael Fryzel.

NCUA Board Member Fryzel Commends Defense Credit Unions for Leadership and Service

Speaking at the Defense Credit Union Council's Defense Issues Meeting in Washington, D.C. on February 22, 2010, Board Member Fryzel commended defense credit union representatives for their leadership in the industry and their service to members, and stressed the need for continued commitment and involvement. Fryzel quoted the words of General Eisenhower in addressing the dedication of America's military members and the defense credit unions that serve them: "History does not long entrust the care of freedom to the weak or timid." Board Member Fryzel praised our service men and women, who "have never been weak or timid in their dedication to our country." Likewise, he stated that their credit unions have been "strong in speaking for and protecting the rights and well deserved privileges of honest financial services for those dedicated people."

NCUA Intervenes in WesCorp Lawsuit

On December 30, 2009, the NCUA, as Conservator of Western Corporate Federal Credit Union (WesCorp) filed papers in Superior Court in Los Angeles, California, to intervene as plaintiff in a lawsuit against several current and former employees and officials of WesCorp. NCUA maintains that it is the proper plaintiff and should be permitted to replace the current plaintiffs and determine whether and how to proceed with any action against WesCorp's former Board members and employees.

The civil action, brought by seven natural person credit unions that are members of WesCorp, alleges negligence and breach of fiduciary duties in connection with WesCorp's substantial investments in residential mortgage backed securities and collateralized debt obligations.

WesCorp has been operating under federal control since being placed into conservatorship by NCUA in March 2009. As Conservator, the NCUA operates the institution through its management team and is the successor to all the rights, titles, powers and privileges of the credit union and any of its members, account holders, officers or directors.

Credit Unions Finish 2009 with Nearly 10 Percent Net Worth; Loan Growth, Delinquency Grow

Credit unions finished 2009 with nearly 10 percent net worth, while loan demand and delinquencies showed weakness in the face of economic stress, according to December 2009 NCUA Call Report data. Membership in the nation's 7,554 federally-insured credit unions increased to nearly 90 million, and shares grew at the robust rate of 10.5 percent. Recognizing that recent credit union growth is "impressive and encouraging," Chairman Matz stated that "these positive developments are tempered by recognition of ongoing stresses." In 2009, delinquent loans to total loans grew to 1.8 percent. In response, NCUA has determined to increase examination staff and augment regulatory oversight to monitor and assist credit unions with persistent, adverse economic conditions.

Chairman Matz Calls for Consumer-Focused Capital Reform

In a December 7, 2009, letter to House Financial Services Committee Chairman Barney Frank, Chairman Matz called for changes in the credit union capital regime that would enable credit unions to promote consumer savings while maintaining rigorous safety and soundness standards. In her letter, Matz noted a trend in the credit union industry where well-capitalized credit unions were discouraging consumer deposits because of a potentially negative impact on regulatorily established capital levels.

Chairman Matz identified two legislative remedies for the unintentional disincentive to consumer savings:

- A change in the "total assets" denominator of the net worth ratio that would allow qualifying credit unions to exclude those assets that have a zero risk (such as short-term U.S. Treasury securities), exposing the credit union to virtually no risk of loss.

- Authorization for qualifying credit unions to issue alternative forms of capital to supplement their retained earnings.

Chairman Matz stressed that the capital flexibility she was proposing was narrowly crafted, specific to the situation, and would help increase savings while maintaining strong and credible credit union net worth standards.

Chairman Matz's Testimony Details Industry Stress, Strong NCUA Oversight

Testifying before the Senate Banking, Housing and Urban Affairs Subcommittee on Financial Institutions on October 14, 2009, Chairman Matz told subcommittee members that stress in the financial sector has translated into challenging times but she is confident that the credit union industry will weather the storm. Chairman Matz stated that in response to the harsh effects of the economic downturn, NCUA has enhanced its supervision, shortened the examination cycle, increased the number of examiners, and upgraded risk-management systems.

Chairman Matz testified that, in 2008, corporate credit union exposure to mortgage-backed securities first created a liquidity shortage, then later capital impairments that affected the entire credit union system. She predicted that, given the tenuous real estate market, NCUA expects additional losses to materialize.

