NATIONAL CREDIT UNION ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO THE CONGRESS

April 1 – September 30, 2013

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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 September 30, 2013.

It was an honor to be appointed Inspector General of the NCUA on June 2, 2013. I would like to thank my predecessor, William DeSarno, for his dedication and 45 years of government service.

The NCUA OIG strives to carry out its mission to promote efficiency and effectiveness in NCUA programs and operations. This reporting period is no exception. In the past six months, the OIG has been active on both the audit and investigative sides of the office.

On the audit side, while conducting and reporting on Material Loss Review (MLRs) remained a major focus, we also completed a review of NCUA's conference-related activities and expenses. As an independent agency, NCUA is not legally required to comply with Executive Order 13589, *Promoting Efficient Spending*. However, we found that NCUA strived to comply with the intent of the Executive Order. Nevertheless, while we found that NCUA generally implemented conference policy and procedures that conformed to the intent of the Executive Order, we determined that NCUA could improve agency transparency by publicly reporting costs. Management agreed with our four recommendations and has taken or planned corrective action to address each one. The Office of Audit also issued a report on the security of NCUA's Data Center. That review focused on whether the agency has adequate controls in place to protect computer systems and data in two key data room locations. Management agreed with our findings and recommendations, and has already or is in the process of taking corrective action.

On the investigative side, during the reporting period the NCUA implemented a new, supplemental ethics regulation addressing restrictions on employee outside employment. The agency's decision to implement the supplemental regulation stemmed from an OIG investigation involving an employee filing false claims regarding hours worked and leave taken in order to engage in outside employment. We believe the supplemental regulation will obviate similar fraud in the future.

I am a member of the Council of Inspectors General on Financial Oversight (CIGFO), which comprises the Inspectors General of several financial regulatory agencies and facilitates the sharing of information, with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight. The CIGFO generally meets quarterly. During the reporting period, the CIGFO members met to discuss current common concerns and to plan our next oversight review.

Finally, I would like to welcome new Board Member Metsger who started at NCUA in August. I would also like to thank Chairman Matz and Board Member Fryzel for their sustained support of the OIG's work. Our office is committed to assisting the NCUA in ensuring the safety and soundness of credit unions as we work with the agency to achieve improvements to NCUA's programs and activities. Moreover, I would like to thank all the OIG staff for their continued hard work and dedication. I look forward to all that we will accomplish in the coming months.

James W. Hagen
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.

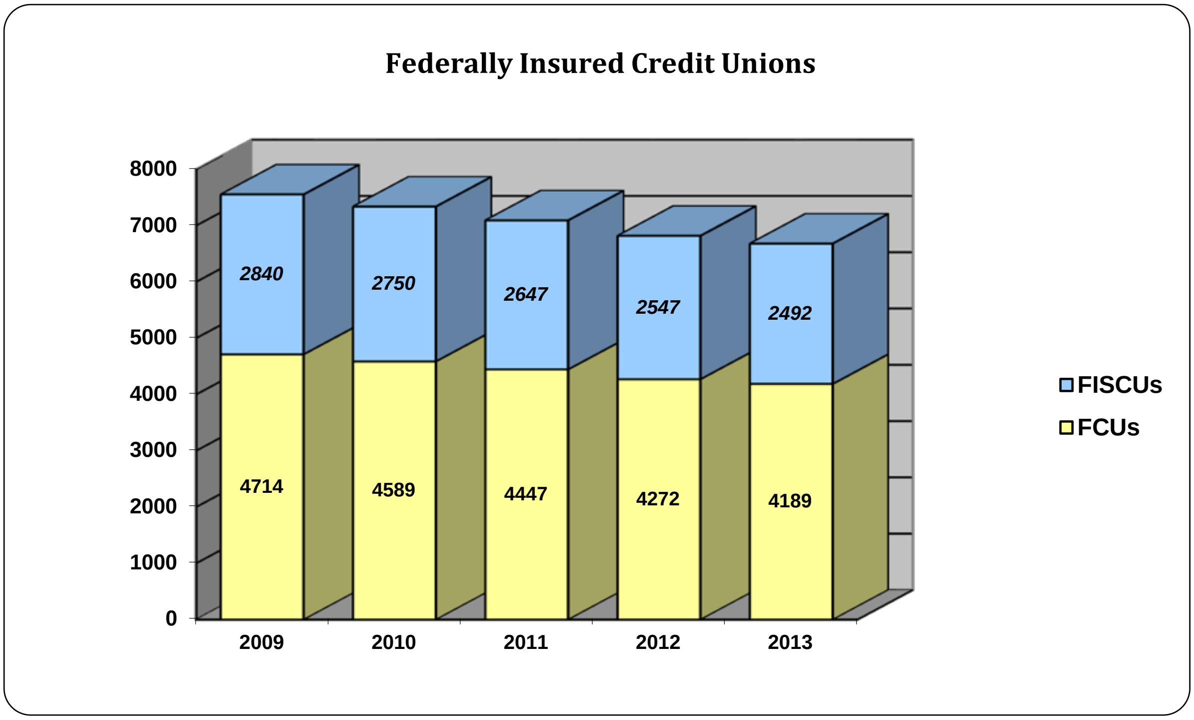
THE OFFICE OF INSPECTOR GENERAL MISSION

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.

