

# Semiannual Report to the Congress

April 1 – September 30, 2016





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## A MESSAGE FROM THE INSPECTOR GENERAL

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 Congress highlighting our accomplishments and ongoing work for the six-month period ending September 30, 2016.

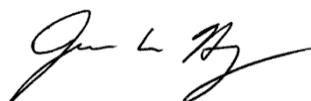
On behalf of the office, I underscore our commitment to our stakeholders, which includes NCUA, Congress, other regulatory agencies, OIG colleagues, law enforcement partners, and the public. We rely on the continued strength of positive working relationships with all of them as we strive to fulfill our statutory mission to promote integrity, efficiency, and effectiveness of NCUA programs and operations and to protect against fraud, waste, and abuse. The audits and investigations highlighted in this report demonstrate our commitment to that cause, as well as our goal of enhancing public confidence in the regulatory and supervisory process.

Cybersecurity continues to be an important emphasis for our office. In August 2016, we issued a report regarding NCUA’s Federal computer systems to the House Committee on Oversight and Government Reform. The review looked at NCUA-owned systems as well as systems a third-party (contractor or other Federal agency) owns, operates, and/or manages on NCUA’s behalf that processes, stores, or transmits NCUA information. In addition to the above work, we have an audit in process that will determine if NCUA is providing adequate oversight of credit union cybersecurity programs.

During this period the audit division also conducted a purchase and travel card audit. Specifically, we conducted a risk assessment of NCUA’s individually and centrally billed accounts travel card program as well as NCUA’s purchase card program. We determined that program controls, policies, and procedures could be improved. Details of our findings can be found later in this report.

On the investigative side, the Office of Investigations (OI) opened two cases during the reporting period and closed both. In total, the OI issued two Reports of Investigation, one of which was handled as an administrative misconduct case. In the second case, the investigation could not substantiate the allegations.

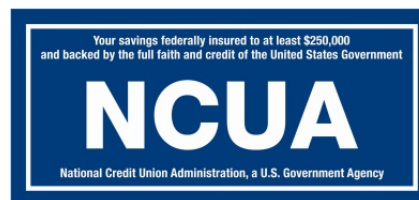
The NCUA Board and management have been very receptive to the findings and recommendations set forth in our reports and investigations. Management continues to address our recommendations and implement corrective actions in a timely manner. We continue to have a positive working relationship with the Board and management. This relationship and respect for our work helps NCUA accomplish its mission of providing the nation with a safe and sound credit union system.



James W. Hagen  
Inspector General

## THE NATIONAL CREDIT UNION ADMINISTRATION MISSION

National Credit Union Administration's (NCUA) 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

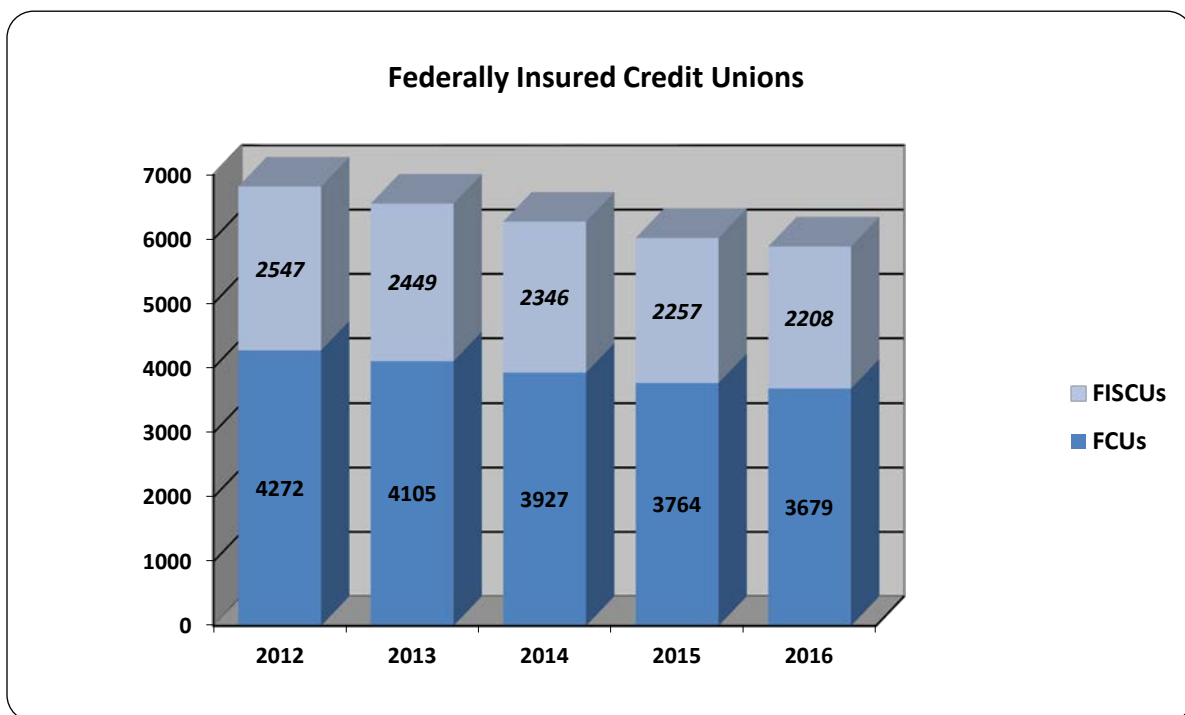
The Office of Inspector General (OIG) promotes the economy, efficiency, and effectiveness of NCUA programs and operations, and detects and deters fraud, waste, and abuse, thereby supporting the NCUA's mission of monitoring and promoting safe and sound federally insured credit unions.

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.



