

NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT
TO
THE CONGRESS

October 1, 2012 – March 31, 2013



TABLE OF CONTENTS

INSPECTOR GENERAL'S MESSAGE	i
THE NCUA AND OFFICE OF INSPECTOR GENERAL MISSIONS.....	1
INTRODUCTION.....	2
NCUA HIGHLIGHTS	5
FEDERALLY INSURED CREDIT UNION HIGHLIGHTS	9
LEGISLATIVE HIGHLIGHTS.....	10
OFFICE OF THE INSPECTOR GENERAL.....	12
AUDIT ACTIVITY	13
LEGISLATIVE AND REGULATORY REVIEWS	25
TABLE I: INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS	27
TABLE II: INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE.....	28
TABLE III: SUMMARY OF OIG ACTIVITY OCTOBER 1, 2012 THROUGH MARCH 31, 2013...	29
INDEX OF REPORTING REQUIREMENTS.....	30
APPENDIX A: SYSTEM REVIEW REPORT (PEER REVIEW OF NCUA OIG).....	31



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

On behalf of the Office of Inspector General (OIG) of the National Credit Union Administration (NCUA), I am pleased to present our *Semiannual Report to the NCUA Board and the Congress* highlighting our accomplishments and ongoing work for the six-month period ending March 31, 2013.

We had an especially heavy audit workload during this reporting period. We issued three material loss reviews (MLRs), one system review, a mandated review of NCUA's Information Security Management Program (FISMA), and reported on the financial statement audits of the NCUA Operating Fund, the National Credit Union Share Insurance Fund, the Central Liquidity Facility, the Community Development Revolving Loan Fund, and the Temporary Corporate Credit Union Stabilization Fund – all of which received “clean,” unqualified opinions. While our MLR work is beginning to subside, we reported on the reasons for the failure of O.U.R. Federal Credit Union, Eastern New York Federal Credit Union, and Telesis Community Credit Union.

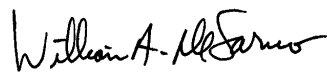
Our Office of Investigations closed three cases during this reporting period, all involving employee misconduct. We investigated an allegation that an NCUA employee used her government-issued travel card for personal purchases. The investigation was substantiated and the employee resigned. We also received an allegation of an employee filing improper travel claims. The investigation did not substantiate the allegation and the case was closed. The third investigation involved allegations that a newly hired employee falsified his employment application regarding his education and pending criminal charges. The investigation substantiated the allegations and the employee was terminated.

In addition to the recurring congressional requests which we routinely respond to, our office also responded to two congressional requests this period which entailed extensive audit and legal engagement. The first responded to a request from the Chairman of the House Committee on Oversight and Government Reform inquiring about NCUA's use of contingency fee arrangements with outside counsel hired to handle certain financial securities-related litigation. After considerable legal analysis we concluded that the contingency fee arrangement NCUA (acting as Conservator) entered into with outside counsel did not violate an Executive Order prohibiting such arrangements. Moreover, we found that the contingency fee arrangement was cost

effective, was reasonable in light of the uniqueness of the litigation, and did not result in member credit unions paying unnecessarily high legal fees. The second was a request from the Co-Chairs of the Bicameral Task Force on Climate Change seeking information concerning the NCUA's actions to address climate change. We responded with a letter outlining the energy initiatives the agency has undertaken in recent years. We further notified the Task Force of our recommendation to the NCUA that it undertake a more formal review of applicable legislation, Executive Orders, and other legal authorities imposing specific energy management program requirements on it and begin to take the steps necessary to comply with such authorities.

As a member of the Council of Inspectors General on Financial Oversight (CIGFO), during the reporting period I met quarterly with other Inspectors General of financial regulatory agencies to facilitate the sharing of information addressing concerns that may apply to the broader financial sector and ways to improve financial oversight. And, on an internal matter, I am pleased to report that the Peace Corps OIG completed a Peer Review of our office and accorded us the highest grade possible with no deficiencies or recommendations.

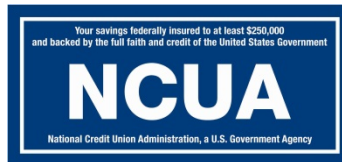
All this brings me to one final statement. This semiannual report will be my last since I have decided to retire after serving eight years as NCUA's Inspector General and over 44 years of government service. I wish to express my appreciation to the NCUA Board and senior management for their consistent cooperation with and support of me and the work of the OIG. But most importantly, I want to thank my staff for their dedication and hard work in making the NCUA OIG not only a first class organization but a family away from home working together for a common purpose.



William A. DeSarno
Inspector General

THE NCUA MISSION

NCUA's charge is to provide, through regulation and supervision, a safe and sound credit union system which promotes confidence in the national system of cooperative credit.



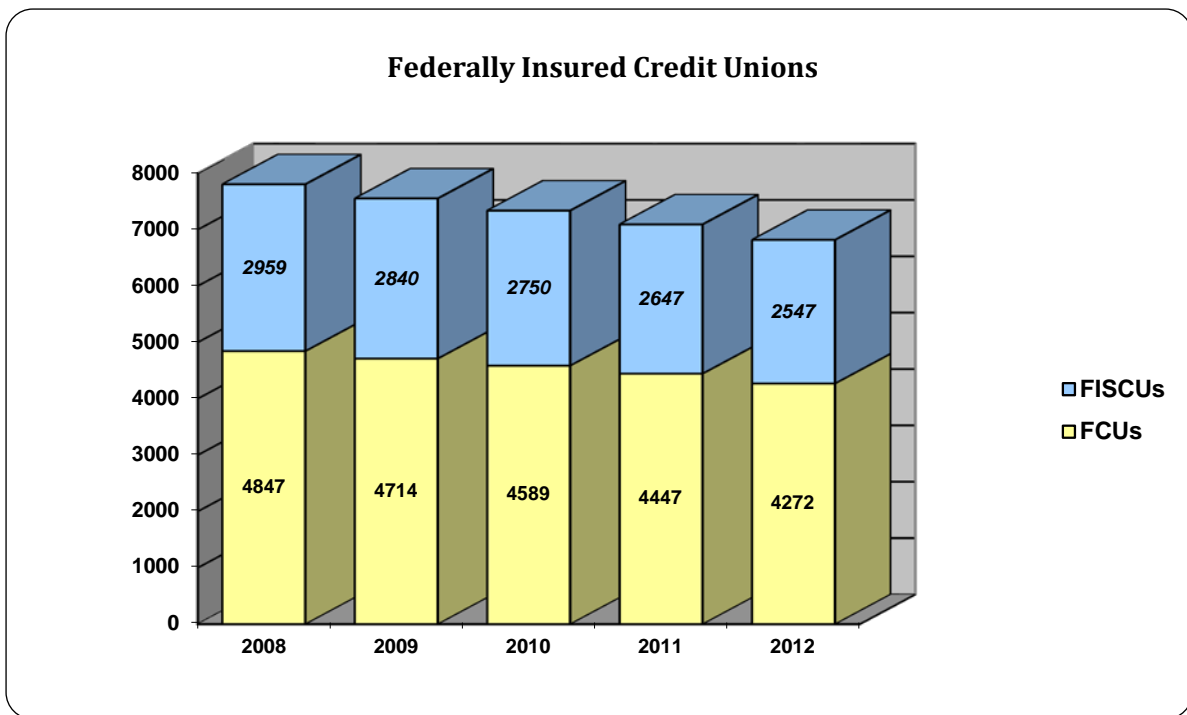
THE OFFICE OF INSPECTOR GENERAL MISSION

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.