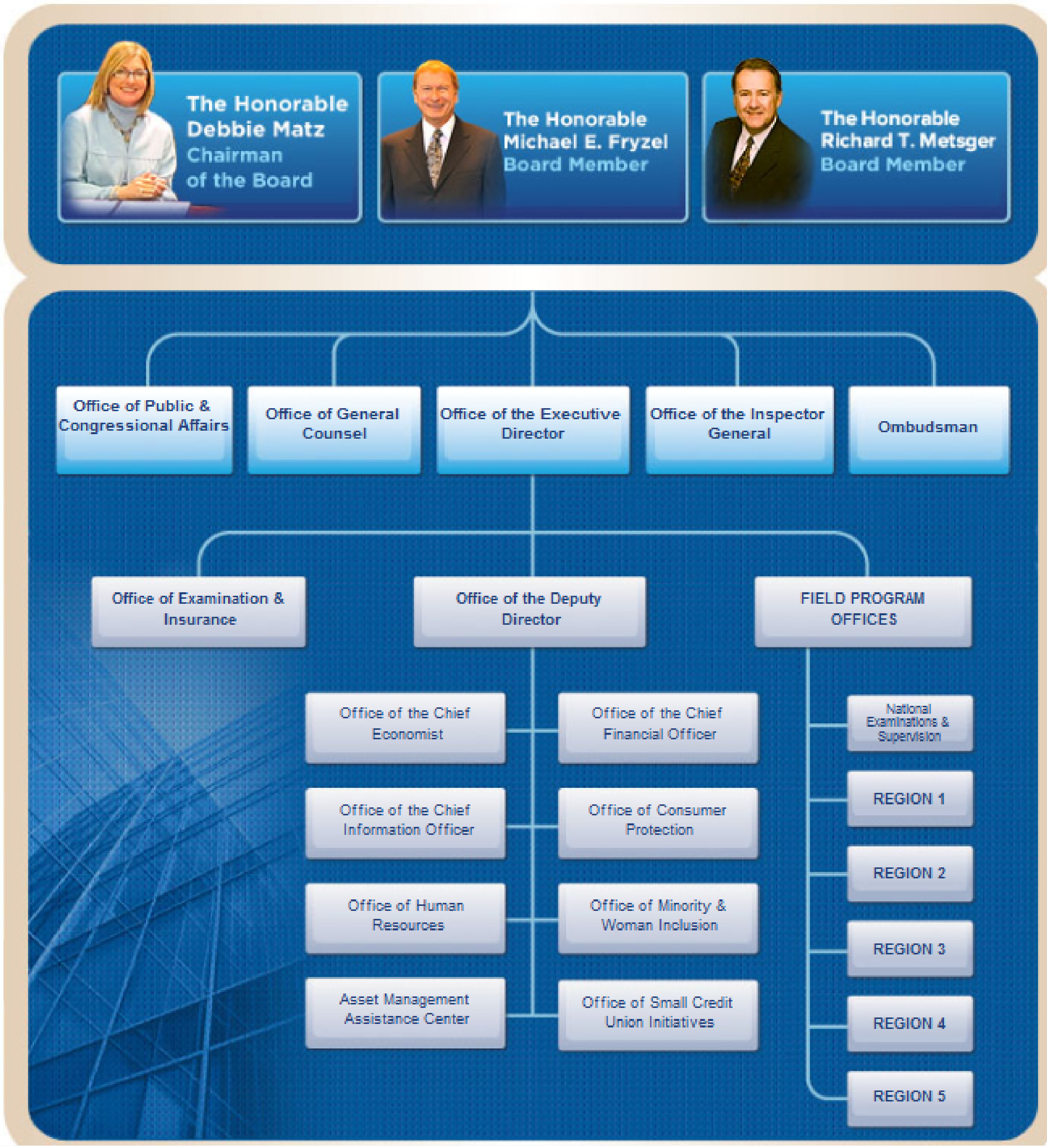
INTRODUCTION

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 June 30, 2013, the NCUA was supervising and insuring 4,189 federal credit unions and insuring 2,492 state-chartered credit unions, a total of 6,681 institutions. This represents a decline of 83 federal and 55 state-chartered institutions since December 31, 2012, for a total decline of 138 credit unions nationwide, primarily as a result of mergers and liquidations.