FEDERALLY INSURED CREDIT UNION HIGHLIGHTS

Credit unions submit quarterly call reports (financial and operational data) to the NCUA. An NCUA staff assessment of the December 31, 2009, quarterly call reports submitted by all federally insured credit unions found that key financial indicators show concern.

Key Financial Indicators Showing Concern

Looking at the December 31, 2009 quarterly statistics for major balance sheet items and key ratios shows the following for the nation's 7,554 federally insured credit unions: assets grew 9.1 percent; net worth to assets ratio decreased from 10.61 to 9.91 percent; the loan to share ratio decreased from 83.10 percent to 76.95 percent; the delinquency ratio increased from 1.38 to 1.82 percent; and credit union return on average assets increased from (.04) percent to .20 percent.

Savings Shifting to Money Market Accounts

Total share accounts increased 10.5 percent. Money market shares increased 23.5 percent. Regular shares comprise 26.54 percent of total share accounts; share certificates comprise 30.00 percent; money market shares comprise 21.08 percent; share draft accounts comprise 11.31 percent; and all other share accounts comprise 11.07 percent.

Loans Increased Slightly

Loan growth of 1.14 percent resulted in an increase in total loans by $6.4 billion. Total net loans of $564 billion comprise 64 percent of credit union assets. First mortgage real estate loans increased 4.4 percent. First mortgage real estate loans are the largest single asset category with $217.1 billion accounting for 37.93 percent of all loans. Other real estate loans of $92.4 billion account for 16.14 percent of all loans. Used car loans of $98.1 billion were 17.14 percent of all loans, while new car loans amounted to $75.2 billion or 13.14 percent of total loans. Credit card loans totaled $34.9 billion or 6.1 percent of total loans and other loans totaled $54.7 billion for 9.56 percent of total loans.

LEGISLATIVE HIGHLIGHTS

Central Liquidity Facility, Community Development Fund Receive 2010 Appropriation

On December 14, 2009, Congress removed the borrowing cap on Central Liquidity Facility (CLF) borrowing for another fiscal year and increased the appropriation for the Community Development Revolving Loan Fund (CDRLF) as part of H.R. 3288, a broad 2010 spending package.

For the second year in a row, legislation was passed that would allow the CLF to lend up to approximately $43.8 billion in contingent liquidity to credit unions. That level of borrowing, based on capital held by the CLF and drawn from the U.S. Treasury, will be available until September 30, 2010. The same spending bill, which was finalized by the U.S. Senate in a rare Sunday session, raised the CDRLF appropriation by $250,000, to $1.25 million for FY2010. NCUA's Office of Small Credit Union Initiatives uses these funds for both loans and grants to qualifying credit unions.

House Approves Regulatory Reform Legislation

In December, the House of Representatives passed H.R. 4173, "The Wall Street Reform and Consumer Protection Act." The measure includes a number of provisions of interest to credit unions. As approved by the House, the bill would establish a Consumer Financial Protection Agency (CFPA), a new independent agency devoted solely to protecting consumers from unfair financial products and services. Credit unions with under $10 billion in assets would continue to be overseen directly by NCUA, while those over $10 billion would be subject to examination and enforcement by the CFPA. However, the CFPA would have the authority to delegate all examinations to NCUA.

The bill also creates an interagency Financial Stability Council to monitor risk in the financial system. The NCUA Chairman would be a voting member of the Council. In a related provision, the bill establishes a dissolution fund to pay for the resolution of systematically significant failing firms. Institutions with under $50 billion in assets would be exempt from paying into the fund.

The law would also amend the Federal Credit Union Act to raise the material loss review (MLR) threshold to $25 million (from $10 million) and 10% of a credit union's total assets at the time the NCUA stepped in to provide assistance. Finally, the law would amend the Inspector General Act of 1978, as amended, most recently by the *Inspector General Reform Act of 2008,* to convert the current appointment status of the NCUA IG, along with four other federal IGs, to a Presidentially appointed, Senate approved position.