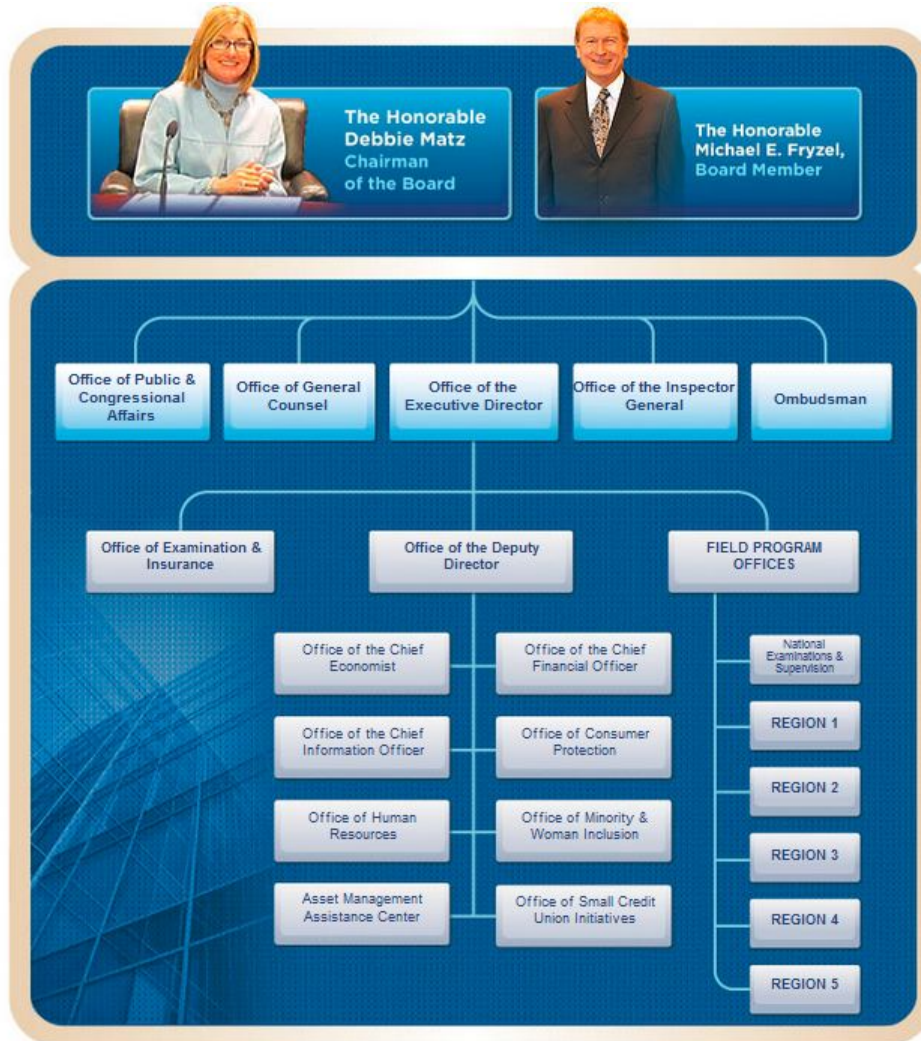
INTRODUCTION

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, 2012, the NCUA was supervising and insuring 4,272 federal credit unions and insuring 2,547 state-chartered credit unions, a total of 6,819 institutions. This represents a decline of 175 federal and 100 state-chartered institutions since December 31, 2011, for a total decline of 275 credit unions nationwide, primarily as a result of mergers and liquidations. The NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed

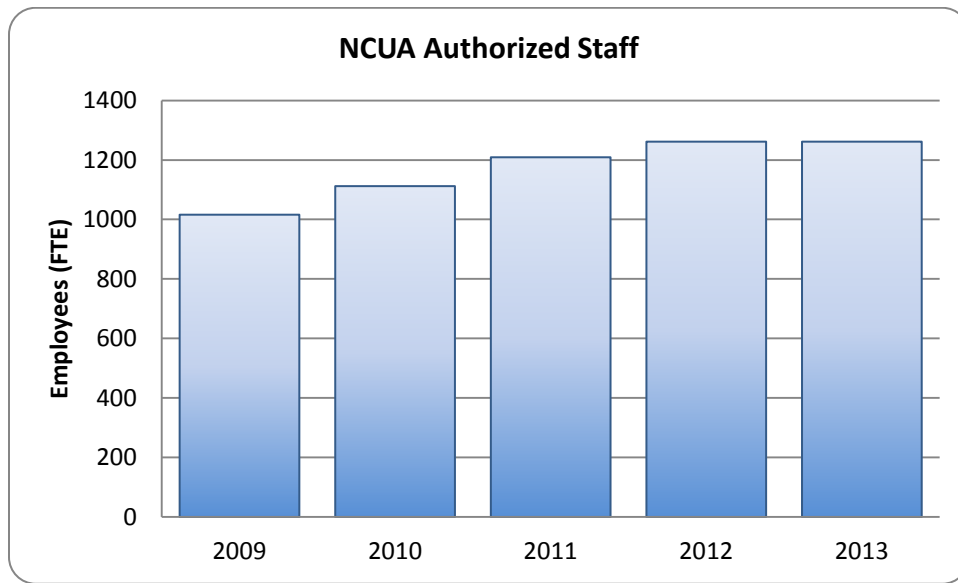
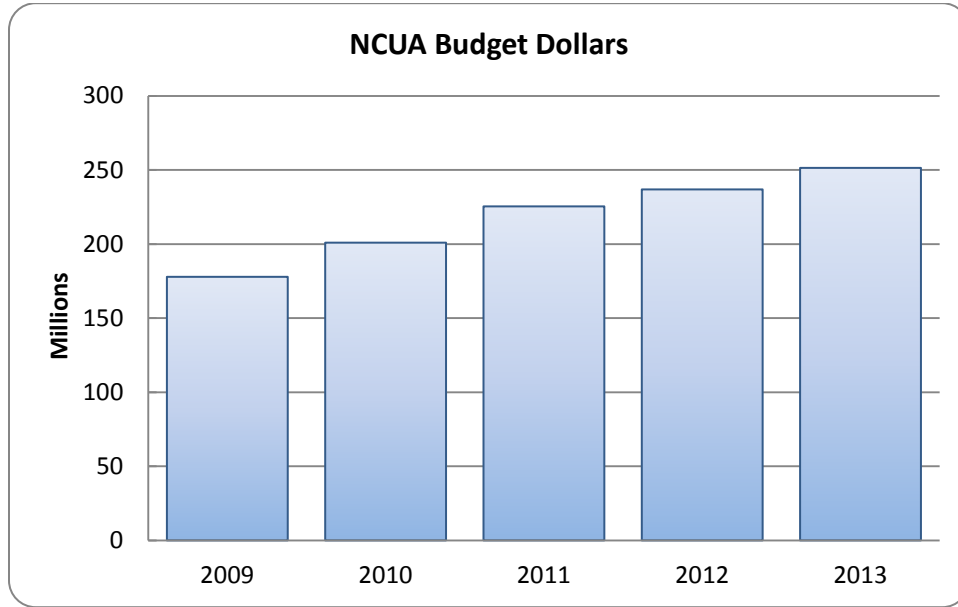


by the Senate. They serve six-year terms. Terms are staggered, so that one term expires every two years. The Board is responsible for the management of the NCUA, including the NCUA Operating Fund, the Share Insurance Fund, the Central Liquidity Facility, the Community Development Revolving Loan Fund, and the Temporary Corporate Credit Union Stabilization 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 2013 budget of \$251,387,091 on November 15, 2012. The Full-Time Equivalent (FTE) staffing authorization for 2013 is 1,261.50 representing no increase in FTEs from 2012.



NCUA HIGHLIGHTS

NCUA Selects Mark Treichel as Executive Director

On December 30, 2012, Mark A. Treichel assumed his new role as the agency's Executive Director, the agency's most senior career position and responsible for overseeing NCUA's daily operations.