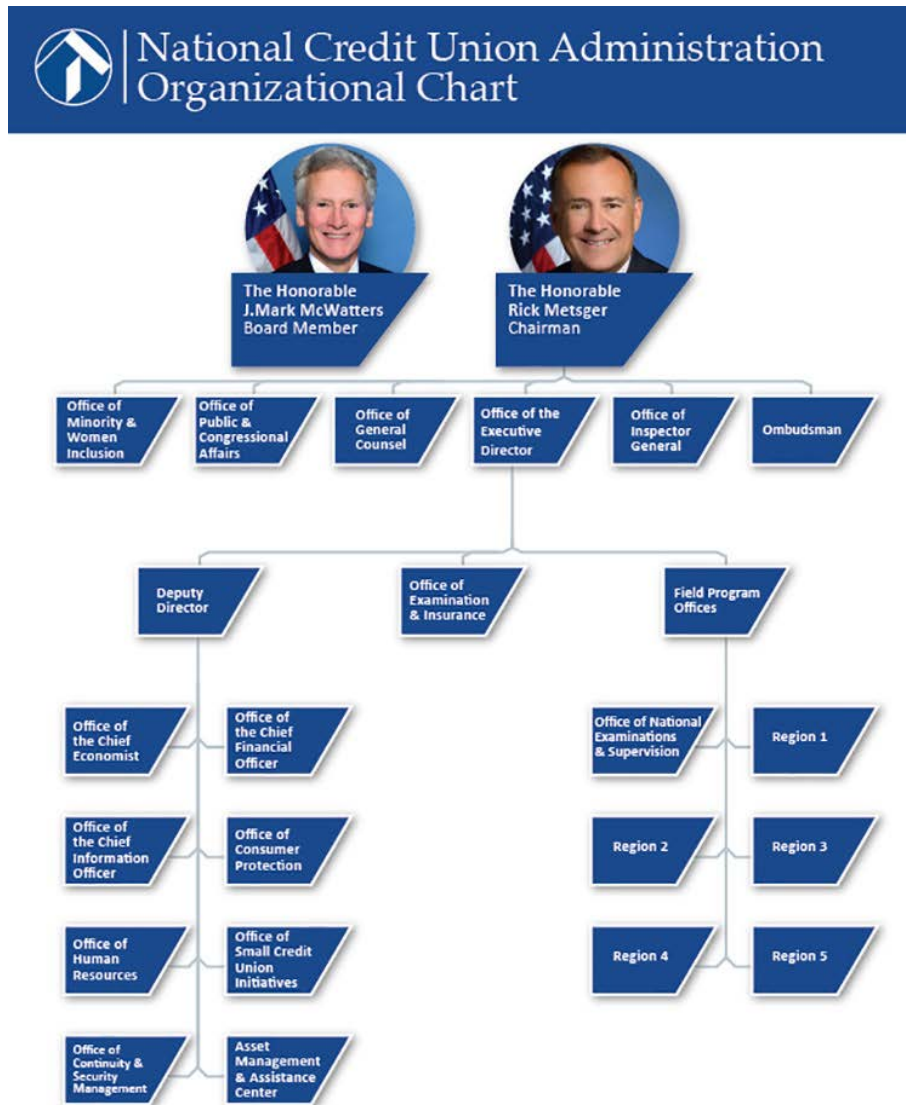
## INTRODUCTION

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, 2016, the NCUA was supervising and insuring 3,679 federal credit unions and insuring 2,208 state-chartered credit unions, a total of 5,887 institutions. This represents a decline of 85 federal and 49 state-chartered institutions since December 31, 2015, for a total decrease of 134 credit unions nationwide, primarily as a result of mergers and liquidations.



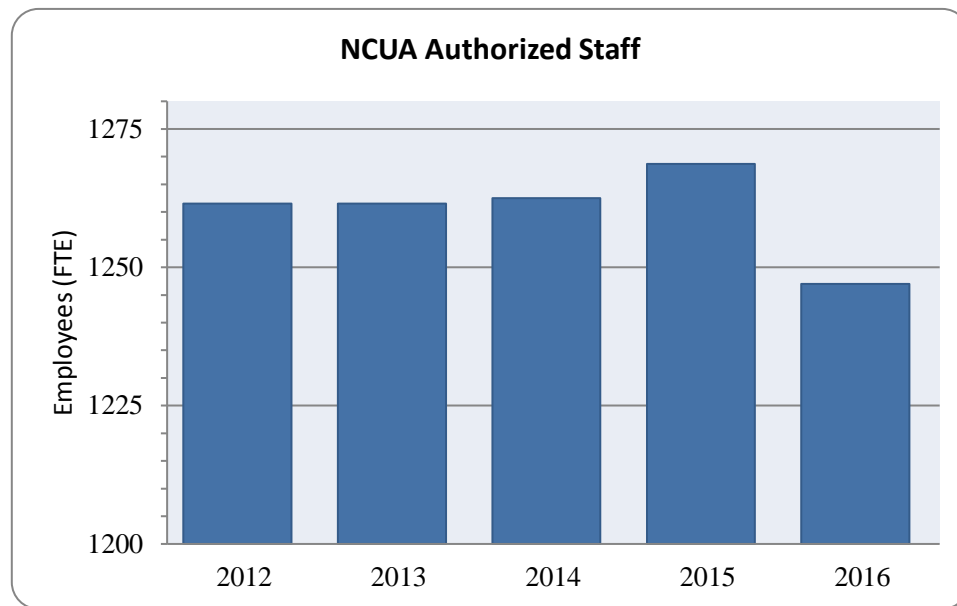
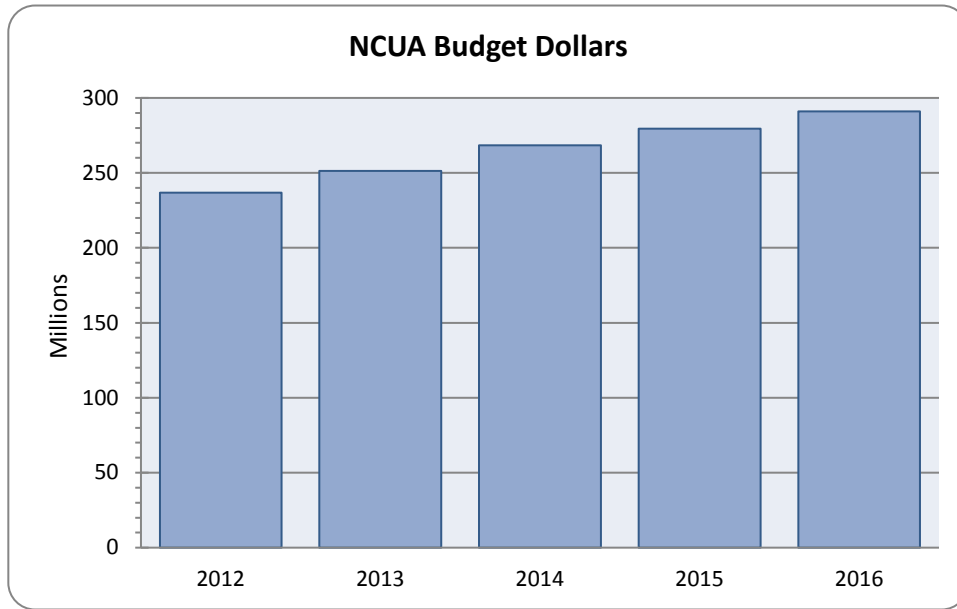
The NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one term expires every two years. The Board is responsible for the management of the NCUA, including 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 2016 budget of \$290,915,928 on November 19, 2015. The Full-Time Equivalent (FTE) staffing authorization for 2016 is 1,247.0 representing a decrease of 21.7 FTE from 2015.