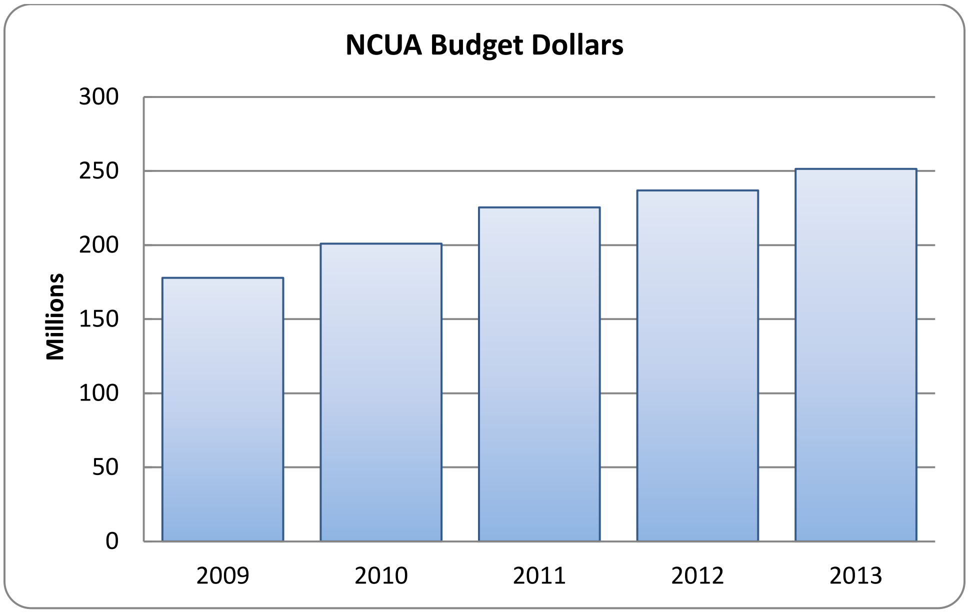


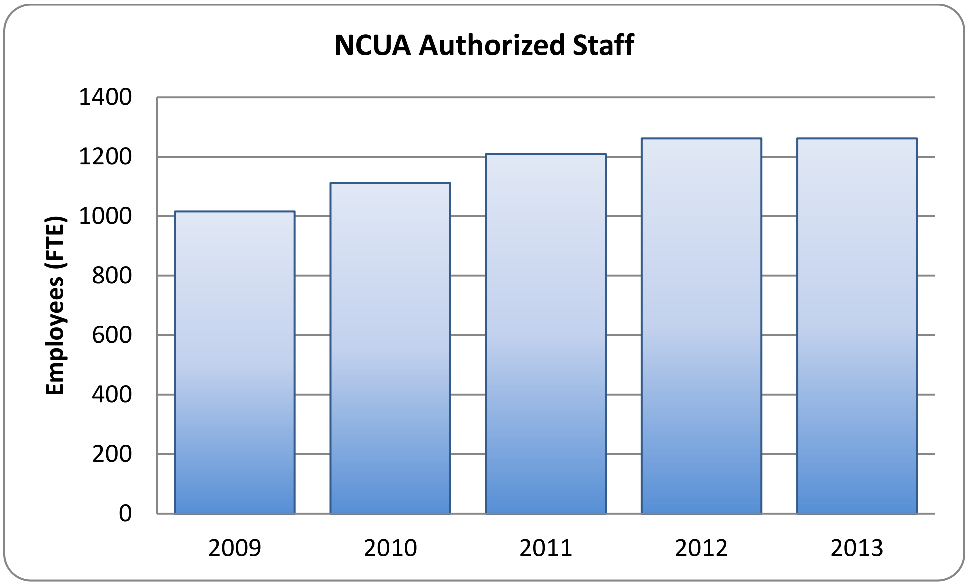
The NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one term expires every two years. The Board is responsible for the management of the NCUA, including 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 Board Swears in Richard T. "Rick" Metsger as New Board Member

On August 23, 2013, in a private ceremony on Capitol Hill, the NCUA Board swore in the Honorable Richard T. "Rick" Metsger as a new NCUA Board Member. NCUA General Counsel Michael McKenna delivered the oath of office. President Barack Obama nominated Mr. Metsger to the NCUA Board on May 16, 2013. The Senate Banking Committee held Mr. Metsger's confirmation hearing on June 27, 2013, and the U.S. Senate confirmed his nomination on August 1, 2013. Board Member Metsger's term expires on August 2, 2017.

Prior to joining the NCUA Board, Mr. Metsger was president of a strategic communications consulting firm. He served in the Oregon State Senate from 1999 to 2011, and his committee assignments included extensive work in the areas of financial services, transportation, and economic development. He was elected Senate President Pro Tempore in 2009. Board Member Metsger also served on the board of the Portland Teachers Credit Union and on the Oregon State Treasury Debt Policy Advisory Commission. Before entering public service, Mr. Metsger worked as a radio and television journalist.

Board Member Metsger replaced former Board Member Gigi Hyland, who left the agency in October 2012, on the three-person NCUA Board.

NCUA Files Suit Alleging LIBOR Manipulation

On September 23, 2013, the NCUA filed suit in Federal District Court in Kansas against 13 international banks, including J.P. Morgan Chase, alleging violations of federal and state anti-trust laws by manipulation of interest rates through the London Interbank Offered Rate (LIBOR) system.

The manipulation of LIBOR, the benchmark for setting interest rates around the globe, resulted in a loss of income from investments and other assets held by five failed corporate credit unions: U.S. Central, WesCorp, Members United, Southwest and Constitution.

The NCUA claims the defendants in the action individually and collectively gave false interest-rate information through the LIBOR rate-setting process "to benefit their investments that were tied to LIBOR, to reduce their borrowing costs, to deceive the marketplace as to the true state of their creditworthiness, and to deprive investors of the interest rate payments to which they were entitled." The false information created the impression the defendant banks were borrowing money at a lower interest rate than they were actually paying.

More than 40 suits have been filed in relation to the LIBOR manipulation. NCUA is one of the first federal financial regulators to sue in this area.

LIBOR is the average daily interest rate a group of leading financial institutions pay when they borrow from one another. The rate is set daily for 10 currencies around the world and affects interest rates on trillions of dollars of financial transactions of various kinds.

In addition to the lawsuits, banks involved in the LIBOR manipulation have been under investigation by authorities in the United States and the United Kingdom. The investigating authorities have so far collected approximately $2.5 billion in penalties from three firms, UBS, the Royal Bank of Scotland, and Barclays.

Recoveries from NCUA's legal actions will further reduce the total losses resulting from the failure of the corporate credit unions. Losses from those failures must be paid from the Temporary Corporate Credit Union Stabilization Fund. All federally insured credit unions repay expenditures from the Stabilization Fund through assessments, so any recoveries would help reduce future assessments on credit unions.

Corporate credit unions are wholesale credit unions that provide various services to retail credit unions, which in turn serve consumers, or "natural person" credit unions.

Retail credit unions rely on corporate credit unions to provide them such services as check clearing, electronic payments, and investments.

The complaint is available on NCUA's website here.

NCUA and VA Team Up to Increase Employment Opportunities for Veterans

On September 11, 2013, the NCUA and the Department of Veteran Affairs joined forces to create more employment opportunities for veterans and to promote greater workforce diversity in the agency through the Feds for Vets program. The two federal agencies signed a memorandum of understanding to begin to launch the cooperative effort. NCUA is the first financial services regulatory agency to partner with the VA in the program, which is part of the Obama Administration's national strategy aimed at increasing the number of veterans in the federal workforce.

The Feds for Vets program is focused on increasing the number of veterans in the federal workforce. As part of the effort, VA's Veteran Employment Services Office provides a comprehensive, high-tech, high-touch solution, VA for Vets. VESO hosts a VA for Vets website, a comprehensive source of information for service members and hiring managers to help match candidates' skills with federal jobs and provides access to career coaches located in call centers. The VA also assists other federal agencies and non-profit organizations in their efforts to hire veterans with targeted recruitment, training, marketing, and outreach services.

Since November 2009, NCUA has hired 128 veterans, 22 percent of agency hires for that time period. NCUA Chairman Debbie Matz has stated that "[o]ne of my highest priorities as Chairman is to make NCUA an 'employer-of-choice' for talented candidates, and I want to make sure veterans know about the opportunities we offer and the satisfaction that comes from working here and making a difference."