Since 2003, Treichel has served as the Regional Director of NCUA's Region I office in Albany, N.Y. As Regional Director, he had responsibility for the oversight of federally insured credit unions in Connecticut, Maine, Massachusetts, Michigan, Nevada, New Hampshire, New York, Rhode Island and Vermont. Treichel joined NCUA in 1986 in Minneapolis and rose through the ranks becoming a problem case officer in 1990 and a supervisory examiner in 1991. Starting in 1995, Treichel served as Director of Special Actions in Concord, Calif. He also had a stint as Acting Risk Management Director in 1998 in the Office of Examination and Insurance, before becoming Associate Regional Director of Operations in Region I later that year. Between 2000 and 2003, Treichel returned to Alexandria, Va., in the role of Deputy Executive Director.

Treichel replaces the outgoing Executive Director, David Marquis, who retired at the end of 2012.

U.S. Central Bridge Closed

On Oct. 29, 2012, NCUA closed U.S. Central Bridge Corporate Federal Credit Union (U.S. Central Bridge), completing three years of efforts to stabilize the corporate credit union sector.

Chartered in October 2010, the Lenexa, Kansas-based U.S. Central Bridge assumed operations of U.S. Central Federal Credit Union (U.S. Central) to maintain continuity of services to corporate credit union members, prevent disruption to the credit union system, and protect consumers.

Founded in 1974, U.S. Central was once the largest corporate credit union. However, it was part of a group of five corporate credit unions devastated by losses incurred through the purchase of faulty mortgage-backed securities (MBS) in the years preceding the financial crisis that began in 2008. NCUA placed U.S. Central into conservatorship in March 2009, and the credit union was subsequently transitioned into U.S. Central Bridge.

NCUA Takes Additional Legal Action against Wall Street Investment Firms

During this reporting period, NCUA took legal action against Wall Street investment firms Credit Suisse, a subsidiary of the Swiss-based financial services firm, J.P. Morgan Securities, and Bear, Stearns & Co., which was subsequently purchased by J.P. Morgan Securities in 2008, after the demise of Bear, Stearns & Co.

As liquidating agent for U.S. Central Federal Credit Union (US Central), Western Corporate Federal Credit Union (WesCorp) and Southwest Corporate Federal Credit Union (Southwest), NCUA has a statutory duty to seek recoveries from responsible parties in order to minimize the cost of any failure to its insurance funds and the credit union industry. NCUA filed suit in Federal District Court in Kansas against Credit Suisse Securities (USA) in October 2012, and J.P. Morgan Securities and Bear, Stearns & Co. in December 2012, to recover losses from investments in faulty securities.

NCUA's suits allege Credit Suisse and Bears, Stearns & Co. violated federal and state securities laws through misrepresentations in connection with the underwriting and subsequent sale of mortgage-backed securities to the aforementioned failed corporate credit unions.

[NCUA Settles Claims against Bank of America](#)

During this reporting period, NCUA announced a settlement with Bank of America and certain of its subsidiaries ("Bank of America") for \$165 million for losses related to purchases of residential mortgage-backed securities by failed corporate credit unions.

In all, NCUA has obtained more than \$335 million in legal settlements, having settled three similar agreements with Citigroup, Deutsche Bank Securities and HSBC that totaled \$170.75 million. Bank of America did not admit fault as part of the settlement.

NCUA was the first federal regulatory agency for depository institutions to recover losses from investments in these securities on behalf of failed financial institutions. NCUA uses the net proceeds to reduce Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) assessments charged to federally insured credit unions to pay for the losses caused by the failure of five corporate credit unions.

[NCUA Ranks among Best Places to Work](#)

NCUA showed the strongest growth in employee satisfaction among medium-sized federal agencies in the annual Best Places to Work in the Federal Government rankings according to the nonpartisan organization, Partnership for Public Service.

Nearly 700,000 federal workers participated in the U.S. Office of Personnel Management's Federal Employee Viewpoint survey used by the Partnership for Public Service to compile the Best Places to Work in the Federal Government rankings. Agencies were measured on overall employee satisfaction and in 10 workplace categories, including effective leadership, employee skills/mission match, teamwork and work/life balance.

NCUA ranked first for improvement in employee satisfaction year-over-year amongst 22 federal medium-sized agencies, and improved its overall annual ranking from 16th (out of 35) in 2012 when NCUA was in the small-sized agency category, to 6th – bettering its scores in nearly every survey category. NCUA made the gains despite government-wide declines.

NCUA ranked second for employee skills/mission match amongst its peer agencies, and the agency's employees gave NCUA strong endorsements in areas of diversity, fairness, and employee empowerment.

In other findings of the 2012 report, for employee satisfaction and commitment among medium-sized agencies NCUA:

- Ranked 1st among Hispanics.
- Ranked 2nd among African-Americans.
- Ranked 3rd among whites, veterans, men, workers above 40, and workers below 40 years old.
- Ranked 4th among women and Asians.

In its analysis of survey results, the Partnership for Public Service noted NCUA's overall score has been steadily increasing for the past few years and is up 10.9 points since 2009.

[NCUA's National Supervision Policy Manual Released to the Public](#)

In November 2012, NCUA released a public version of its National Supervision Policy Manual (NSPM), the product of a two-year project to create uniform operations and procedures for supervision throughout the country and improve the agency's ability to operate efficiently across regions. The NSPM, which describes the agency's internal operations and procedures for supervisory staff, brings "more consistency and clarity" to the examination process as noted by NCUA Board Chairman Debbie Matz.

NCUA has trained examiners on the procedures outlined in the NSPM and will review and update the NSPM as warranted. Certain sensitive parts of the manual remain confidential and are not included in the released public version, as disclosure could impair NCUA's ability to minimize losses to the National Credit Union Share Insurance Fund or negatively affect the agency's ability to conduct effective supervision.

Credit unions already have access to NCUA's Examiner's Guide. The release of the NSPM, a companion to the Examiner's Guide, furthers public access to information on NCUA's internal policy for supervisory operations and procedures.

[NCUA Ensured Credit Union Members Received Needed Services Following Hurricane Sandy](#)

In the wake of Hurricane Sandy, NCUA activated its disaster relief policy, which consisted of the establishment of a Hurricane Sandy webpage to list credit unions temporarily closed by the storm or in non-operational status. NCUA monitored the status of more than 2,000 credit unions in the storm's path and assisted credit unions and their members by having examiners along the East Coast check with their credit unions and provide support and assistance, as warranted. NCUA expanded the

agency's consumer assistance hotline to answer the many financial questions that members had related to the emergency, which typically included inquiries about the operational status of specific credit union facilities, outages of credit union ATMs, websites, and phones, as well as the status of direct deposits.

In addition, NCUA also expedited credit union emergency grant applications. Through the Urgent Needs Initiative, NCUA provides grants to low-income credit unions to help restore operations and fix facilities after natural disasters and other unexpected adverse events. NCUA committed to quickly reviewing grant requests, as demonstrated when NCUA received the first Hurricane Sandy-related request for a grant on October 31, 2012 and approved the application November 1, 2012.

[NCUA Financial Statements Earn Clean Audit Opinions for 2012](#)

The NCUA, on February 15, 2013, released its 2012 audited financial report for the agency's four permanent funds (the National Credit Union Share Insurance Fund (NCUSIF); the Central Liquidity Facility (CLF); the Community Development Revolving Loan Fund (CDRLF) and the Operating Fund). All four funds received unqualified or "clean" audit opinions, including the NCUSIF that protects deposits up to \$250,000 for more than 91 million consumers at federally insured credit unions. NCUA's independent financial auditor, KPMG LLP, completed the audits of all four funds.