Senate Introduces Member Business Lending Legislation

On December 21, 2009, a bipartisan group of senators introduced the *Small Business Lending Enhancement Act of 2009* (S. 2919), which would amend the Federal Credit Union Act to increase the total permissible amount of MBLs by an insured credit union (excluding those made to nonprofit religious organizations) to a limit of 25% of the credit union's total assets. The bill also increases from $50,000 to $250,000 the maximum total extensions of credit a borrower or associated member of an insured credit union may have before any extension of credit would be considered an MBL. The legislation would further require the NCUA Board to report semiannually to Congress on the status of member business lending by credit unions during the reporting period. Sens. Mark Udall (D-Colo.), Charles Schumer (D-NY), Joseph Lieberman (I-Conn.), Olympia Snowe (R-Maine), Barbara Boxer (D-Calif.), Susan Collins (R-Maine), and Kristen Gillibrand (D-NY) introduced the legislation. A similar bill, H.R. 3380, was introduced by Rep. Paul Kanjorski (D-Pa.) in the House on July 29, 2009.

Senator Dodd Introduces Financial Reform Legislation

On March 15, 2010, Senate Banking, Housing and Urban Affairs Committee Chairman Christopher J. Dodd introduced a far-reaching bill, the "Restoring American Financial Stability Act of 2009." Among the many proposals in the 1,336-page bill are the following:

- The CFPA would be part of the Federal Reserve;
- Creation of a systemic risk council;
- Regulation of over-the-counter derivatives;
- The Federal Reserve would regulate bank holding companies with $50 million or more in assets, and "systemically important nonbank financial institutions;" and
- Many smaller banks that the Federal Reserve currently regulates would be overseen by the OCC or the FDIC, depending on the bank charter.

The proposed bill contains several provisions identical to the House version, including the sections that would, respectively, increase the monetary threshold for conducting MLRs as well as elevate five Inspectors General, including the NCUA IG, to Presidentially-appointed, Senate-confirmed positions.

OFFICE OF THE INSPECTOR GENERAL

The Office of the Inspector General was established at the NCUA in 1989 under the authority of the Inspector General Act of 1978, as amended. The staff consists of the Inspector General, Deputy Inspector General, Counsel to the Inspector General, Director of Investigations, Auditor, two Senior Auditors, Senior Information Technology Auditor, and Office Manager.

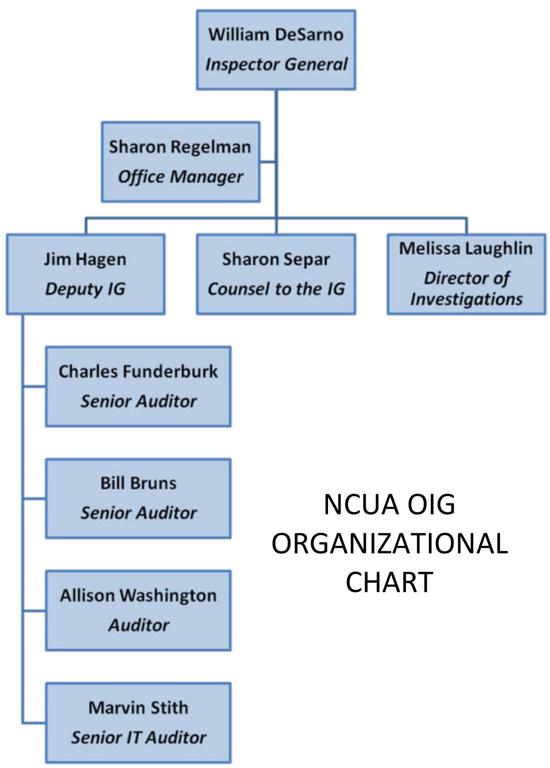
The Inspector General reports to, and is under the general supervision of, the NCUA Board. The Inspector General is responsible for:

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 Board and the Congress apprised of significant findings and recommendations.



NCUA OIG ORGANIZATIONAL CHART

AUDIT ACTIVITY

Audit Reports Issued

OIG-09-02 –October 16, 2009
Independent Evaluation of NCUA's Compliance with FISMA 2009

The Office of Inspector General (OIG) for the National Credit Union Administration (NCUA) engaged Richard S. Carson and Associates, Inc (Carson Associates), to independently evaluate its information systems and security program and controls for compliance with the Federal Information Security Management Act (FISMA), Title III of the E-Government Act of 2002.