## NCUA HIGHLIGHTS

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### **NCUA to Receive \$575 Million from Goldman Sachs Settlement**

On April 11, 2016, NCUA announced a joint settlement with the U.S. Department of Justice and other governmental plaintiffs in a \$5 billion settlement that includes \$575 million to settle NCUA's claims against Goldman Sachs. The settlement resolved two lawsuits filed by NCUA as liquidating agent for three corporate credit unions—U. S. Central, Western Corporate (WesCorp), and Southwest Corporate—against Goldman Sachs for losses incurred as a result of the purchases of the faulty securities by the corporate credit unions, which later failed.

### **Credit Suisse to Pay NCUA \$50.3 Million**

On April 14, 2016, NCUA announced that it would receive \$50.3 million in damages and interest from Credit Suisse for claims arising from losses to Members United and Southwest Corporate, two corporate credit unions that failed during the financial crisis, related to purchases of residential mortgage-backed securities.

In March, NCUA accepted Credit Suisse's offer of judgment of \$29 million in damages. With the addition of prejudgment interest determined by the court, the amount to be paid by Credit Suisse increased to \$50.3 million. Credit Suisse was also determined to be liable for attorneys' fees and expenses in an amount to be determined.

### **UBS to Pay NCUA \$69.8 Million**

On April 15, 2016, NCUA announced that it would receive \$69.8 million from UBS in damages and interest for claims arising from losses to Members United and Southwest Corporate credit unions, related to purchases of residential mortgage-backed securities.

As liquidating agent for Members United and Southwest Corporate, the NCUA Board initiated litigation against UBS. In February, NCUA accepted UBS's offer of judgment of \$33 million in damages. With the addition of prejudgment interest determined by the court, the amount to be paid by UBS increased to \$69.8 million. UBS was also determined to be liable for attorneys' fees and expenses in an amount to be determined.

### **Metsger Appointed NCUA Chairman**

On May 2, 2016, NCUA announced that President Barack Obama appointed NCUA Board Vice Chairman Rick Metsger to be the ninth Chairman of the NCUA Board. Metsger succeeded Board Chairman Debbie Matz, whose tenure ended on April 30, 2016.

Metsger joined the NCUA Board in August 2013, and the Board unanimously elected him as Vice Chairman in September 2014. During his tenure as Vice Chairman, Metsger focused on



modernizing regulations and the federal credit union charter in order to provide credit unions with greater flexibility to innovate and grow as well as regulatory relief. He led the agency's efforts to update its regulations concerning fixed assets and credit unions' fields-of-membership regulation.

Metsger has worked in both the public and private sectors. Prior to joining NCUA's Board, Metsger served in the Oregon State Senate from 1999 until 2011. He was elected Senate President Pro Tempore in 2009. During his Senate service, he was chief sponsor of legislation the state enacted to expand fields of membership for state-chartered credit unions. Metsger also served on the Oregon State Treasury Deficit Policy Advisory Commission and as a director of Financial Beginnings, a non-profit organization providing financial education to children and young adults. A former teacher and broadcast journalist, Metsger also was a member of the board of the Portland Teachers Credit Union for eight years, rising to the office of vice chairman.

Metsger holds a bachelor's degree in communications and a master's degree in teaching from Lewis and Clark College in Portland, Oregon.

### **Stabilization Fund Payment to Reduce Treasury Borrowing to \$1 Billion**

In May 2016, NCUA made a \$700 million payment to the U.S. Treasury against prior borrowings by the Stabilization Fund. With that payment, the Stabilization Fund's outstanding borrowings from the U.S. Treasury decreased to \$1 billion. The payment largely came from the net proceeds from approximately \$700 million in recent NCUA legal recoveries from Goldman Sachs, UBS, and Credit Suisse, some of which came in after the close of the first quarter of the financial statement reporting period.

For the quarter ending March 31, 2016, the Stabilization Fund's net position increased by \$78.2 million to a positive \$618.6 million, up from \$540.4 million at the end of the previous quarter, based on the best available preliminary and unaudited information.

While the Stabilization Fund continued to have a positive net position in the first quarter, no funds are available to provide federally insured credit unions with an immediate rebate. NCUA must first repay all outstanding borrowings from the U.S. Treasury and satisfy any outstanding NCUA Guaranteed Notes obligations. All obligations are scheduled to be repaid before the Stabilization Fund expires in June 2021.

### **NCUA Outlines Plans for Adding "S" to Credit Union CAMEL Ratings**

During the June 2016 NCUA Board meeting, NCUA's Office of Examination and Insurance recommended the NCUA Board consider releasing a proposal to incorporate an "S" for "sensitivity to market risk" into the current CAMEL rating system for credit unions.

The CAMEL rating system evaluates a credit union's overall condition by measuring five critical elements: capital adequacy, asset quality, management, earnings, and liquidity. Overall CAMEL

scores range from 1 (sound in every respect) to 5 (extremely unsafe and unsound). Presently, NCUA assesses interest rate risk as part of the liquidity rating. Federal banking supervisors, however, already include an “S” in the rating system, as do 16 state credit union regulators. Five additional state credit union regulators are working to adopt this approach.

NCUA Office of Examination & Insurance (E&I) staff told the Board that the benefits of adding the risk sensitivity element include greater clarity, accuracy, and transparency in how interest rate risk is assessed. The agency subsequently issued a proposal for public notice and comment.

The NCUA Office of the Inspector General last year also recommended adoption of the sensitivity element, and the agency’s Executive Director agreed, making a commitment to present a proposed regulation change to the Board by the end of the third quarter of 2016. Final implementation could be made by 2018.

### **NCUA Board Welcomes Herrera Nomination**

On July 13, 2016, NCUA Board Chairman Rick Metsger and Board Member J. Mark McWatters both issued statements welcoming President Barack Obama’s intent to nominate John Herrera of North Carolina to the NCUA Board.

Herrera is vice president of Latino and Hispanic affairs for Self-Help Services, a non-profit community development financial institution. Herrera also was a co-founder of the Latino Community Credit Union in 2000 and serves as vice chairman of the credit union’s board. It has become the largest Latino-focused credit union in the country, with 62,203 members, eleven branches, and \$216.8 million in assets.

In 2013, Herrera was recognized by the White House as an Immigrant Innovator Champion of Change. From 2003 to 2010, he was a commissioner on the North Carolina Credit Union Commission. Herrera received a bachelor’s degree from the University of Delaware and a graduate degree from North Carolina State University.

### **Royal Bank of Scotland to Pay \$1.1 Billion to Settle Claims**

On September 27, 2016, NCUA announced a \$1.1 billion settlement with the Royal Bank of Scotland (RBS) to settle legal claims against the bank arising from the sale of faulty mortgage-backed securities to two corporate credit unions.

The settlement covers claims asserted in 2011 by the NCUA Board as liquidating agent for WesCorp and U.S. Central corporate credit unions in federal district courts in California and Kansas, respectively. In connection with the settlement, NCUA will dismiss its pending suits against RBS. RBS did not admit fault as part of the settlement. NCUA in 2015 accepted an offer of judgment from the bank for \$129.6 million to resolve similar claims relating to securities sales to Members United and Southwest Corporate credit unions.