In addition, on March 27, 2013, KPMG LLP issued an unqualified opinion on the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) 2012 financial statements. This marks the third year in a row NCUA received a clean audit opinion from KPMG for the Stabilization Fund. Since releasing the 2010 Stabilization Fund audit, NCUA has continued to strengthen the systems needed to handle the Stabilization Fund's many complex transactions, including those related to the NCUA Guaranteed Notes. NCUA also improved its internal control environment, which allowed the 2012 audited financial statements to be completed three months earlier than the 2011 statements.

The Stabilization Fund provides NCUA with the flexibility needed to manage the effect of the costs to the credit union system associated with the losses on troubled mortgage-backed securities purchased by the five failed corporate credit unions. NCUA liquidated these five failed credit unions in 2009 and 2010.

NCUA's Financial Statement Audit reports for 2012 are available at:

<http://www.ncua.gov/about/Leadership/CO/OIG/Pages/AuditRpt2013.aspx>

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, 2012, quarterly call reports submitted by all federally insured credit unions found that key financial indicators are mixed.

Key Financial Indicators Favorable

Looking at the December 31, 2012 quarterly statistics for major balance sheet items and key ratios shows the following for the nation's 6,819 federally insured credit unions: assets grew 6.24 percent; net worth to assets ratio increased from 10.21 to 10.44 percent; the loan to share ratio decreased from 69.07 percent to 68.09 percent. However, the delinquency ratio decreased from 1.60 to 1.16 percent; and credit union return on average assets increased from .67 percent to .86 percent.

Savings Shifting to Regular Shares

Total share accounts increased 6.10 percent. Regular shares increased 12.25 percent. Regular shares comprise 31.32 percent of total share accounts; share certificates comprise 22.54 percent; money market shares comprise 23.17 percent; share draft accounts comprise 12.70 percent; and all other share accounts comprise 10.27 percent.

Loan Volume Flat

Loans increased 4.59 percent resulting in an increase in total loans by \$26.26 billion. Total net loans of \$598 billion comprise 57.71 percent of credit union assets. First mortgage real estate loans are the largest single asset category with \$246 billion accounting for 41.21 percent of all loans. Other real estate loans of \$74 billion account for 12.38 percent of all loans. Used car loans of \$115 billion were 19.28 percent of all loans, while new car loans amounted to \$63 billion or 10.59 percent of total loans. Credit card loans totaled \$40 billion or 6.61 percent of total loans and other loans totaled \$59 billion for 9.93 percent of total loans.

LEGISLATIVE HIGHLIGHTS

Credit Unions Continue to Urge Congress for Passage of S. 2231

Credit unions and industry groups continue to press lawmakers for passage of S. 2231, the “Small Business Lending Enhancement Act of 2012,” which would raise the credit union member business loan (MBL) cap to 27.5 percent of assets for eligible institutions, up from the current level of just over 12%. The increase would free up credit unions to lend significantly more money to small businesses and fill a void left by the for-profit banking industry. In late November 2012, approximately 500 representatives from credit unions and small businesses arrived in Washington, D.C. to push for support from legislators. Banks and organizations opposing the bill, including the American Bankers Association and the Independent Community Bankers of America, simultaneously sent lobbyists of their own for a coordinated effort opposing the bill. The bill, introduced by Sen. Mark Udall (D., Colo.) on March 22, 2012, currently has 21 co-sponsors.

House Unanimously Passes Annual Privacy Disclosures Notices Bill

The “Gramm-Leach-Bliley Act,” enacted in 1999, requires financial institutions to issue privacy disclosure notices to consumers that detail the institution’s privacy policies if it shares customers’ non-public personal information with affiliates or third parties. The law also requires notifying existing and potential customers of their right to opt out of sharing of non-public personal information with third parties. Such disclosures are required to occur when a customer relationship is first established with the institution and annually in written form as long as the relationship continues, even if no changes to the disclosure policies have occurred.

H.R. 749, the “Eliminate Privacy Notice Confusion Act,” was introduced to reduce confusion among consumers that can occur when they receive annual privacy notices. The bill clarifies that annual privacy notices are only required when disclosure policies change after the relationship begins, and to the extent an institution shares sensitive personal information with third parties for marketing purposes.

The privacy notice, for most institutions, is readily available for viewing online, as well as available at branch locations for consumers to acquire if they so wish. The impetus behind the legislation is based on the staff resources and money wasted to send the required notice to millions of credit union members--resources that could better serve them in the form of loans or interest payments. Moreover, as many institutions and consumers are earnestly attempting to “go green” the current requirement stands in stark contrast.

At the end of the 112th Congress, the House passed legislation (H.R. 5817) by unanimous consent that would have eliminated the unnecessary, redundant and costly annual privacy policy notice requirement for institutions that:

1. Do not share information with non-affiliated third parties; and

2. Do not change its privacy policy from the last time it was disclosed.

While the Senate did not act on H.R. 5817, it was re-introduced in the House at the beginning of the 113th Congress by Reps. Blaine Luetkemeyer (R., MO) and Brad Sherman (D., CA) as H.R. 749. On March 12, 2013 the House passed H.R. 749 by unanimous consent.

[NCUA Joins Independent Financial Regulators Opposing S. 3468](#)

Senate Bill 3468, the “Independent Agency Regulatory Analysis Act of 2012, which could slow the pace of new regulations issued by the NCUA and the Consumer Financial Protection Bureau (CFPB), currently has three sponsors in the Senate. The bill, which was referred to the Committee on Homeland Security and Government Affairs, would require independent federal regulators, including NCUA, to first gain approval from the Office of Management and Budget (OMB) before issuing new regulations. Because of the potential for congressional action on the bill, six independent regulators—the Federal Reserve Board Chairman Ben Bernanke, Securities and Exchange Commission then-Chairman Mary Schapiro, Comptroller of the Currency Thomas Curry, Federal Deposit Insurance Corporation Acting Chairman Martin Gruenberg, CFPB Director Richard Cordray, and NCUA Chairman Debbie Matz, sent a letter, dated October 26, 2012, outlining their opposition to former Committee Chairman Joseph Lieberman (I., Conn.) and former Ranking Member Susan Collins (R., Maine). Collins was a co-sponsor of the bill, along with Sen. Mark Warner (D., Va.) and Sen. Rob Portman (R., Ohio), who introduced it on August 1, 2012.

Collins and Portman are also co-sponsors of S. 2160, the “Financial Institutions Examination Fairness and Reform Act,” which would require the NCUA and other financial regulators to provide credit unions with documented support when mandating solutions for exam exceptions, and create a new Ombudsman position to hear exam appeals.

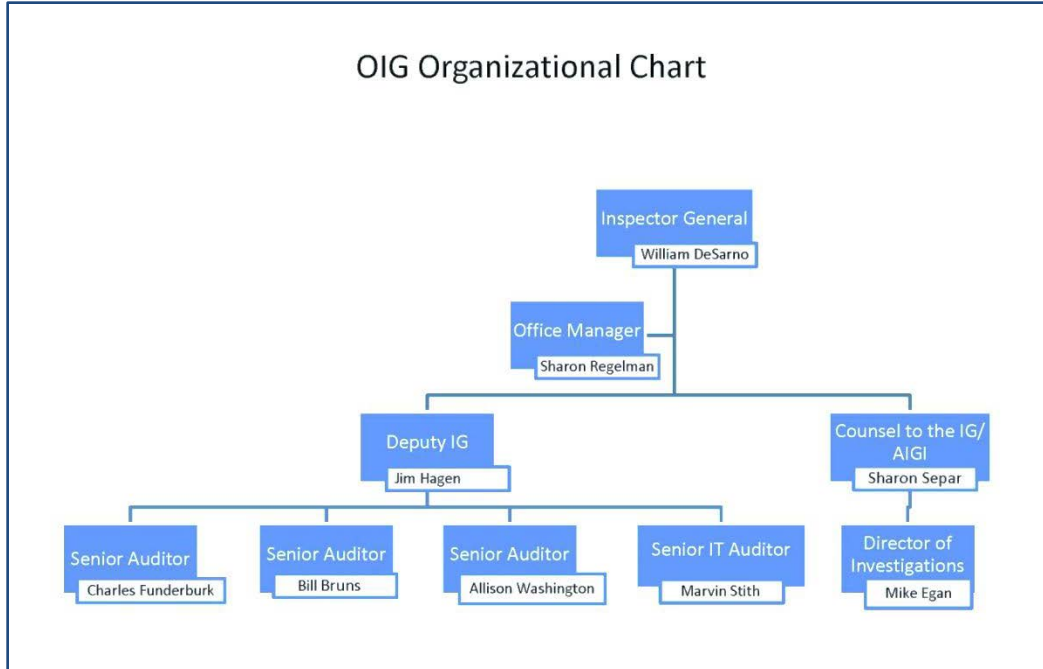
The regulators’ primary opposition to S. 3468 is that it would infringe upon their statuses as independent agencies, giving the executive branch “unprecedented authority” to influence “policy and rulemaking functions.” The bill, which would require more than just cost-benefit analyses, would also interfere with the NCUA’s ability to finalize rules critical to its mission in a timely manner, opening the agency up for lawsuits.