Carson Associates evaluated NCUA's security program through interviews, documentation reviews, technical configuration reviews, an after-hours walk-through, and sample testing. We evaluated NCUA against standards and requirements for federal government agencies such as those provided through FISMA, the Government Accountability Office's *Federal Information System Controls Audit Manual* (FISCAM), National Institute of Standards and Technology (NIST) Special Publications (SPs), and Office of Management and Budget (OMB) memoranda.

The NCUA has worked to further strengthen its information technology (IT) security program during Fiscal Year (FY) 2009. NCUA's accomplishments during this period include:

- Installation of a change control management system for its IT systems;
- Improved employee enter/exit procedures;
- Enhanced policies and procedures;
- Improved contingency plan testing;
- Completed re-certification of a major certification & accreditation (C&A) package;
- Currently undergoing a re-certification of one major C&A package;
- Improved plan of action and milestones (POA&M) process; and
- Completed control testing for all six systems

We identified several areas that NCUA officials need to address and could improve IT security controls. We presented these findings in detail to NCUA management and corrective action has already been taken or is planned.

OIG-09-03 –October 23, 2009
Material Loss Review of New London Security Federal Credit Union

The NCUA OIG conducted a Material Loss Review of New London Security Federal Credit Union (New London). We reviewed New London to: (1) determine the cause(s) of New London's failure and the resulting loss to the NCUSIF; and (2) assess NCUA's supervision of the credit union. To achieve these objectives, we analyzed NCUA examination and supervision reports and related correspondence; interviewed management and staff from NCUA Region I; and reviewed NCUA guides, policies and procedures, NCUA Call Reports, and NCUA Financial Performance Reports (FPRs).

We determined suspected fraud was the direct cause of New London's failure due to a misappropriation of credit union investment funds. NCUA discovered that approximately $12 million in investments did not exist and that investment brokerage statements appeared to be fabricated. New London's investment account manager served on New London's Board of Directors for 19 years. The account manager controlled substantially all of the investment activity and blank investment statements were discovered in the account manager's office. The account manager also hand delivered the investment statements to the credit union.

We also determined New London management failed to implement adequate internal controls over the credit union's investment activity. Specifically, management allowed the account manager to handle all investment activity without adequate oversight. Beyond contracting with external auditors to perform annually required work, the credit union Supervisory Committee was inactive for more than four years. NCUA Documents of Resolution repeatedly recommended that the Supervisory Committee become more active or contract out quarterly reviews for such things as internal control reviews. Although the Board repeatedly promised to contract out quarterly reviews, this never occurred.

In addition, New London management repeatedly failed to take timely corrective actions on NCUA Documents of Resolution. NCUA recommended that the credit union execute a safekeeping/custodial agreement with a third party independent of the account manager. According to NCUA examination documents, the New London board passed a resolution to have a safekeeping arrangement with its investment brokerage firm and the credit union's attorney reviewed this agreement to ensure the credit union's interests were protected. However, NCUA staff was unable to locate a written safekeeping agreement, which could have shown that the credit union's interests were protected and, thereby, potentially mitigated the loss to the NCUSIF.

Furthermore, although the external auditor purportedly obtained annual independent confirmations from the brokerage firm, the confirmations received were not sufficient to ensure the investments existed. Finally, we determined that NCUA examiners did not adequately evaluate the risk in the New London's investment program. Investments accounted for over 90 percent of the credit union assets. While NCUA examiners noted the high concentration of investments and the lack of controls over investments--including the lack of a safekeeping agreement, they failed to elevate these repeated issues for stronger supervisory actions.

OIG-10-01 –March 17, 2010
Material Loss Review of High Desert Federal Credit Union

The NCUA OIG contracted with Moss Adams to conduct a Material Loss Review of High Desert Federal Credit Union. We reviewed High Desert to: (1) determine the cause(s) of failure and the resulting loss to the NCUSIF; and (2) assess NCUA's supervision of the credit union. To achieve these objectives, we analyzed NCUA examination and supervision reports and related correspondence; interviewed management and staff from NCUA Regions I and V; and reviewed NCUA guides, policies and procedures, NCUA Call Reports, and NCUA Financial Performance Reports (FPRs).

We determined HDFCU failed primarily due to a high concentration of real estate construction loans coupled with the dramatic decline in nationwide real estate values caused by the credit crisis. The Credit Union grew its construction lending exposure to over 60 percent in 2005, 2006, and 2007, making it particularly vulnerable to the market decline.