## FEDERALLY INSURED CREDIT UNION HIGHLIGHTS

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Credit unions submit quarterly call reports (financial and operational data) to the NCUA. An NCUA staff assessment of the June 30, 2016, 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, 2016, quarterly statistics for major balance sheet items and key ratios shows the following for the nation's 5,887 federally insured credit unions: assets grew 7.4 percent; net worth to assets ratio decreased from 10.92 to 10.85 percent; and the loan to share ratio increased from 77.5 percent to 77.8 percent. The delinquency ratio decreased from .81 to .75 percent. Credit union return on average assets increased from .75 to .77 percent.

### Savings Shifting to Regular Shares

Total share accounts increased 8.45 percent. Regular shares increased 12.13 percent. Regular shares comprise 35.26 percent of total share accounts; share certificates comprise 18.49 percent; money market shares comprise 22.71 percent; share draft accounts comprise 14.60 percent; IRA/KEOGH accounts comprise 7.34 percent; nonmember deposits comprise .74 percent; and all other share accounts comprise .87 percent.

### Loan Volume Increasing

Loans increased 9.24 percent resulting in an increase in total loans by \$36.36 billion. Total net loans of \$815.87 billion comprise 65.03 percent of credit union assets. First mortgage real estate loans are the largest single asset category with \$335.80 billion accounting for 40.78 percent of all loans. Other real estate loans of \$75.40 billion account for 9.16 percent of all loans. Used car loans of \$172.96 billion were 21.01 percent of all loans, while new car loans amounted to \$107.26 billion or 13.03 percent of total loans. Unsecured credit card loans totaled \$49.09 billion or 5.96 percent of total loans, while all other unsecured loans totaled \$35.68 billion or 4.33 percent. Leases receivable and all other loans were \$47.20 billion or 5.73 percent of total loans.

## LEGISLATIVE HIGHLIGHTS

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### **NCUA Continues Push for Targeted Statutory Changes on Emergency Liquidity and Contingency Funding for Credit Unions**

NCUA operates the Central Liquidity Facility (CLF) to provide credit unions with access to emergency liquidity for short-term, seasonal, and long-term needs. Access to emergency liquidity played a critical role during the financial crisis. The CLF operates somewhat similarly to the Federal Reserve Discount Window, charging an interest slightly above comparable short-term market rates to credit worthy borrowers, fully secured by eligible collateral.

NCUA's contingent borrowing capacity was greatly diminished by the exigent circumstances of the financial crisis. More recently, the expiration of the agency's temporary increase in emergency borrowing authority from the U.S. Treasury, coupled with the contraction in the CLF's borrowing authority, greatly reduced the contingency funding capability of NCUA and the Share Insurance Fund to meet a systemic liquidity event. While the NCUA Board took action on these matters by issuing a final rule on emergency liquidity and contingency funding for credit unions, it has also requested from the House Financial Services Committee targeted statutory changes to the CLF and expanded access to the U.S. Treasury to ensure that credit unions have sufficient access to emergency liquidity, especially in the event of another systemic financial crisis in the future. This issue remains one of NCUA's top legislative priorities.

### **Financial CHOICE Act Advances**

On September 13, 2016, the House Financial Services Committee convened to mark up H.R. 5983, the Financial CHOICE Act of 2016, introduced by Chairman Hensarling (R-TX). Although hotly debated, Democrats offered no amendments to the bill. H.R. 5983 was favorably reported by a largely party-line vote of 30-26 with only one Republican, Congress Poliquin (R-ME), crossing the aisle to vote with all Democrats in attendance and against the bill.

The comprehensive legislation contains provisions to overturn parts of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), provides regulatory relief for well-capitalized and well-run financial institutions, imposes cost-benefit analyses for most rules, and contains an examination fairness bill. The CHOICE Act also contains provisions directly impacting NCUA, including: expanding the NCUA Board to five members; funding NCUA through the appropriations process; the Mulvaney-Sinema budget hearing legislation; a requirement to move to an exam cycle of at least 18 months; the mandatory creation of a credit union advisory council; and a report with budget on the NCUA Overhead Transfer Rate (OTR).

## House Annual Financial Stability Oversight Council Report Hearing

On September 22, 2016, Department of Treasury Secretary Jack Lew testified before the House Financial Services Committee, regarding the 2016 annual report of the Financial Stability Oversight Council (Council). Congress created the Council under Dodd-Frank to bring together the entire financial regulatory community to identify and respond to emerging threats to U.S. financial stability. The Council convenes regularly to monitor developments and to take action when needed to protect the American people from potential risks to the financial system. The Council's voting members comprise the Treasury Secretary, an independent insurance expert, and the lead official of every major federal financial regulatory agency, including NCUA.

In his testimony, Secretary Lew pointed out that the 2016 annual report, the Council's sixth, focuses on 12 themes that warrant continued attention and, in many cases, further action from the Council members and member agencies. These themes are:

- Cybersecurity
- Risks Associated with Asset Management Products and Activities
- Capital, Liquidity, and Resolution
- Central Counterparties
- Reforms of Wholesale Funding Markets
- Reforms Relating to Reference Rates
- Data Quality
- Housing Finance Reform
- Risk Management in an Environment of Low Interest Rates and Rising Asset Price
- Changes in Financial Market Structure and Implications for Financial Stability
- Financial Innovation and Migration of Activities
- Global Economic and Financial Developments.

Secretary Lew indicated that these 12 areas of focus also demonstrate the need for the Council and its members to persistently monitor these risks and to foster discussion and analysis around them.