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/Assistant Inspector General for Investigations, Director of Investigations, three 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.



AUDIT ACTIVITY

AUDIT REPORTS ISSUED

OIG-12-11 – October 2, 2012

Material Loss Review of O.U.R. Federal Credit Union

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) contracted with Moss Adams LLP to conduct a Material Loss Review (MLR) of O.U.R. Federal Credit Union (O.U.R. FCU). Although the anticipated loss to the National Credit Union Share Insurance Fund (NCUSIF) for O.U.R. FCU did not meet the statutory loss threshold to require an MLR, we identified the circumstances surrounding the failure of O.U.R. FCU to be unusual in nature and therefore determined a MLR should be performed. We reviewed O.U.R. FCU to: (1) determine the cause of the failure and resulting loss to the NCUSIF; (2) assess NCUA's supervision of the credit union; and (3) make appropriate recommendations to prevent future losses.

Our review determined O.U.R. FCU failed due to the actions of its manager and Board. Specifically, suspicious activity by the manager was facilitated by ineffective Board oversight, a weak control environment, inaccurate accounting, and misstated financial reports. In addition, we determined the loss to the NCUSIF could have been prevented or reduced had examiners: (1) required a system generated download of member accounts that reconciled to the general ledger; (2) more aggressively pursued resolution to issues raised by examiners; and (3) properly assessed and addressed the risks of the internal control environment.

OIG-12-12 – October 11, 2012

Audit of NCUA's Use of the Delphi Financial Management System versus the SAP R/3 Enterprise Resource Planning System

The NCUA OIG conducted an audit to determine why NCUA has not fully implemented the Delphi Financial Management System (Delphi) and continues to use the SAP R/3 Enterprise Resource Planning (SAP). To accomplish this audit, we reviewed Office of Management and Budget Memoranda pertaining to Financial Management Lines of Business, Financial Management Systems (FMS), and FMS Shared Service Providers. We also interviewed staff from the NCUA Office of the Chief Financial Officer and reviewed NCUA and other documentation pertaining to SAP, the Department of Transportation Enterprise Service Center and its Delphi FMS, and NCUA's efforts in transitioning to Delphi. We determined NCUA has fully implemented Delphi, but continues to use SAP along with Delphi because SAP fulfills other financial management functions and human resource functions.

Based on NCUA's current and planned use of Delphi and SAP and the significantly reduced resources necessary to concurrently maintain SAP, we did not make any recommendations. In its response, NCUA management indicated that when Delphi went live in January 2010, it gave users a more functional management system than any other system NCUA had previously used. NCUA management also indicated there will be additional enhancements to the agency's management systems which will eventually allow NCUA to eliminate SAP.

*OIG-12-13 – November 15, 2012***Independent Evaluation of the NCUA's Compliance with the Federal Information Security Management Act (FISMA) 2012**

The OIG engaged Mitchell & Titus, LLP 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.

While NCUA has worked to further strengthen its information security program during Fiscal Year (FY) 2012, we identified three issues remaining from last year's FISMA evaluation that NCUA officials need to address: Developing a Continuous Monitoring strategy and plan; Reviewing (and reducing) holdings of Personally Identifiable Information; and Addressing the minimum security controls in the Asset Management and Assistance Center Security Plan.

In addition, we identified new findings in each of the following areas and made 29 recommendations where NCUA could continue to improve its information security and privacy programs: Continuous Monitoring, Risk Management, Plan of Actions and Milestones, Configuration Management, Identity and Access Management, Remote Access Management, Incident Response and Reporting, Contingency Planning, Security Capital Planning, Security Training, Contractors Systems and Privacy.

*OIG-12-14 – November 19, 2012***Material Loss Review of Eastern New York Federal Credit Union**

The OIG contracted with Crowe Horwath LLP to conduct a Material Loss Review (MLR) of Eastern New York Federal Credit Union (ENY FCU). Although the anticipated loss to the National Credit Union Share Insurance Fund (NCUSIF) for ENY FCU did not meet the statutory loss threshold to require an MLR, we identified the circumstances surrounding the failure of ENY FCU to be unusual in nature and therefore determined an MLR should be performed. We reviewed ENY FCU to: (1) determine the cause of the failure and resulting loss to the NCUSIF; (2) assess NCUA's supervision of the credit union; and (3) make appropriate recommendations to prevent future losses.

Our review determined ENY FCU failed because its Board did not provide appropriate leadership or oversight of the credit union. Specifically, Board members granted excessive authority to the CEO and he used that authority and undertook business ventures that proved to be catastrophic to the credit union. These ventures involved complex CUSO activity, unsound MBL origination practices, and excessive fixed assets. In addition, we determined examiners could have mitigated the loss to the NCUSIF had: (1) examiners conducted adequate examination procedures related to investments, earnings, net worth, and income; (2) examiners conducted more in-depth examination procedures for CUSO-related activity; and (3) sufficient supervisory oversight been provided to a new examiner having limited experience.

The report made two recommendations and two suggestions we believed would help examiners as they perform risk-focused examinations. NCUA Management agreed with

our recommendations and suggestions and we believe management's actions taken and planned addressed the issues identified in this report.

OIG-13-01/02/03/04 – February 15, 2013

NCUA Financial Statements Audit 2012: Community Development Revolving Loan Fund, Operating Fund, Central Liquidity Fund, Share Insurance Fund

Our contracting audit firm, KPMG LLP, issued opinions on the 2012 financial statements of the National Credit Union Administration Community Development Revolving Loan Fund, Operating Fund, Central Liquidity Facility and the National Credit Union Share Insurance Fund. The auditors found that the financial statements presented fairly the financial position of the agency's funds as of December 31, 2012.

The Community Development Revolving Loan Fund's (*OIG-13-01*) 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 Fund's financial statements. The Community Development Revolving Loan Fund's total assets for 2012 were \$16.9 million, down from 17.1 million in 2011.

The NCUA Operating Fund (*OIG-13-02*) 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 2012 were \$77.4 million, down from \$79.6 million in 2011.

The Central Liquidity Facility (*OIG-13-03*) 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 Central Liquidity Facility's (CLF) financial statements. The CLF's total assets for 2012 were \$111.5 million, down from \$2.1 billion in 2011.

The National Credit Union Share Insurance Fund (*OIG-12-04*) 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 auditors issued an **unqualified opinion** on the Share Insurance Fund's financial statements. The Fund's total assets for 2012 were 11.9 billion, up from \$11.7 billion in 2011.