In addition, the underwriting and monitoring of these loans did not meet NCUA guidelines, and included a significant number of loans based on stated income, insufficient equity, and infrequent site visits to construction properties.

We determined NCUA examiners did not adequately evaluate the risk in the HDFCU's real estate construction portfolio. As noted, real estate construction loans accounted for over 60 percent of the Credit Union's loan portfolio for three consecutive years. NCUA examiners noted the high concentration and the lack of proper underwriting and monitoring controls, including repeat violations of Part 723.3 of the NCUA Rules and Regulations.

They failed, however, to elevate these repeated issues for stronger supervisory actions. Consequently, examiners did not expand examination procedures when they should have done so, which could have mitigated the loss to the NCUSIF.

We also determined NCUA examiners did not ensure that Credit Union management took corrective action on repetitive Document of Resolution (DOR) issues by elevating those issues to their superiors for stronger supervisory actions. Additionally, we found little evidence that NCUA officials and examiners monitored waivers granted to HDFCU in August 2003 for compliance, and the Credit Union did not establish a process to monitor compliance with the waiver either.

Finally, the examiners in charge remained the same for more than eight years, with in charge responsibilities rotating between the same two examiners. These examiners became overly familiar with the Credit Union, management, staff, processes, and culture, which created a lack of objectivity in the evaluation of the risks impacting the Credit Union.

AUDITS IN PROGRESS

NCUA Financial Statements 2008

Our 2008 contracting audit firm, Deloitte & Touche LLP, is working to issue its opinion on the 2008 financial statements of the NCUA Operating Fund, National Credit Union Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund. We expect to issue our report in June 2010.

NCUA Financial Statements 2009

Our current contracting audit firm, KPMG, is working on the 2009 financial statements of the NCUA Operating Fund, National Credit Union Share Insurance Fund, the Central Liquidity Facility, the Community Development Revolving Loan Fund and the Temporary Corporate Credit Union Stabilization Fund (TCCUSF).

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 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. The CLF 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. And the Community Development Revolving Loan 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 TCCUSF, established in 2009, allows NCUA to borrow money from the Treasury to pay for corporate credit union losses, and then pay back the Treasury over time with funds obtained from assessments on federally insured credit unions. We expect to issue our report in June 2010.

Material Loss Reviews of Cal State 9, Center Valley, Eastern Florida Financial, Ensign, ClearStar, U.S. Central and WesCorp

The FCU Act provides that a review is required when the NCUSIF incurs a material loss. For purposes of determining whether the NCUSIF has incurred a material loss with respect to an insured credit union such that the OIG must make a report, a loss is material if it exceeds the sum of $10,000,000, and an amount equal to 10 percent of the total assets of the credit union at the time at which the NCUA Board initiated assistance under section 208, or was appointed liquidating agent. In addition, the OIG may perform a material loss review on selected cases that caused a loss of less than $10,000,000 at the discretion of the Inspector General.

The OIG was notified by NCUA that the losses incurred by these credit unions had exceeded the statutory requirements, triggering a material loss review by the OIG. The scope of these audits will include an analysis of the credit union's transactions and activities to determine the causes of failure and a review of the supervision of the credit union. The review will be performed in accordance with Government Auditing Standards for performance audits. Our objectives are to determine (1) the causes of the credit union's failure and resulting material loss to the share insurance fund; and (2) assess the NCUA's supervision of the institution, including implementation of the Prompt Corrective Action requirements of the FCU Act. We expect to issue our reports on Cal State 9 and Center Valley in April 2010; Eastern Florida Financial in May 2010 and on Ensign, ClearStar, U.S. Central and WesCorp in the fall of 2010.

Significant Audit Recommendations on which Corrective Action Has Not Been Completed

As of March 31, 2010, there were no significant audit recommendations on reports issued over six months ago that have not been either fully implemented or are in the process of implementation.

INVESTIGATIVE ACTIVITY

In accordance with professional standards and guidelines established by the Department of Justice, the OIG conducts investigations of criminal, civil, and administrative wrongdoing involving agency programs, operations and personnel. Our investigative program focuses on activities designed to promote accountability, effectiveness, and efficiency, as well as fighting fraud, waste, and abuse in agency programs and operations. In addition to our efforts to deter misconduct and promote integrity awareness among agency employees, we investigate referrals and direct reports of employee misconduct. 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.