NCUA Files 11th Legal Action against Wall Street Investment Firms

The NCUA filed suit in Federal District Court in Kansas, on August 30, 2013, against Morgan Stanley & Co., Inc. and other firms, alleging violations of federal and state securities laws in the sale of more than $566 million in mortgage-backed securities to the U.S. Central and WesCorp corporate credit unions.

NCUA's suit alleges the firms made misrepresentations in connection with the underwriting and subsequent sale of mortgage-backed securities to U.S. Central and WesCorp. Both corporate credit unions became insolvent and were subsequently placed into NCUA conservatorship and liquidated as a result of losses from these faulty securities. These failures subsequently caused significant losses to the credit union system.

The complaint alleges the offering documents of the securities sold to the failed corporate credit unions contained statements of material fact that were not true or omitted material facts. The originators systematically abandoned the stated underwriting guidelines in the offering documents, according to the complaint, and the securities were significantly riskier than represented. The result, the complaint stated, was that the securities were destined from inception to perform poorly.

NCUA has similar actions pending against Barclays Capital, Credit Suisse, Goldman Sachs, J.P. Morgan Securities, RBS Securities, UBS Securities, Wachovia, Bear Stearns, and Washington Mutual Bank.

NCUA was the first federal regulatory agency for depository institutions to recover losses from investments in faulty securities on behalf of failed financial institutions. To date, the agency has settled claims worth more than $335 million with Citigroup, Deutsche Bank Securities, HSBC, and Bank of America. As liquidating agent for the three corporate credit unions, 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.

Recoveries from these legal actions will further reduce the total losses resulting from the failure of the three corporate credit unions. Losses from those failures must be paid from the Temporary Corporate Credit Union Stabilization Fund. Expenditures from this fund must be repaid through assessments against all federally insured credit unions, so any recoveries would help reduce future assessments on credit unions.

The complaint is available on NCUA's website here

NCUA Plans Regional Realignment in 2014

The NCUA announced, on July 18, 2013, a realignment of the agency's regional supervision of federally insured credit unions in nine states, effective Jan. 1, 2014. The adjustment results from NCUA's ongoing efforts to operate as efficiently as possible.

Effective January 1, 2014, the following nine states will shift regions as follows:

From	To	States
Region V	Region IV	Colorado, Montana, New Mexico, Wyoming
Region IV	Region III	Louisiana, Arkansas
Region IV	Region I	Wisconsin
Region III	Region II	Ohio
Region II	Region V	California

A map of the NCUA's new regional structure is available here

The implementation of the new regional structure coincides with other changes to strengthen supervision. At the start of 2013, NCUA reorganized existing resources to create an Office of National Examinations and Supervision (ONES). The office will begin supervising the nation's largest consumer credit unions, those with more than $10 billion in assets, at the start of 2014.

The realignment is the product of several months' work to balance the workload and staffing, and respond to changes in the industry resulting from industry mergers.

Each NCUA region will now have between 114 and 128 examiners, in addition to supervision, special actions, and support personnel. NCUA expects the shift to be completed with a minimal disruption to staff and to credit unions, and no staff relocations will be necessary.

FSOC Recommendations Have Direct Bearing on Credit Unions

The Financial Stability Oversight Council (FSOC) released its Annual Report in April 2013. Each year as part of the Annual Report process, the FSOC members, including NCUA Chairman Matz, sign the report and attest to the member statement. That statement makes it clear the recommendations are actions the Council believes need to be taken to ensure financial stability and to mitigate systemic risk. A number of the risks identified and recommendations in the 2013 FSOC Report are consistent with NCUA's regulatory and supervisory priorities. Three recommendations in particular have direct bearing on credit unions:

- The first is risks arising from a prolonged period of low interest rates, including duration extension and the possibility of credit risk-taking. Over the last several years, many credit unions have increased exposure to fixed-rate real estate and longer-term investments. The Council recommends that regulatory agencies continue their scrutiny of how potential changes in interest rates could adversely affect risk profiles. NCUA has stated that this is a priority.

- Second, the report emphasizes that capital and liquidity buffers "form the most fundamental protection for the broader financial system." This is equally true in the credit union sector. NCUA continues to evaluate capital and liquidity standards to make sure they are appropriate for a growing and evolving credit union industry.

- Finally, operational risks, including cyber-security risks, are an emerging and rapidly changing threat. Credit unions are not immune to this threat. Consequently, this will be an area of continued emphasis and guidance for the agency.

Chairman Matz is one of 10 voting members of the Council.

NCUA Earns ENERGY STAR Certification

During the reporting period the NCUA received the ENERGY STAR certification for its Alexandria, Virginia central office. NCUA received an overall rating of 86 on a scale of 100, exceeding government standards. The General Services Administration (GSA) requires federal agencies leasing space outside a GSA-owned property to be in a building with an ENERGY STAR Performance Rating of at least 75. NCUA met all four necessary standards for certification in energy performance, thermal comfort, indoor air quality, and illumination levels.

Under Chairman Matz's leadership, the greeNCUA initiative has promoted greater energy efficiency, waste reduction and other efforts to reduce NCUA's environmental footprint. Recent renovations to NCUA's central office, including lighting system upgrades, helped the agency obtain the certification. In the last year, NCUA reduced its electricity bills by about $7,000.

ENERGY STAR is a U.S. Environmental Protection Agency voluntary program that helps businesses and individuals save money and protect the environment through improved energy efficiency.

The ENERGY STAR certification is subject to annual renewal, and NCUA's facilities staff is already at work to keep the agency's rating for next year.

FEDERALLY INSURED CREDIT UNION HIGHLIGHTS

Credit unions submit quarterly call reports (financial and operational data) to the NCUA. An NCUA staff assessment of the June 30, 2013, quarterly call reports submitted by all federally insured credit unions found that key financial indicators are positive.

Key Financial Indicators Favorable

Looking at the June 30, 2013 quarterly statistics for major balance sheet items and key ratios shows the following for the nation's 6,681 federally insured credit unions: assets grew 6.70 percent; net worth to assets ratio increased from 10.43 to 10.50 percent; the loan to share ratio decreased from 68.06 percent to 67.48 percent. However, the delinquency ratio decreased from 1.16 to 1.04 percent; and credit union return on average assets remained at .85 percent.