OIG-13-05 – March 15, 2013

Material Loss Review of Telesis Community Credit Union

The OIG contracted with Moss Adams LLP to conduct a Material Loss Review (MLR) of Telesis Community Credit Union (Telesis). We reviewed Telesis to: (1) determine the cause(s) of the Credit Union's failure and the resulting estimated \$77 million loss to the NCUSIF; (2) assess NCUA's supervision of the institution; and (3) make appropriate observations and/or recommendations to prevent future losses.

We determined Telesis failed because its Board and management made poor strategic decisions which led to an over-reliance on member business lending, particularly in commercial real estate, and a dependence on fee and service income from its CUSO. In addition, we determined the loss to the NCUSIF could have been prevented or mitigated had examiners taken a more timely and aggressive approach regarding Telesis' concentration risks in its member business loan portfolio. We also determined NCUA could have coordinated more effectively with the California DFI, and that NCUA management created a lack of continuity in the supervision of Telesis from an ever-shifting regional authority.

The MLR report re-emphasized one recommendation made in a previous OIG MLR report and made two new recommendations to bolster the risk-focused examination process. NCUA Management agreed with our recommendations and we believe management's actions taken and planned addressed the issues identified in the report.

OIG-13-06 – March 27, 2013

2012 NCUA Financial Statement Audit of the Temporary Corporate Credit Union Stabilization Fund

Our contracting audit firm, KPMG LLP, issued its opinion on the 2012 financial statements of the National Credit Union Administration Temporary Corporate Credit Union Stabilization Fund (TCCUSF). The auditors found that the financial statements presented fairly the financial position of the agency fund as of December 31, 2012 and issued an **unqualified opinion** on the TCCUSF's financial statements.

The TCCUSF was created by Public Law 111-22, "Helping Families Save Their Homes Act of 2009," enacted May 20, 2009. The fund was established as a revolving fund in the Treasury of the United States under the management of the Board of Directors of the NCUA. The purposes of the TCCUSF are to accrue the losses of the corporate credit union system, and over time, to assess the credit union system for the recovery of such losses. The TCCUSF's net position was a \$3.5 billion deficit for the period ending December 31, 2012.

AUDITS IN PROGRESS

Material Loss Reviews

The Federal Credit Union Act requires the NCUA OIG to conduct a Material Loss Review (MLR) of an insured credit union if the loss exceeds \$25 million. We have one MLR on Chetco Federal Credit Union that matches this criterion. In addition, the *Dodd-Frank Wall Street Reform and Consumer Protection Act* requires the OIG to assess all losses to the NCUSIF under the \$25 million threshold and determine if unusual circumstances warrant a MLR. We determined that El Paso's Federal Credit Union met this criterion and elected to conduct an MLR.

For each of these MLRs, we will review to (1) determine the cause(s) of the credit union's failure and the resulting loss to the NCUSIF; and (2) assess NCUA's supervision of the credit union. To achieve these objectives, we will analyze NCUA examination and supervision reports and related correspondence; interview management and staff from NCUA Regional offices; and review NCUA guidance, policies and procedures, NCUA Call Reports, and Financial Performance Reports.

Accounting for Share Insurance Fund Losses

NCUA has several methods for accounting for losses and failures of credit unions. Accounting for losses and failures depends on whether NCUA is recording a loss, assistance, merger or liquidation. Credit unions may close through a variety of methods, some voluntary and some involuntary.

Voluntary closures include voluntary liquidations and unassisted mergers. Both federal and state chartered credit unions may also convert to banks and some state chartered credit unions may convert to private insurance. Involuntary closures include involuntary liquidations (including purchase and assumptions) and assisted mergers. Under certain circumstances, NCUA may provide "Section 208 assistance" to a credit union. This may entail a loan to the credit union or the purchase of some credit union assets. These may produce a loss to the NCUSIF. The objective of our review is to determine: (1) NCUA's methodology for identifying and tracking credit union failures and losses to the NCUSIF; (2) what constitutes a loss to the NCUSIF; (3) when does NCUA recognize and report the loss; and (4) how NCUA identifies, tracks and classifies the various types of credit union closures, such as failures, mergers, purchase and assumptions, and liquidations.

NCUA's Conference Related Activities and Expenses

Seventy-five percent of NCUA staff is geographically dispersed and it is important to bring them together for training. Accordingly, NCUA sponsors national and regional conferences for employees to provide information about emerging issues, divisional priorities and initiatives, group training and networking opportunities. In recent years other OIGs have found instances of excessive and wasteful conference spending. Subsequently, President Obama issued Executive Order 13589, Promoting Efficient Spending, and tasked the Office of Management and Budget (OMB) with agency oversight. As an independent agency NCUA is not required to

comply with Executive Order 13589; however, OMB instructed agencies and departments to review policies and controls associated with conference related activities and expenses. The objective of this audit is to determine whether NCUA's conference related activities and expenses comply with the spirit of the OMB instructions.

Significant Audit Recommendations on Which Corrective Action Has Not Been Completed

As of March 31, 2013, below is a list of OIG reports with unimplemented recommendations where management has agreed to implement corrective action but has not completed. This information is based on (1) information supplied by NCUA Office of Examination and Insurance and (2) the OIG's report recommendation tracking system.

Report Number, Title and Date

OIG-10-20 OIG Capping Report on Material Loss Reviews, November 23, 2010

Significant Recommendations Open and Brief Summary

On November 23, 2010 the OIG issued report #OIG-10-20 titled OIG Capping Report on Material Loss Reviews. There are 2 open recommendations related to the examination and supervision procedures for overseeing credit unions. These issues include documentation, call reports, third party relationships, exam procedures, and regulatory guidance related to concentration. We have determined that NCUA has made significant progress and is in various stages of implementing corrective action on both of these recommendations.

Report on Credit Union Losses under Materiality Level of \$25 Million

Section 988 of P.L. 111-203, the “Dodd-Frank Wall Street Reform and Consumer Protection Act” did two things relative to material loss reviews (MLR) of failed credit unions.

First, the threshold for a mandated material loss review was raised to \$25 million or greater loss to the National Credit Union Share Insurance Fund (NCUSIF or SIF) starting on the implementation date of the Act (July 21, 2010) and going forward.

Second, the NCUA OIG is required to (1) perform limited reviews of all credit union failures under the threshold to assess whether an in-depth review (consistent with the scope of a material loss review) is warranted and (2) report to the National Credit Union Administration Board and the Congress every 6 months on the results of the limited reviews and the timeframe for performing any in-depth reviews we determine are necessary.

This report on losses not reaching \$25 million covers the six-month period from October 1, 2012 to March 31, 2013. For all losses to the SIF under the MLR threshold, we determined (1) why NCUA initiated assistance and (2) whether any unusual circumstances existed that might warrant an in-depth review of the loss.

For each limited review, we performed procedures that included, but were not limited to: 1) obtaining and analyzing the regulator’s supervisory memorandum and other pertinent documents; 2) preparing a schedule of CAMEL ratings assigned to the institution through full scope or other examinations during the five years preceding the failure; 3) conducting interviews as needed; 4) inquiring about any investigative actions that were taken, planned, or considered involving credit union officials or others; and 5) analyzing supervisory history and other review methods.

We conducted limited reviews of five failed credit unions that incurred losses to the NCUSIF under \$25 million between October 1, 2012 and March 31, 2013. Based on those limited reviews, we determined that one of the losses warranted conducting additional work. For the four failed credit unions for which we do not intend to conduct additional work, we concluded that either: 1) no unusual circumstances presented themselves in our review, or 2) we had already addressed the reasons identified for failure in recommendations to the agency in previous MLR reports.

The chart below provides details on the five credit union losses to the NCUSIF of less than \$25 million. It provides details on the credit union such as the date of failure, the estimated loss to the NCUSIF, and grounds for conservatorship, merger, or other factors. The chart also provides our decision whether to terminate or proceed with a full-scope MLR of the credit union.