Moreover, we receive complaints from credit union members and officials that involve NCUA employee program responsibilities. We examine these complaints to determine whether there is any indication of NCUA employee wrongdoing or misconduct. If not, we refer the complaint to the appropriate regional office for response, or close the matter if contact with the regional office indicates that the complaint has already been appropriately handled.

OIG HOTLINE CONTACTS

The OIG maintains a toll free hotline to enable employees and citizens to call with information about suspected waste, fraud, abuse or mismanagement involving agency programs or operations. We also receive complaints through an off-site post office box, from electronic mail, and facsimile messages. All information received from any of these sources is referred to as a *hotline contact*. The OIG hotline program is handled by our Office Manager, under the direction of our Director of Investigations. The majority of hotline contacts are from consumers seeking help with a problem with a credit union. These contacts are referred to the appropriate NCUA regional offices for assistance. During this reporting period, we referred 98 consumer complaints to regional offices. We referred 7 allegations of potential fraud at credit unions to the NCUA Office of General Counsel.

INVESTIGATIONS

Time and Attendance/Travel Voucher Fraud

During the reporting period, the OIG investigated an allegation that an employee had committed time and attendance as well as travel voucher fraud.

The OIG's investigation substantiated the allegations that the employee was falsifying time reports by reporting time worked in credit unions when she was not actually present at the credit union. She also claimed the corresponding mileage for purported travel to and from the credit unions on her travel and expense reports. After the OIG interviewed the employee, she resigned. As a result, the OIG closed the investigation prior to the issuance of a final report of investigation.

Misconduct/Unethical Behavior

During this reporting period, the OIG closed its review of an allegation that two NCUA attorneys may have engaged in misconduct and/or unethical conduct. While our review found that the actions cited in the allegation in fact occurred, they did not constitute misconduct, unethical behavior, or unprofessional conduct. The OIG closed the inquiry with an Investigative Memorandum to the file.

Gross Mismanagement

The OIG reviewed an allegation by a former contractor employee of gross mismanagement on the part of certain NCUA supervisors. We were unable to develop substantive information to warrant a full, formal investigation. Rather, the OIG found the allegations without merit. The matter was closed with an Investigative Memorandum to the file.

Improper Promotion

The OIG reviewed an allegation that an NCUA office did not adhere to Office of Personnel Management (OPM) regulations or NCUA policy in processing an accretion of duties promotion. The OIG's review of the matter concluded that the evaluation conducted appropriately supported the promotion. However, the review also found that, with regard to recordkeeping practices, the subject office did not comply with OPM and agency guidance. The OIG issued a Management Implication Report (MIR) with corrective recommendations.

Retaliation

During the reporting period, the OIG reviewed an allegation from a credit union official that NCUA threatened to retaliate against him or the credit union. The OIG inquired into the matter, and found no basis to support the complainant's allegation. Moreover, the OIG found that the NCUA Ombudsman was concurrently responding to the complainant regarding identical issues. As a result, the OIG closed the matter in an Investigative Memorandum.

Loan Fraud

During a previous reporting period, the OIG received an allegation that a NCUA employee may have been party to a loan fraud at a credit union. The case is currently under investigation.

Misuse of Official Time/Conflict of Interest

During the previous reporting period, the OIG received an allegation that an employee was misusing official time and using his position for personal gain. This investigation is ongoing.

LEGISLATIVE AND REGULATORY REVIEWS

Section 4(a) of the Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the NCUA and to make recommendations concerning their impact. Moreover, we routinely review 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 proposed and final legislation and regulations, and Letters to Credit Unions. We issued formal comments on one legislative item.