Savings Shifting to Regular Shares

Total share accounts increased 7.19 percent. Regular shares increased 15.16 percent. Regular shares comprise 32.54 percent of total share accounts; share certificates comprise 21.36 percent; money market shares comprise 22.98 percent; share draft accounts comprise 13.10 percent; and all other share accounts comprise 10.01 percent.

Loan Volume Flat

Loans increased 5.40 percent resulting in an increase in total loans by $16.14 billion. Total net loans of $614 billion comprise 57.38 percent of credit union assets. First mortgage real estate loans are the largest single asset category with $254 billion accounting for 41.36 percent of all loans. Other real estate loans of $71 billion account for 11.59 percent of all loans. Used car loans of $121 billion were 19.76 percent of all loans, while new car loans amounted to $66 billion or 10.82 percent of total loans. Credit card loans totaled $40 billion or 6.45 percent of total loans and other loans totaled $61 billion for 10.01 percent of total loans.

LEGISLATIVE HIGHLIGHTS

House Financial Services Committee Introduces PATH Act

On July 24, 2013, the House Financial Services Committee, voting 30-27, reported out H.R. 2767, the "*Protecting American Taxpayers and Homeowners (PATH) Act*" to create a sustainable housing finance system. H.R. 2767 was introduced by Rep. Scott Garret, R-N.J., with committee Chairman Jeb Hensarling, R-Texas, and Reps. Randy Neugebauer, R-Texas, Patrick McHenry, R-N.C., and Shelley Moore Capito, R-W.Va.

According to the committee's Executive Summary, the reforms contained within the PATH Act are focused on:

- Ending the costly Fannie and Freddie bailout;
- Right-sizing the FHA and clearly defining its mission;
- Implementing market reforms to increase mortgage competition, enhance transparency, and maximize consumer choice; and
- Breaking down barriers for private investment capital.

The drafted bill also includes a provision sought by credit unions to address shortcomings of mortgage-related rules issued by the Consumer Financial Protection Bureau (CFPB), including changes to the definition of 'points on fees' under the ability-to-pay rule.

House Financial Services Vice Chairman Introduces Credit Union Regulatory Relief Bill

On June 28, 2013, House Financial Services Committee Vice Chairman Gary Miller, R-Calif., introduced the *"Regulatory Relief for Credit Unions Act of 2013."* The bill would establish a risk-based capital system for credit unions and require the NCUA and the CFPB to modify rules if compliance costs are found to be significantly higher than initially estimated.

The centerpiece of the legislation is a risk-based capital proposal that revives concepts supported by the credit union industry in previous legislative efforts such as the *Credit Union Regulatory Improvements Act*. The provisions in the Miller bill would:

- Allow NCUA to grant federal credit unions a waiver to follow a state rule instead of a federal one in certain situations;
- Authorize NCUA to step in where appropriate to modify a CFBP rule affecting credit unions;
- Establish a risk-based capital system for credit unions;
- Require that NCUA and CFPB revisit cost/benefit analyses of rules after three years so they have a true sense of the compliance costs for credit unions;
- Require NCUA to conduct a study of the Central Liquidity Facility and make legislative recommendations for its modernization;
- Give credit unions better control over their investment decisions and portfolio risk; and

- Provide credit unions parity with FDIC-insured institutions when it comes to deposit insurance coverage on Interest on Lawyers Trust Accounts (IOLTAs).

NCUA Ramps Up Fair Lending Enforcement

The NCUA placed more emphasis on Fair Lending laws and Home Mortgage Disclosure Act data collection in 2013, and credit unions can expect additional rules and examinations in 2014, according to NCUA Letter to Credit Unions 13-FCU-02. The LCU can be found on NCUA's website here.

NCUA supervises and enforces fair lending laws and regulations at federal credit unions, and helps educate federally insured credit unions on their fair lending and consumer protection obligations. Fair lending laws and regulations include:

- Equal Credit Opportunity Act (Regulation B);
- Home Mortgage Disclosure Act (Regulation C); and
- Fair Housing Act (FHA).

Although NCUA did not issue these regulations, the laws require NCUA to enforce these regulations in the process of supervising federal credit unions.

NCUA created a new Fair Lending Guide, which credit unions can download to assist them in developing or evaluating their fair lending compliance program. The guide includes:

- An overview of fair lending law and regulations;
- Credit union operational requirements;
- Issues to consider when developing fair lending compliance policies; and
- Checklists for testing compliance with laws and regulations, or developing a fair lending policy for compliance.

NCUA uses multiple factors to determine whether a credit union demonstrates the potential for higher fair lending risk which could lead to a fair lending exam or an off-site supervision contact. Some of those factors include:

- HMDA outliers;
- Fair lending violations;
- General compliance risks; and
- Other factors, including the potential for higher fair lending risk because of the volume, type(s), or complexity of the products and services offered, types of communities served, and whether the credit union has been the subject of lending discrimination complaints.

Federal credit unions that demonstrate the potential for higher fair lending risk—but are not HMDA outliers—are subject to an off-site fair lending supervision contact. If an off-site supervision contact indicates the possibility of discriminatory practices or significant findings of non-compliance with fair lending laws or regulations, a federal credit union will be considered for a fair lending exam during the next exam cycle.

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.