Decisions Regarding Losses less than \$25 million

Decision**	Credit Union	Region	Loss Date	Est. Loss to NCUSIF	Grounds for the NCUA Appointment
Terminate	El Barrio Federal Credit Union	I	11/16/2012	\$185,000	Insolvent due to unsafe and unsound management practices that included management's inability to correct issues related to its loan portfolio, high operating expenses, inadequate ALLL funding, and poor recordkeeping.
Terminate	Border Lodge Credit Union	I	11/30/2012	\$215,804	Insolvent due to unsafe and unsound management practices related to suspicious activity conducted by the CEO.
Terminate	Olean Tile Employees Federal Credit Union	I	12/17/2012	\$609,636	Insolvent due to unsafe and unsound management practices related to suspicious activity by the credit union's manager to falsify documents to conceal significant out of balance conditions and misappropriated funds.
Terminate	Amez United Credit Union	I	2/19/2013	\$5,397	Insolvent due to unsafe and unsound management practices related to the credit union's inability to correct issues related to declining net worth and total assets, negative earnings, high loan delinquency and high loan losses, poor loan underwriting, bank reconciliation deficiencies, and accounting concerns.
Proceed	G.I.C. Federal Credit Union	III	12/13/2012	\$6,000,000	Insolvent due to embezzlement perpetrated by a manager, which involved an elaborate scheme to falsify certificates of deposit, investment statements, and bank statements to conceal an \$8.1 million shortage in the credit union's asset accounts.

****Criteria for each decision included: (1) dollar value and/or percentage of loss; (2) the institution's background, such as charter type and history, geographic location, affiliations, business strategy; (3) uncommon cause of failure based on prior MLR findings; (4) unusual supervisory history, including the nature and timing of supervisory action taken, noncompliance with statutory examination requirements, and/or indications of rating disagreements between the state regulator and NCUA; and (5) other, such as apparent fraud, request by NCUA Board or management, Congressional interest, or IG request.**

PEER REVIEWS

October 1, 2012 through March 31, 2013

Government Auditing Standards require audit organizations that perform audits and attestation engagements of federal government programs and operations undergo an external peer review every three years. The objectives of an external peer review include a review of an audit organization's system of quality control to determine not only the suitability of the design, but also whether the audit organization is in compliance with its quality control system so as to provide reasonable assurance the audit organization conforms to applicable professional standards.

External Peer Review of NCUA OIG Office of Audit

During the current semiannual period, the Peace Corps OIG completed our most recent peer review on February 4, 2013 for the three-year period ended December 31, 2012. The Peace Corps OIG issued its report entitled System Review Report and rendered the opinion that the system of quality control for the NCUA OIG, Office of Audit, was suitably designed and complied with, thus providing reasonable assurance the system of controls conformed with applicable professional standards in all material respects. As a result, we received a peer rating of pass. In addition, we have no outstanding recommendations from this external peer review. A copy of this report is included herein as Appendix A.

External Peer Review of National Labor Relations Board OIG Office of Audit

The NCUA OIG completed a peer review of the National Labor Relations Board (NLRB) OIG. On October 31, 2011, we issued an external peer review report for the audit function of the NLRB OIG for the three year period ended September 30, 2011. The NLRB received a rating of pass and has no outstanding recommendations related to the peer review report.

INVESTIGATIVE ACTIVITY

In accordance with professional standards and guidelines established by the United States Department of Justice, the NCUA OIG Office of Investigations (OI) conducts investigations of criminal, civil, and administrative wrongdoing involving the agency's programs, operations, and personnel. Our investigative program focuses on activities designed to promote both efficiency and economy within the NCUA and its programs and operations, and to fight fraud, waste, and abuse. In this regard, we investigate referrals and allegations of misconduct on the part of NCUA employees, former employees, and contractors. Investigations may involve possible violations of regulations involving Federal employee responsibilities and conduct, agency policies, Federal criminal law, and other statutes and regulations. Finally, we have a robust training program within the agency that encompasses integrity awareness briefings and orientation presentations regarding the role of the OIG within the agency and how to report wrongdoing to the OI.

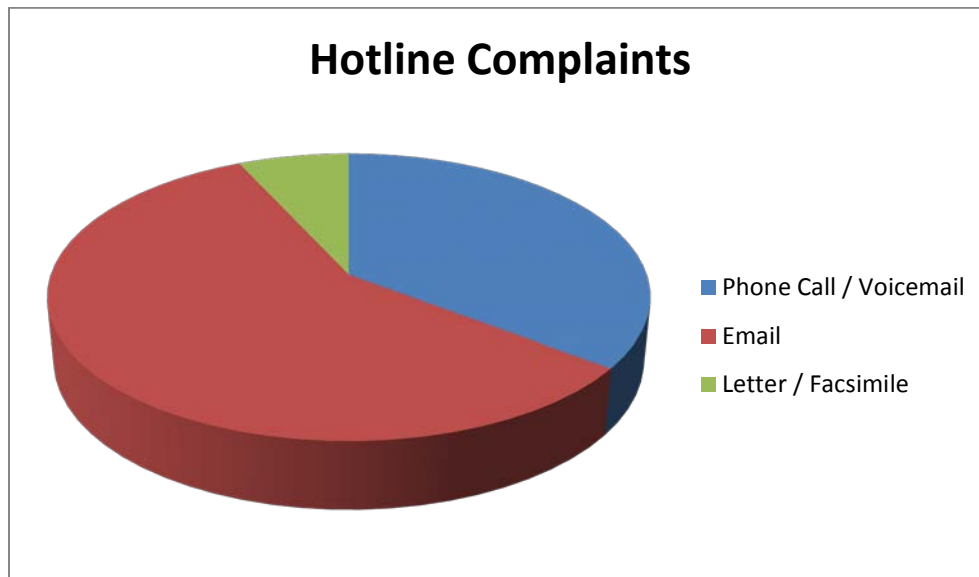
Additionally, we routinely receive complaints from credit union officials and their members which involve NCUA employee program responsibilities. We examine these complaints and determine if there is any indication of misconduct or wrongdoing by an NCUA employee. If not, we refer the complaint to the NCUA Office of Consumer Protection (OCP) or appropriate regional office for response, or close the matter if contact with the OCP or the regional office indicates that the matter has already been appropriately handled.

The instructional guidance the OI provides to new NCUA employees and newly appointed supervisors about the respective roles and responsibilities of the OIG and NCUA employees facilitates more open communication between both. The final product is a stronger agency.

OIG Hotline Contacts

The OIG has and maintains a 24 hour toll free hotline to enable employees and citizens to call in and provide information about suspected fraud, waste, and abuse or mismanagement involving agency programs or operations. Additionally, the OIG receives complaints from an off-site post office box, electronic mail, and facsimile messages. The OI also now has in place an electronic version of a hotline complaint form, located on the NCUA intranet. The electronic form offers an additional venue for confidential employee and contractor communication with the OIG. All information received from any of these sources is referred to as a hotline contact. The OIG hotline program is administered to by our Office Manager, under the direction of the Director of Investigations.

The majority of hotline contacts we receive are from consumers seeking assistance with problems encountered within their respective credit unions. As discussed above, these contacts are generally referred to the OCP and regional offices for action.



Phone Call / Voicemail	82
Email	134
Letter / Facsimile	<u>16</u>
Total:	232

INVESTIGATIONS

Employee Misconduct / Misuse of Government Property

During this reporting period, the OIG received an allegation that an NCUA employee used her government-issued travel card for personal purchases, amounting to approximately \$7,000.00 in charges. The investigation substantiated the unauthorized use by the employee. Prior to the agency initiating disciplinary action, the employee resigned from her position. The OIG closed the investigation during the reporting period.