SUMMARY OF STATUTES AND REGULATIONS REVIEWED

Legislation	Title
H.R. 4173	"Wall Street Reform and Consumer Protection Act of 2009"
S. 2919	"Small Business Lending Enhancement Act of 2009"
H.R. 3795	"Over-the-Counter Derivatives Market Act of 2009"

Regulations/Rulings	Title
12 CFR Part 701	Final rule: Secondary Capital Account
12 CFR 706	Final rule: Unfair or Deceptive Acts or Practices; Withdrawal
12 CFR Part 701	Final rule: Exception to the Maturity Limit on Second Mortgages
12 CFR Part 741	Final rule: National Credit Union Share Insurance Premium and One Percent Deposit
12 CFR Part 716	Final rule: Final Model Privacy Notice Form
12 CFR Parts 740 and 745	Final rule: Display of Official Sign; Temporary Increase in Standard Maximum Share Insurance Amount; Coverage for Mortgage Servicing Accounts; Share Insurance for Revocable Trust Accounts
12 CFR Parts 701, 708a and 708b	Proposed rule: Fiduciary Duties at Federal Credit Unions; Mergers and Conversions of Insured Credit Unions
12 CFR Parts 701, 723, and 742	Proposed rule: Fixed Assets, Member Business Loans, and Regulatory Flexibility Program

12 CFR Part 701	Proposed rule: Extension of Comment Period on IRPS 09-01, Chartering and Field of Membership
12 CFR Part 701	IRPS 09-01: Chartering and Field of Membership for Federal Credit Unions
12 CFR Parts 702, 703, 704, 709, and 747	Proposed Rule: Corporate Credit Unions

Letters to Credit Unions	Title
10-CU-03 (3/2010)	Concentration Risk
10-CU-02 (2/2010)	Current Risks in Business Lending and Sound Risk Management Practices
10-CU-01 (1/2010)	Supervising Low Income Credit Unions and Community Development Credit Unions
10-FCU-01	Operating Fee Schedule for FY 2010
09-CU-24 (12/2009)	Credit Union Financial Trends for the Third Quarter 2009
09-CU-23 (11/2009)	Reviewing Adequacy of Earnings
09-CU-22 (11/2009)	Community Development Revolving Loan Fund – Funding Round
09-CU-21 (10/2009)	Official NCUA Sign
09-CU-20 (10/2009)	Premium Assessments

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.	0	0	0
	Subtotals (A + B)	0	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 allowed	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

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	N/A
	(ii) Dollar value of recommendations not agreed to by management.	N/A	N/A
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, 2009 THROUGH MARCH 31, 2010		
PART I – AUDIT REPORTS ISSUED		
Report Number	Title	Date Issued
OIG-09-02	Evaluation of the National Credit Union Administration's Compliance With the Federal Information Security Management Act (FISMA) 2009	10/16/2009
OIG-09-03	Material Loss Review of New London Security Credit Union	10/23/2009
OIG-10-01	Material Loss Review of High Desert Federal Credit Union	3/17/2010
PART II – AUDITS IN PROGRESS *(as of March 31, 2010)*		
	NCUA Financial Statement Audit 2008	
	NCUA Financial Statement Audit 2009	
	Material Loss Review of Cal State 9 FCU	
	Material Loss Review of Center Valley FCU	
	Material Loss Review of Eastern Financial Florida FCU	
	Material Loss Review of ClearStar Financial Florida FCU	
	Material Loss Review of Ensign FCU	
	Material Loss Review of US Central Corporate CU	
	Material Loss Review of Western Corporate FCU	

INDEX OF REPORTING REQUIREMENTS		
Section	Data Required	Page Ref
4(a)(2)	Review of legislation and regulations	20
5(a)(1)	Significant problems, abuses, or deficiencies relating to the administration of programs and operations disclosed during the reporting period.	12
5(a)(3)	Recommendations with respect to significant problems, abuses or deficiencies.	12
5(a)(3)	Significant recommendations described in previous semiannual reports on which corrective action has not been completed.	16
5(a)(4)	Summary of matters referred to prosecution authorities and prosecutions which have resulted.	None
5(a)(5)	Summary of each report to the Board detailing cases where access to all records was not provided or where information was refused.	None
5(a)(6)	List of audit reports issued during the reporting period.	24
5(a)(7)	Summary of particularly significant reports.	12
5(a)(8)	Statistical tables on audit reports with questioned costs.	22
5(a)(9)	Statistical tables on audit reports with recommendations that funds be put to better use.	23
5(a)(10)	Summary of each audit report issued before the start of the reporting period for which no management decision has been made by the end of the reporting period.	None
5(a)(11)	Description and explanation of reasons for any significant revised management decision made during the reporting period.	None
5(a)(12)	Information concerning significant management decisions with which the Inspector General is in disagreement.	None