## Financial Services Technology Bill Introduced

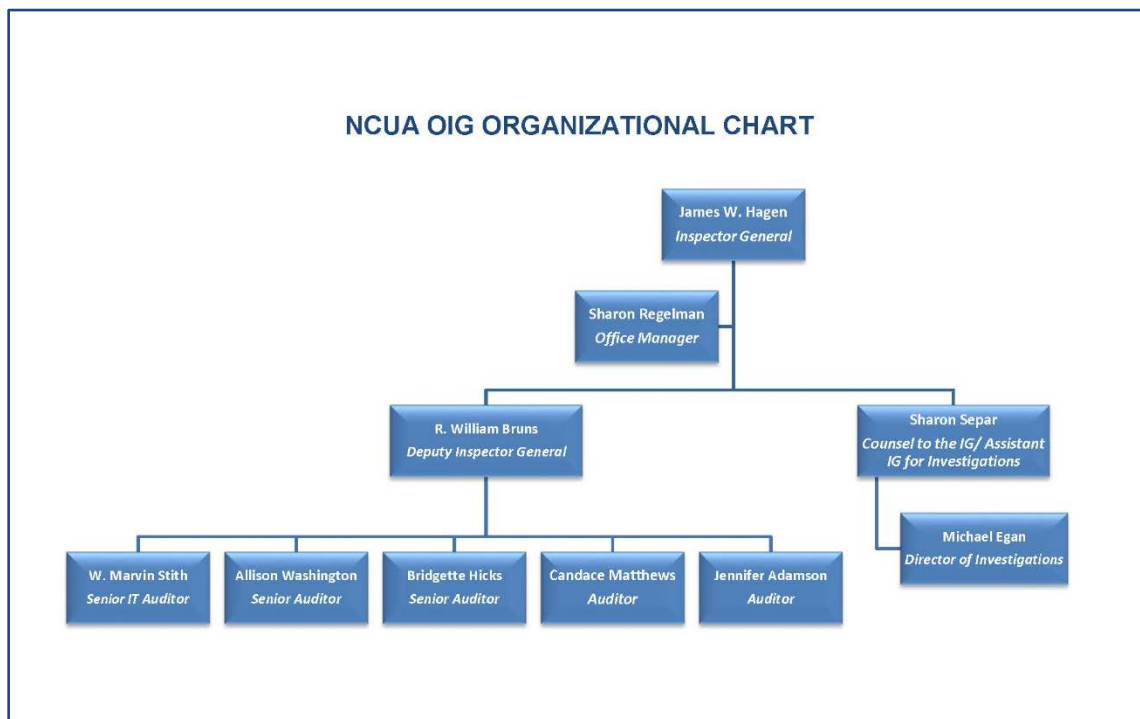
On September 22, 2016, House Financial Services Committee Vice Chairman McHenry (R-NC) introduced H.R. 6118, a bill to promote innovation in financial services. According to press reports, the bill calls for each financial regulator to create an in-house office to deal with start-ups that provide financial services as well as new technologies used by banks. The measure would also require a separate committee to monitor those offices and promote collaboration among the agencies. Finally, the legislation would create a designated place for fintech companies to turn to for ensuring that new products, ranging from consumer payment technology to systems for settling trades, are compliant. NCUA will continue to monitor the bill to evaluate its applicability to credit unions.

## OFFICE OF INSPECTOR GENERAL

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

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### [OIG-16-07 – FY 2015 Review of NCUA’s Purchase and Travel Card Programs, June 29, 2016](#)

The Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act) mandates that Inspectors General conduct periodic risk assessments of agency purchase and travel cards to develop a plan to determine the scope, frequency, and number of inspector general audits or reviews of agency purchase and travel cards. The Charge Card Act also mandates that Inspectors General report annually to the Director of the Office of Management and Budget (OMB) on agency progress in implementing audit recommendations, if that agency’s Inspector General has provided such to the head of the agency. Guidance issued by OMB requires that Inspectors General report to the Director of OMB the agency’s progress in implementing charge card-related audit recommendations within 120 days of the end of the fiscal year. We issued our letter to the Director of OMB on January 21, 2016, and because we did not have any recommendations during the previous audit, we had no open recommendations to report on.

For FY 2015, we conducted risk assessments of all three NCUA purchase and travel card programs. As a result, we issued Report No. OIG-16-07, “FY 2015 Review of NCUA’s Purchase and Travel Card Programs” on June 29, 2016. Based upon our risk assessments, we determined that NCUA’s three charge card programs posed a low risk of illegal, improper, or erroneous purchases and payments. Therefore, we did not perform an audit of the purchase card or centrally billed travel card programs. However, because NCUA spent over \$10 million in its Individually Billed Accounts (IBA) program, we performed a limited-scope audit of this program focused on terminated employees.

The results of our risk assessments determined that program controls, policies, and procedures over the purchase card program could be improved and made one recommendation related to unauthorized purchases. In addition, because NCUA did not have more than \$10 million in annual purchase card spending, the agency did not meet the requirement to report violations and purchase card misuse to OMB in accordance with the Charge Card Act. Further, we made two suggestions for the IBA Travel Card program related to quarterly reviews and receipts; and one recommendation from our limited-scope audit of terminated employees related to the timely cancellation of IBA Travel Cards.

### [Report on the Requirements of the “Cybersecurity Act of 2015,” Pub. L. No. 114-113, August 10, 2016](#)

The “Cybersecurity Act of 2015”, Pub. L. No. 114-113, (the Act), section 406(b)(1) requires Inspectors General of covered agencies to submit a report to Congress that includes specific information regarding their respective agency’s Federal computer systems. On August 10, 2016, in accordance with § 406(b)(2) of the Act, we issued such a report that addressed: (1) NCUA-owned covered systems and (2) covered systems a third-party (contractor or other

Federal agency) owns, operates, and/or manages on NCUA’s behalf that processes, stores, or transmits NCUA information.

## AUDITS IN PROGRESS

### [Audit of the Financial Stability Oversight Council’s Efforts to Promote Market Discipline](#)

The “Dodd-Frank Wall Street Reform and Consumer Protect Act” authorized the Council of Inspectors General on Financial Oversight (CIGFO) to convene a working group of its members to evaluate the effectiveness and internal operations of the Financial Stability Oversight Council. NCUA is a member of this working group.

We are participating in this review to assess the extent to which the Council’s efforts promote market discipline by eliminating expectations on the part of shareholders, creditors, and counterparties of large bank holding companies or nonbank financial companies that the Government will shield them from losses in the event of failure. The Treasury OIG is leading the working group with participation from other CIGFO members, including NCUA OIG. The working group’s results will be incorporated into a consolidated report to the Council. The audit could result in recommendations for the Council to improve its efforts to promote market discipline.

### [Review of NCUA’s Supervisory Oversight of Credit Union Cybersecurity Programs](#)

Cybersecurity is the practice of defending computers and servers, mobile devices, electronic systems, networks, and data from cyberattacks. Cyberattacks use malicious code to alter computer code, logic, or data, resulting in disruptive consequences that can compromise data and lead to cybercrimes. NCUA indicates that credit unions rely on applications to ensure accurate, timely, and confidential processing of data. Vulnerabilities, particularly those associated with web-based applications, are increasingly the focus of attacks from external and internal sources for the purpose of committing fraud and identity theft.

NCUA OIG is currently conducting a review of NCUA’s Information Systems and Technology (IS&T) Examination Program to determine whether it provides adequate oversight of credit union cybersecurity programs, and to assess whether credit unions are taking sufficient and appropriate measures to protect the confidentiality, availability, and integrity of credit union assets and sensitive credit union information against cyber-attacks. The audit could result in recommendations to NCUA management to improve its IS&T Examination Program going forward.