Employee Misconduct / False Statements

During the reporting period, the OIG received allegations that an employee made false statements on travel reimbursement vouchers based on her relocation to another geographical location. The investigation did not substantiate the allegations. To divert any future issues of a similar nature, the office where the employee is assigned is conducting training which addresses the proper completion of travel vouchers. The OIG closed the investigation during the reporting period.

Employee Misconduct/ False Statements

During this reporting period, the OIG received allegations that a newly hired employee may have falsified his employment application and provided false information on background investigation documentation with regard to his education credentials as well as pending criminal charges. The United States Attorney's Office was briefed as to the details of the case and deferred prosecution. The investigation substantiated the allegations and the employee was terminated. The OIG closed the investigation during the reporting period.

PEER REVIEWS

October 1, 2012 through March 31, 2013

Section 6(e)(7) of the Inspector General Act of 1978, as amended, requires those OIGs that have been granted statutory law enforcement authority pursuant to the Act, to be periodically reviewed by another OIG or a committee of OIGs (Peer Review). The purpose of the peer review is to ascertain whether adequate internal safeguards and management procedures exist to ensure that the law enforcement powers conferred by the 2002 amendments to the Act are properly exercised. The NCUA OIG does not have statutory law enforcement authority. Consequently, our investigative organization is not required to have a peer review and, to date has neither undergone a peer review nor conducted a peer review of another OIG. However, the OI is scheduled for its first peer review the third quarter of 2013 and is slated to conduct a peer review the first quarter of 2014.

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 19 items, including proposed legislation, proposed and final regulations, Advanced Notice of Proposed Rulemakings (ANPR), NCUA Interpretative Rulings and Policy Statements (IRPS), and NCUA Letters to Credit Unions (LCU). The OIG also responded to 11 Freedom of Information Act (FOIA) requests.

SUMMARY OF STATUTES AND REGULATIONS REVIEWED	
Legislation	Title
S. 743	The “Whistleblower Protection Enhancement Act of 2012”
P.L. 110-140	The “Energy Independence and Security Act of 2007”
S. 300	The “Government Charge Card Abuse Prevention Act”
H.R. 4053	The “Improper Payments Elimination and Recovery Improvement Act of 2012”
S. 3600/H.R. 2146	The “Digital Accountability and Transparency Act of 2011”
H.R. 749	The “Eliminate Privacy Notice Confusion Act”
S. 3468	The “Independent Agency Regulatory Analysis Act of 2012”
Regulations/Rulings/IRPS	Title
12 CFR Part 701	Chartering and Field of Membership Manual for Federal Credit Unions (Final Action)
12 CRF Part 703	Investment and Deposit Activities (Final Action)
12 CFR Parts 700, 741, 747 and 750	Definition of Troubled Condition (Final Action)
12 CFR Part 702, 741, and 791; IRPS 13-1	Prompt Corrective Action, Requirements for Insurance, and Promulgation of NCUA Rules and Regulations (Final Action)
12 CFR Parts 701 and 741	Designation of Low-Income Status; Acceptance of Secondary Capital Accounts by Lo- Income Designated Credit Unions (Proposed Rule)
12 CFR Part 701	Treasury Tax and Loan Depositories; Depositories and Financial Agents of the Government (Final Action)

12 CFR Part 34 and 164	Appraisals for Higher-Priced Mortgage Loans (Final Action)
12 CFR Part 713	Fidelity Bond and Insurance Coverage (Final Action)
12 CFR Parts 703, 704, 709, 74 And 742	Alternatives to the Use of Credit Ratings (Final Action)
12 CFR Part 701	Federal Credit Union Ownership of Fixed Assets (NPR)

Letters to Credit Unions	Title
NCUA LCU No. 13-CU-01	Supervisory Focus for 2013
NCUA LCU No. 13-CU-02	Member Business Loan Waivers

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	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, 2012 through March 31, 2013**

PART I – AUDIT REPORTS ISSUED

Report Number	Title	Date Issued
OIG-12-11	Material Loss Review of O.U.R. Federal Credit Union	10/2/2012
OIG-12-12	NCUA's Use of the Delphi Financial Management System versus the R/3 Enterprise Resource System	10/11/2012
OIG-12-13	Independent Evaluation of the NCUA's Compliance with the Federal Information Security Management Act (FISMA) 2012	11/15/2012
OIG-12-14	Material Loss Review of Eastern New York Federal Credit Union	11/19/2012
OIG-13-01/ 02/03/04	NCUA Financial Statements Audit 2012 (CDRLF, OF, CLF, SIF)	2/15/2013
OIG-13-05	Material Loss Review of Telesis Community Credit Union	3/15/2013

PART II – AUDITS IN PROGRESS *(as of March 31, 2013)*


NCUA Financial Statements Audit 2012 (TCCUSF)

Material Loss Reviews

Accounting for Share Insurance Fund Losses

INDEX OF REPORTING REQUIREMENTS		
Section	Data Required	Page Ref
4(a)(2)	Review of legislation and regulations	25
5(a)(1)	Significant problems, abuses, or deficiencies relating to the administration of programs and operations disclosed during the reporting period.	13
5(a)(3)	Recommendations with respect to significant problems, abuses or deficiencies	13
5(a)(3)	Significant recommendations described in previous semiannual reports on which corrective action has not been completed.	18
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.	29
5(a)(7)	Summary of particularly significant reports.	13
5(a)(8)	Statistical tables on audit reports with questioned costs.	27
5(a)(9)	Statistical tables on audit reports with recommendations that funds be put to better use.	28
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
5(a)(14)	An appendix containing the results of any peer review conducted by another OIG during the reporting period or, if no peer review was conducted within that reporting period, a statement identifying the date of the last peer review conducted by another OIG.	31
5(a)(15)	List of outstanding recommendations from any peer review conducted by another OIG that have not been fully implemented.	None
5(a)(16)	A list of any peer reviews conducted by the IG of another OIG during the reporting period, including a list of any outstanding recommendations made that remain outstanding or have not been fully implemented.	21

APPENDIX A: SYSTEM REVIEW REPORT (PEER REVIEW OF NCUA OIG)

	Office of Inspector General	Office 202.692.2900 peacecorps.gov/OIG OIG Reports	Hotline 202.692.2915 800.233.5874 Online Contact Form OIG@peacecorps.gov
---	------------------------------------	--	--

System Review Report

February 4, 2013

William DeSarno
Inspector General
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Mr. DeSarno,

We have reviewed the system of quality control for the audit organization of National Credit Union Administration (NCUA), Office of Inspector General (OIG) in effect for the year ended December 31, 2012. A system of quality control encompasses NCUA OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. NCUA OIG is responsible for designing a system of quality control and complying with it to provide NCUA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and NCUA OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed NCUA OIG personnel and obtained an understanding of the nature of the NCUA OIG audit organization, and the design of the NCUA OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the NCUA OIG's system of quality control. The engagements selected represented a reasonable cross-section of the NCUA OIG's audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with NCUA OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the NCUA OIG's audit organization. In addition, we tested compliance with the NCUA OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the NCUA OIG's policies and procedures on selected engagements Enclosure 1 to this report identifies the offices of the NCUA OIG that we visited and the engagements that we reviewed. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

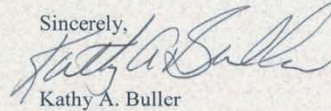
There are inherent limitations in the effectiveness of any system of quality control, and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

1

In our opinion, the system of quality control for the audit organization of NCUA OIG in effect for the year ended December 31, 2012, has been suitably designed and complied with to provide NCUA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. NCUA OIG has received a peer review rating of *pass*.

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to NCUA OIG's monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and therefore is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether NCUA OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on NCUA OIG's monitoring of work performed by IPAs.

Sincerely,



Kathy A. Buller
Inspector General

Enclosure