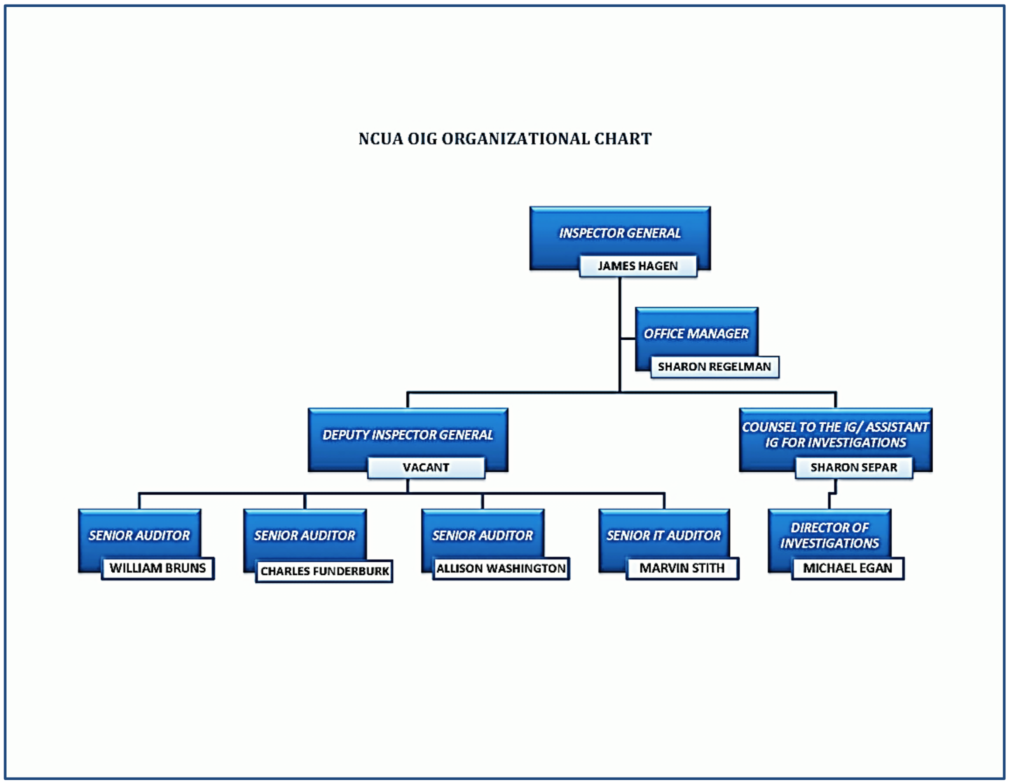
The Inspector General reports to, and is under the general supervision of, the NCUA Board. The Inspector General is responsible for:

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-13-07 – May 29, 2013
NCUA's Conference-Related Activities and Expenses

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) conducted a self-initiated audit of NCUA's conference-related activities and expenses. On November 9, 2011, the President of the United States issued Executive Order 13589 (the Order), *Promoting Efficient Spending*, and tasked the Office of Management and Budget (OMB) with agency oversight. As an independent agency, NCUA is not required to follow the Order; however, NCUA indicated it would strive to comply with the intent of the Order. Accordingly, our objective for this review was to determine whether NCUA's conference-related activities and expenses complied with the spirit of the OMB guidance.

We determined NCUA has generally implemented conference policy and procedures that conform to the intent of the Order and the spirit of OMB guidance. We also determined NCUA's conference policy and guidelines generally meet and in some instances exceed federal policies and guidelines in regards to conference spending and cost controls. Furthermore, we determined NCUA could improve agency transparency by publically reporting costs for all conferences exceeding $100,000.

This report made four recommendations and one suggestion, which the OIG believes can help NCUA fully comply with the intent of the Order and the spirit of OMB guidance. NCUA management agreed with our recommendations and suggestion and we believe management's planned actions will address the issues identified in this report.

OIG-13-08 – August 12, 2013
Security of the NCUA Data Center

The NCUA OIG conducted an audit of the security of NCUA's computer data centers to determine whether NCUA has adequate controls in place to protect computer systems and data in its data centers.

We determined that overall the NCUA has controls in place to protect the computer systems and data hosted in these centers. However, we determined that NCUA could make improvements to more adequately control or monitor access to the data centers.

We made four recommendations where NCUA could make improvements to better protect access to its mission critical applications and data. NCUA agreed with all of our recommendations.

OIG-13-09 – August 26, 2013
Material Loss Review of El Paso's Federal Credit Union

The NCUA OIG contracted with Moss Adams LLP to conduct a Material Loss Review (MLR) of El Paso's Federal Credit Union (EPFCU). The objectives of the MLR were to: (1) determine the cause of the credit union's failure and resulting loss to the National Credit Union Share Insurance Fund; (2) assess NCUA's supervision of the credit union; and (3) provide appropriate suggestions and/or recommendations to prevent future losses.

We determined management's fraudulent actions caused EPFCU to fail. Specifically, our review identified issues such as management integrity, operational irregularities, internal control and record keeping deficiencies, and Board oversight and governance issues. In addition, we determined NCUA could have mitigated the loss to the National Credit Union Share Insurance Fund (NCUSIF) had examiners identified several warning signs that we believe should have triggered further examination procedures designed to identify suspicious activity.

The report made four observations and three recommendations to help the risk-focused examination process. NCUA management agreed with each of our recommendations.

AUDITS IN PROGRESS

Independent Evaluation of the NCUA's Compliance with the Federal Information Security Management Act (FISMA) 2013

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.

Mitchell & Titus is evaluating NCUA's security program through interviews, documentation reviews, technical configuration reviews, social engineering testing, and sample testing. NCUA is being evaluated against standards and requirements for federal government agencies such as those provided through FISMA, National Institute of Standards and Technology (NIST) Special Publications (SPs), and OMB memoranda. We anticipate issuing the final report in November 2013.

NCUA Financial Statements 2013

Our current contracting audit firm, KPMG, is working on the 2013 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. The purpose of the Community Development Revolving Loan 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 February 2014.

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 are conducting MLRs on Chetco Federal Credit Union and Taupa Lithuanian Credit Union, which met this threshold. 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 conducting an MLR. We determined that G.I.C. 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.