### [DATA Act Readiness Review](#)

The Digital Accountability and Transparency Act of 2014 (DATA Act) requires Federal agencies to report financial and payment data in accordance with data standards established by the Department of Treasury and the OMB. In addition, the DATA Act requires agency Inspectors



General review statistical samples of the data submitted by the agency and report on the completeness, timeliness, quality, and accuracy of the data sampled, and the use of the data standards by the agency. The IG community plans to undertake DATA Act “readiness reviews” at their respective agencies, in advance of the first agency report to help ensure the success of the DATA Act implementation efforts. NCUA OIG is a participant in this IG community effort.

NCUA OIG is currently conducting an audit of NCUA’s DATA Act readiness to determine whether NCUA has implemented, or plans to implement, the processes, systems, and controls to report financial and payment data in accordance with the requirements of the DATA Act.

### Material Loss Reviews

The Federal Credit Union Act requires NCUA OIG to conduct a Material Loss Review (MLR) of an insured credit union if the loss to the National Credit Union Share Insurance Fund (Share Insurance Fund) exceeds \$25 million or an amount equal to 10 percent of the total assets of the credit union at the time in which the NCUA Board initiated assistance under Section 208 or was appointed liquidating agent.

During this reporting period, although NCUA did not have a loss to the Share Insurance Fund greater than the \$25 million threshold, the OIG contracted with Moss Adams LLP to conduct an MLR of six federally insured credit unions<sup>1</sup> located in Bensalem and Chester, Pennsylvania. All six credit unions outsourced the management, recordkeeping, data processing, and maintenance of financial records to a third party provider, which allegedly caused each institution to fail due to misrepresentation by management of approximately \$3.2 million in combined credit union assets, primarily through the misstatement of certificates of deposit held as investments.

We conducted this MLR to: (1) determine the cause(s) of the credit unions’ failure and the resulting estimated \$3.2 million loss to the Share Insurance Fund; (2) assess NCUA’s supervision of the credit unions; and (3) provide appropriate recommendations and suggestions to prevent future losses.

The Dodd-Frank Act further requires the OIG to assess all losses to the Share Insurance Fund under the \$25 million threshold to determine whether unusual circumstances exist to warrant conducting a full-scope MLR. During the reporting period, in addition to the loss noted above, the Share Insurance Fund sustained other losses which also fell under the \$25 million threshold. Accordingly, we conducted limited scope reviews of two credit unions to determine whether unusual circumstances existed. Based on our findings, we determined not to conduct a full scope MLR for these two credit unions. We discuss these cases in detail on page 17.

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<sup>1</sup> The six failed credit unions are Chester Upland School Employees Federal Credit Union, O P S EMP Federal Credit Union, Electrical Inspectors Federal Credit Union, Triangle Interests % Service Center Federal Credit Union, Cardozo Lodge Federal Credit Union, and Servco Federal Credit Union.

## Significant Audit Recommendations on Which Corrective Action Has Not Been Completed

Following is a list of OIG reports with significant unimplemented recommendations as of September 30, 2016. NCUA management has agreed to implement corrective action, but has yet to complete those actions. This information was supplied by the NCUA Office of the Executive Director and is monitored within the OIG's report recommendation tracking system.

### Report Number, Title, and Date

*OIG-13-09* Material Loss Review of El Paso FCU, August 26, 2013

*OIG-15-11* Review of NCUA's Interest Rate Risk Program, November 13, 2015

*OIG-13-13* Material Loss Review of G.I.C. Federal Credit Union, December 2, 2013

### Significant Recommendations Open and Brief Summary

1. Recommendation: *OIG-13-09, recommendation #1*. Implement a more comprehensive strategy for identifying and responding to fraud risk triggers. Areas to address include: 1) Implementing training programs to educate examiners on identifying fraud risk factors and understanding controls to prevent and detect fraud; 2) Developing specific examination procedures to identify fraud risk factors. At a minimum, examiners should identify procedures when a lack of segregation of duties exists and conduct interviews with staff, management, and representatives of the Board of Directors and Supervisory Committee; and 3) Building resources to respond to fraud risk factors efficiently. We agree with suggestions provided by Region IV management to include developing fraud teams at the national or regional level, identifying a list of vendors approved to perform such procedures on an as-needed basis, and requiring credit unions to have forensic procedures performed when deemed appropriate, or an appropriate combination of these responses.

Status: Open. In 2014, NCUA hired a Fraud Risk Specialist. The fraud specialist completed a comprehensive assessment of the fraud program at NCUA and made recommendations. In response, E&I developed and issued Supervisory Letter 15-01 and a Fraud Indicators Workbook. E&I formed a Fraud Working Group made up of fraud experts to develop fraud-related policies and procedures. The fraud specialist continues to develop resources for examiners such as the development of fraud discovery training and a proactive financial modeling tool using call report data to identify fraud. In addition, in January 2015, NCUA released revised Small Credit Union Examination Procedures, which included certain required fraud detection steps and additional expanded review procedures to complete under certain conditions or when concerns are discovered. Currently, the fraud specialist is working to develop proactive ways of identifying fraud with FinCEN data through Bank Secrecy Act Reporting as well as through the Lexis-Nexis public database.

2. Recommendation: *OIG-15-11, recommendation #1*. Modify NCUA's CAMEL Rating System by developing an "S" rating to better capture a credit union's sensitivity to market risk and to improve interest rate risk clarity and transparency.

Status: Open. NCUA has committed to presenting a proposal on changing the regulation to the NCUA Board by the end of Q3 2016. If the Board approves the regulatory change, it will target final implementation by the end of 2018. While progress has been made in assessing changes required in NCUA's systems, procedures, and examination guidance to add an "S" component, the change process will be complex. It involves regulatory changes followed by reprogramming multiple IT systems, data storage and retrieval, and revising examination policies and procedures. Several initiatives will be implemented during 2016 that will help to improve interest rate risk rating clarity, including revised supervision guidance to examiners on reviewing interest rate risk and liquidity risk. Additionally, enhancements to NCUA's Automated Integrated Regulatory Examination System (AIRES) needed to facilitate future regulatory and procedural changes will continue to be mapped out in 2016, with full development anticipated in 2018. Both of these steps are foundational in isolating "Sensitivity to Market Risk", "S".

3. Recommendation: *OIG-13-13, recommendation #3*. Consider requiring examiners to obtain audit reports directly from independent auditors rather than receiving them from credit union management to avoid potential manipulation. NCUA could accomplish this through an e-file system for independent auditors to upload completed audits. Examples of similar systems include the Federal Audit Clearing House maintained by the U.S. Census Bureau and the Integrated Station Information System used by the Corporation for Public Broadcasting.

Status: Open. NCUA's Office of General Counsel evaluated the agency's options for obtaining audit reports directly from independent audit firms and concluded that NCUA does not have the power to mandate that these firms provide audit reports directly to the agency because the audit report represents the result of a contract between the credit union and the audit firm. As an official record, credit unions are obligated to share their audit reports with NCUA as a condition of share insurance. However, NCUA has concluded that independent audit firms do not have the same obligation. As a result, independent audit firms must obtain consent from their credit union client prior to sending audit reports directly to NCUA.

NCUA plans a proposed revision to Part 715 of NCUA's Rules and Regulations that will include a requirement that the credit union's engagement letter, signed with an independent third party audit firm, must submit audit reports directly to NCUA. Part 715 is not scheduled to be revisited until 2017.

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

The Dodd-Frank Act requires the NCUA OIG to perform a limited review where the Share Insurance Fund 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 six 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 to September 30, 2016. For all losses to the Share Insurance Fund 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 scope reviews of two credit unions that incurred losses to the Share Insurance Fund under \$25 million between April 1 and September 30, 2016. Based on those limited reviews, we determined that none of the losses warranted conducting additional work because we found no unusual circumstances, or we had already addressed the reasons identified for the losses in recommendations to the agency in previous MLR reports.

The chart below provides details on the two credit union losses to the Share Insurance Fund below the \$25 million threshold. It provides details on the credit union, such as the date of failure, the estimated loss to the Share Insurance Fund, 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.

<b>DECISIONS REGARDING LOSSES LESS THAN \$25 MILLION</b>					
<b>OIG Decision**</b>	<b>Credit Union</b>	<b>Region</b>	<b>Date Closed</b>	<b>Est. Loss to Share Insurance Fund</b>	<b>Grounds for Liquidation or Appointment</b>
Terminate	Veterans Health Administration Credit Union	I	3/29/2016*	\$2,195,448	Liquidated due to alleged fraudulent activity, questionable accounting practices, and potential manipulation of asset and liability accounts by management rendering the credit union insolvent.
Terminate	Immanuel Baptist Church Federal Credit Union	I	8/11/2016	\$15,698	Emergency merger with cash assistance due to losses from high-risk loan portfolio, an underfunded allowance for loan and lease losses (ALLL) account, and inadequate management.

\*Estimated loss to the Share Insurance Fund calculated in September 2016.

\*\*Criteria for each decision included: (1) dollar value 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, 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, 2016

*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 Consumer Product Safety Commission (CPSC) OIG completed our most recent peer review on March 30, 2016, for the three-year period ended September 30, 2015. The CPSC 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 Architect of the Capitol OIG, Office of Audit

The NCUA OIG completed a peer review of the Architect of the Capitol (AOC) OIG. On September 4, 2015, we issued an external peer review report for the audit function of the AOC OIG for the three year period ended March 31, 2015. The AOC received a rating of pass and has no outstanding recommendations related to the peer review report.



## INVESTIGATIVE ACTIVITY

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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 mission is to fight fraud, waste, and abuse while promoting efficiency and economy within the NCUA and its programs and operations. 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.

The OI also maintains 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. 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. Additionally, we routinely receive complaints from credit union officials and their members involving NCUA programs. 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 OCP or the regional office indicates that the matter has already been appropriately handled.

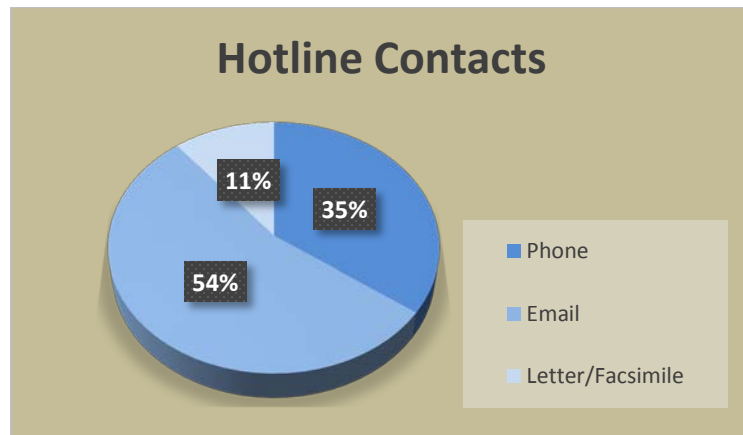
### OIG Hotline Contacts

The OIG 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 developed 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. Our Office Manager, under the direction of the Director of Investigations, administers the OIG hotline program.

In recent years, the OIG Hotline has also become a valuable repository for reports of potential cases of fraud in credit unions. While the OIG does not, in most cases, have jurisdiction to investigate fraudulent activity that takes place in credit unions, it analyzes the information obtained through the Hotline and refers potential cases of fraud to the appropriate regional office, the Office of Examination & Insurance, and the Office of General Counsel for immediate review and action. Moreover, the OIG relays general information from these referrals at new employee

and supervisor training sessions to alert NCUA employees about the need for heightened fraud awareness.

During this six-month period, we processed approximately 129 hotline contacts, the majority of which were from consumers seeking assistance with problems encountered within their respective credit unions. As discussed above, these contacts were generally referred to OCP and regional offices for action. A relatively small number of these contacts required additional action by OI to determine whether the matter warranted investigation.



Phone	45
Email	70
Letter/Facsimile	14
<b>Total:</b>	<b>129</b>

## Investigations

### Employee Misconduct (Unauthorized Disclosure to Media)

During the reporting period, the OIG obtained information regarding an unauthorized disclosure of internally-held information to media sources. The investigation could not substantiate that the information came from within NCUA or any of its employees. The OIG issued a Report of Investigation and closed the matter during the reporting period.

### Employee Misconduct (Unprofessional Conduct)

During the reporting period, the OIG received an allegation that local law enforcement in Denver, CO detained an NCUA examiner, who was there on official agency business, for alcohol intoxication that resulted in damage to hotel property in the amount of \$500.00. Moreover, hotel management requested that the examiner vacate the property. The employee admitted to the misconduct during an investigative interview and assumed financial responsibility for the



damage to the hotel property. Consequently, the investigation substantiated the allegations and charged the examiner with unprofessional conduct. The OIG issued a Report of Investigation. The agency issued a two-day suspension to the examiner. The investigation was closed during the reporting period.





**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 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 23 items, including final and proposed legislation, final and proposed regulations, NCUA Letters to Credit Unions (LICU), and Regulatory Alerts (RA). The OIG also responded to two Freedom of Information Act (FOIA) requests and referred two requests to the agency’s FOIA Officer for response.