Review of NCUA'S Process for Documenting SIF Losses and Credit Union Failures

This discretionary review from the NCUA OIG's 2013 Annual Audit Plan is to determine NCUA's methodology for identifying and tracking credit union failures and losses to the NCUSIF. Specifically, we are determining how NCUA establishes its initial SIF loss estimate amount, how changes are made to this amount, and by which office. To accomplish our objective, we are performing statistical analysis of NCUA's ability to document credit union failures and related estimated SIF losses at different points in time. We are reviewing and analyzing specific credit union failures and their related estimated SIF loss data. We are also reviewing information obtained from the offices involved in either developing, documenting, or using estimated SIF loss amounts and credit union failure data, which includes NCUA's five regional offices, the Asset Management and Assistance Center, the Office of Examination and Insurance, the Office of Consumer Protection, and the Office of the Chief Financial Officer. We are also reviewing related NCUA policies and procedures and conducting interviews with Central Office and regional staff, as appropriate.

NCUA's Credit Union Success Stories

The OIG is conducting a review of NCUA credit union success stories to help NCUA in its supervisory oversight of the credit union industry moving forward. Specifically, we are identifying lessons learned from past NCUA successful cases where specific corrective actions helped revive failing credit unions. This is a discretionary audit from the NCUA OIG's 2013 Annual Audit Plan.

Significant Audit Recommendations on Which Corrective Action Has Not Been Completed

As of September 30, 2013, below is a list of OIG reports with unimplemented recommendations where management has agreed to implement corrective action but has yet not completed those actions. This information is based on (1) information supplied by NCUA Office of Examination and Insurance and (2) the OIG's report recommendation tracking system.

<u>Report Number, Title and Date</u>

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

<u>Significant Recommendations Open and Brief Summary</u>

On November 23, 2010, the OIG issued report #OIG-10-20 titled OIG Capping Report on Material Loss Reviews. There is 1 open recommendation related to the regulatory guidance to establish limits or other controls for concentrations that pose an unacceptable safety and soundness risk and determine an appropriate range of examiner response to high-risk concentrations.

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

The "Dodd-Frank Wall Street Reform and Consumer Protection Act" requires the NCUA OIG to perform a limited review where the NCUSIF incurred a loss below the $25 million threshold with respect to an insured credit union. The OIG must report to the NCUA Board and the Congress every 6 months on the results of the limited reviews and the timeframe for performing any subsequent in-depth reviews we determine are necessary.

This report on losses below the $25 million threshold covers the six-month period from April 1, 2013, to September 30, 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 memoranda 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 eight failed credit unions that incurred losses to the NCUSIF under $25 million between April 1, 2013, and September 30, 2013. Based on those limited reviews, we determined that none of the losses warranted conducting additional work because no unusual circumstances presented themselves in our review; or 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 eight credit union losses to the NCUSIF below the $25 million threshold. 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	Date of Failure	Est. Loss to NCUSIF	Grounds for the NCUA Appointment
Terminate	Shiloh of Alexandria Federal Credit Union	II	4/12/2013	$5,143,034	Insolvent due to suspected fraud, which included fictitious nonmember deposits, manipulated financial records, and missing cash.
Terminate	Lynrocten Federal Credit Union	II	5/3/2013	$8,477,196	Insolvent due to fraud, which included a suspected check kiting scheme, fictitious and unauthorized share-secured loans, and missing cash.
Terminate	Electrical Workers Union #527 Federal Credit Union	IV	5/23/2013	$842,000	Insolvent due to fraud, which included the charge-off of fictitious loans and understated member deposits.
Terminate	NCP Community Development Federal Credit Union	II	5/31/2013	$640,000	Insolvent due to poor contractual decisions made by the former board of directors for core processing and credit/debit card services, combined with management's inability to overcome its poor recordkeeping, resulted in operating expenses that vastly exceeded income.
Terminate	Ochsner Clinic Federal Credit Union	IV	6/28/2013	$3,966,647	Insolvent due to fraud, which included fictitious loans and missing cash.
Terminate	PEF Federal Credit Union	III	7/1/2013	$892,344	Insolvent due to high loan losses and high provision for loan and lease loss expenses related to unauthorized and potentially fraudulent indirect vehicle loans, as well as impermissible member business loans.
Terminate	Greater Oregon Federal Credit Union	V	8/5/2013	$3,990,000	Insolvent due to continual operational issues brought on by poor management decisions related to loan concentrations, poor credit administration, inadequate funding of the Allowance for Loan and Lease Loss, declining net worth and negative earnings.
Terminate	Craftsman Credit Union	I	9/6/2013	$149,580	Insolvent due to management's poor decisions related to its real estate loan portfolio, which contributed to high loan losses and ALLL funding requirements. Management's inability to address these issues caused the credit union to become critically undercapitalized.

***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

April 1 through September 30, 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

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.

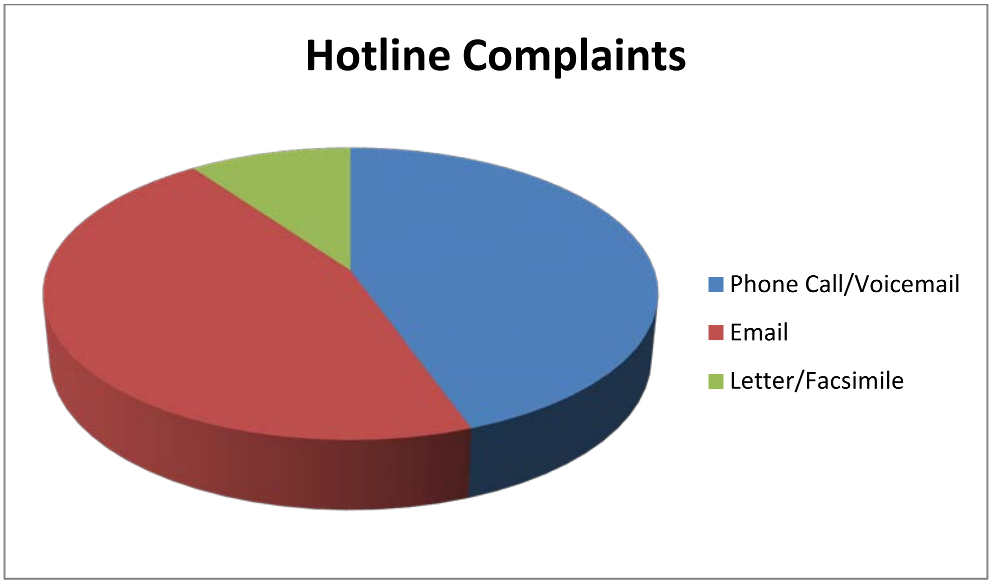
Additionally, we routinely receive complaints from credit union officials and their members which involve NCUA employee program responsibilities. We examine these complaints and determine if there is any indication of misconduct or wrongdoing by an NCUA employee. If not, we refer the complaint to the 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 has also posted 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 the OIG 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	85
Email	87
Letter / Facsimile	19
Total:	**191**

INVESTIGATIONS

Employee Misconduct / Misuse of Government Travel Card

During the reporting period, the OIG received information regarding an employee's delinquent JP Morgan Chase (government-issued credit card) account. In reviewing the account purchases, the investigative agent noted several unusually excessive charges. The investigation revealed that the employee had purchased meals for himself and other agency employees while on work-related travel, a practice prohibited by agency and GSA travel card policies. Based on the investigative findings, the agency initiated refresher training regarding proper use of the credit cards. The OI closed this investigation during the reporting period.

Employee Misconduct / Misuse of Agency Database

During the reporting period, the OIG received allegations that someone had intentionally changed the settings on an Interactive Referral Service telephone system in OCP, resulting in the re-routing of incoming calls for several hours. The investigative agent interviewed several employees and reviewed database logs. The investigation failed to identify any culpable individual(s). The OI closed this investigation during the reporting period.

Employee Misconduct/ Unauthorized Use of Government Computer

During the reporting period, the OIG received allegations that an employee had used his agency-issued laptop computer to upload/download pornographic materials from the internet. An investigative search of the employee's computer hard drive failed to retrieve evidence that the employee had accessed pornographic materials. However, the investigative agent, working with the agency's Office of the Chief Information Officer, found evidence that unauthorized software programs had been installed on the employee's hard drive. This investigation is ongoing.

PEER REVIEWS

April 1 through September 30, 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 periodically undergo review 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 tentatively scheduled both to receive and conduct, respectively, its first peer review sometime in 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 agency program and 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 24 items, including proposed legislation, proposed and final regulations, NCUA Regulatory Alerts, and NCUA Letters to Credit Unions (LCU). The OIG also responded to three (3) Freedom of Information Act (FOIA) requests.

SUMMARY OF STATUTES AND REGULATIONS REVIEWED	
Legislation	**Title**
H.R. 2767	The "Protecting American Taxpayers and Homeowners (PATH) Act"
H.R. __	The "Regulatory Relief for Credit Unions Act of 2013."
P.L. 113-7	"A bill to modify the requirements under the STOCK Act regarding online access to certain financial disclosure statements and related forms"
S. 549	The "Public Online Information Act of 2013"
S. 808	"A bill to establish the Office of the Inspector General of the Senate"
S. 1310/H.R. 2779	The "Bureau of Consumer Financial Protection-Inspector General Reform Act of 2013"
H.R. 2061/S. 994	The "Digital Accountability and Transparency Act of 2013"
H.R. 2221	"A bill to create a centralized website on reports issued by the inspectors general, and for other purposes"
H.R. 1211	The "FOIA Act"
Regulations/Rulings/IRPS	**Title**
12 CFR Parts 703 and 721	Charitable Donation Accounts (Proposed rule with request for comment)
None (P.L. 111-203, sec. 367(4))	Minority Depository Institution Preservation Program (Proposed IRPS 13-1, with request for comments)
12 CFR Parts 701 and 741	Loan Participations; Purchase, Sale and Pledge of Eligible Obligations; Purchase of Assets and Assumption of Liabilities (Final rule)
12 CFR Part 701	Federal Credit Union Ownership of Fixed Assets (Final rule)
12 CFR Part 722	Appraisals for Higher Priced Mortgage Loans (Supplemental proposal)

12 CFR Part 702	Capital Planning and Stress Testing (Proposed rule with request for comment)
12 CFR Parts 741 and 748	Filing Financial and Other Reports (Proposed rule)
12 CFR Parts 703, 715, and 741	Derivatives (Proposed rule)
Regulatory Alert 13-RA-08	Appraisals for Higher-Priced Mortgage Loans
Regulatory Alert 13-RA-07	CFPB's New Rule on Real Estate Appraisals and Other Written Valuations Under the ECOA
Regulatory Alert 13-RA-06	CFPB's Amended Remittance Transfer Rule Compliance Deadline: October 28, 2013
Regulatory Alert 13-RA-05	New Escrow Requirements under the Truth-in-Lending Act
Regulatory Alert 13-RA-04	Garnishment of Accounts Containing Federal Benefit Payments
Regulatory Alert 13-RA-03	Guidance on Biggert-Waters Flood Insurance Reform Act of 2012

Letters to Credit Unions	Title
NCUA LCU No. 13-FCU-03	Potential Violations of Common Bond Advertising Requirements

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 **April 1 through September 30, 2013**		
PART I – AUDIT REPORTS ISSUED		
Report Number	Title	Date Issued
OIG-13-07	NCUA's Conference Related Activities and Expenses	5/29/2013
OIG-13-08	Security of the NCUA Data Center	8/12/2013
OIG-13-09	Material Loss Review of El Paso's Federal Credit Union	8/26/2013
PART II – AUDITS IN PROGRESS *(as of September 30, 2013)*		
Independent Evaluation of the NCUA's Compliance with the Federal Information Security Management Act (FISMA) 2013		
NCUA Financial Statements Audit 2013 (CDRLF, OF, CLF, SIF, TCCUSF)		
Material Loss Reviews		
Process for Documenting Share Insurance Fund Losses		
NCUA's Credit Union Success Stories		

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.	14
5(a)(3)	Recommendations with respect to significant problems, abuses or deficiencies	14
5(a)(3)	Significant recommendations described in previous semiannual reports on which corrective action has not been completed.	17
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.	14
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.

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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

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