<b>SUMMARY OF STATUTES AND REGULATIONS REVIEWED</b>	
<b>Legislation</b>	<b>Title</b>
H.R. 5983	Financial CHOICE Act of 2016
H.R. 6118	Financial Services Innovation Act of 2016
H.R. 5869	To Amend the Federal Credit Union Act to require the National Credit Union Administration Board to provide a rationale for any amounts the Board proposes to use from the National Credit Union Share Insurance Fund, and for other purposes
H.R. 5541	Financial Services for the Underserved Act of 2016
H.R. 5419	Credit Union Examination Reform Act of 2016
S. 3011	Bolster Accountability to Drive Government Efficiency and Reform (BADGER) Washington Act of 2016
H.R. 2395	Inspector General Empowerment Act of 2016
S. 3109	Inspector General Recommendation Transparency Act of 2016
H.R. 5485	Financial Services and General Government Appropriations Act, 2017
H.R. 5709	Federal Records Modernization Act of 2016
S. 2450	Administrative Leave Act
H.R. 4359	Administrative Leave Reform Act



H.R. 4360	Official Personnel File Enhancement Act
S. 2715	National Security Whistleblower Protection Act of 2016
<b>Regulations/Rulings</b>	<b>Title</b>
12 CFR Part 747	Final Action: Civil Monetary Penalty Inflation Adjustment
12 CFR Parts 701 and 705	Proposed Rule: Community Development Revolving Loan Fund
12 CFR Parts 741 and 751	Proposed Rule: Incentive-based Compensation Arrangements
12 CFR Parts 701 and 721	Proposed Rule: Federal Credit Union Occupancy, Planning and Disposal of Acquired and Abandoned Premises; Incidental Powers
<b>Letters to Credit Unions (LICU)</b>	<b>Title</b>
LICU 16-CU-04	Member Account Deposit Reconciliation Practices (May 2016)
LICU 16-CU-05	Voluntary Diversity and Inclusion Policies and Practices Checklist (September 2016)
LICU 16-CU-06	Preparing for Same-Day Automated Clearing House (ACH) Payments (September 2016)
<b>Regulatory Alerts (RA)</b>	<b>Title</b>
16-RA-05	Amendments Relating to Small Creditors and Rural or Underserved Areas Under the Truth in Lending Act (May 2016)
16-RA-06	Regulatory Alert Announces Interpretive Guidance for Regulation on Lending to Service Members (September 2016)



<b>TABLE I: ISSUED REPORTS WITH QUESTIONED COSTS</b>				
		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.



<b>TABLE II: ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE</b>			
		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, 2016

Part I – Audit Reports Issued

Report Number	Title	Date Issued
OIG-16-07	FY 2015 Review of NCUA’s Purchase and Travel Card Programs	6/29/2016
N/A	Report on the Requirements of the “Cybersecurity Act of 2015,” Pub. L. No. 114-113	8/10/2016

Part II – Audits in Progress (*as of September 30, 2016*)

Audit of the Financial Stability Oversight Council’s Efforts to Promote Market Discipline
Review of NCUA’s Supervisory Oversight of Credit Union Cybersecurity Programs
DATA Act Readiness Review



INDEX OF REPORTING REQUIREMENTS		
Section	Data Required	Page Ref
4(a)(2)	Review of legislation and regulations	22
5(a)(1)	Significant problems, abuses, or deficiencies relating to the administration of programs and operations disclosed during the reporting period.	12
5(a)(3)	Recommendations with respect to significant problems, abuses or deficiencies	12
5(a)(3)	Significant recommendations described in previous semiannual reports on which corrective action has not been completed.	15
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.	26
5(a)(7)	Summary of particularly significant reports.	12
5(a)(8)	Statistical tables on audit reports with questioned costs.	24
5(a)(9)	Statistical tables on audit reports with recommendations that funds be put to better use.	25
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.	28
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.	19

**Appendix A: System Review Report (Peer Review of NCUA OIG)**



**Peer Review of the Audit Operations of  
the National Credit Union Administration  
Office of the Inspector General**

**ISSUED:  
March 30, 2016**



**U. S. CONSUMER PRODUCT SAFETY COMMISSION  
BETHESDA, MD 20814**

Christopher W. Dentel  
Inspector General

Tel: 301.504-7644  
Fax: 301.504-7004  
Email: cdentel@cpsc.gov

**System Review Report**

March 30, 2016

Mr. James Hagen, Inspector General  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314

Dear Mr. Hagen:

We have reviewed the system of quality control for the audit organization of the National Credit Union Administration (NCUA), Office of Inspector General (OIG) in effect for the year ended September 30, 2015. 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*.<sup>1</sup> The elements of quality control are described in *Government Auditing Standards*. The NCUA OIG is responsible for establishing and maintaining a system of quality control that is designed to provide NCUA OIG with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements 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 the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*.<sup>2</sup> 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 NCUA OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audits and attestation engagements, collectively referred to as "audits," and administrative files to test for conformity with professional standards and compliance with NCUA OIG's system of quality control. The

<sup>1</sup> United States Governmental Accountability Office, *Government Auditing Standards*, dated December 2011

<sup>2</sup> CIGIE *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*, dated September 2014





audits selected represented a reasonable cross-section of the NCUA OIG audit organization, with emphasis on higher-risk audits. Prior to concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with the 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 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 audits. 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.

The enclosure to this report identifies the NCUA OIG offices that we visited and the audits that we reviewed.

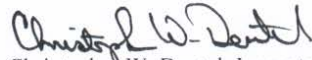
In our opinion, the system of quality control for the audit organization of the NCUA OIG in effect for the year ended September 30, 2015, has been suitably designed and complied with to provide the NCUA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The NCUA OIG has received an External Peer Review rating of *pass*.

As is customary, we have issued a letter dated March 30, 2016 that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

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 audits performed by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring of audits 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 the 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.



We made certain comments related to NCUA OIG's monitoring of audits performed by IPAs that are included in the above referenced letter dated March 30, 2016.

  
Christopher W. Dentel, Inspector General

Enclosure



**ENCLOSURE**

**Scope and Methodology**

We tested compliance with NCUA OIG audit organization’s system of quality control to the extent we considered appropriate. These tests included a review of 2 of 10 audit reports issued during the period October 1, 2014, through September 30, 2015. We also reviewed the internal quality control reviews performed by NCUA OIG.

In addition, we reviewed NCUA OIG’s monitoring of audits performed by IPAs where the IPA served as the auditor during the period October 1, 2014, through September 30, 2015. During the period, NCUA OIG contracted for the audit of its agency’s fiscal year 2014 financial statements. The NCUA OIG also contracted for certain other audits that were to be performed in accordance with *Government Auditing Standards*.

We visited NCUA’s offices located Alexandria, VA.

<b>Reviewed Engagements Performed by NCUA OIG</b>		
<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
14-09	11/26/2014	Review of NCUA’s Efforts to Promote Opportunity and Achieve Diversity in Senior Management
15-09	6/8/2015	NCUA Measures to Protect Credit Union Member Information during the examination process
<b>Reviewed Monitoring Files of NCUA OIG for Contracted Engagements</b>		
<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
14-08	11/13/2014	Independent Evaluation of NCUA’s Compliance with the Federal Information Security Management Act (FISMA) 2014
15-02/03/04/05	2/17/2015	FY2014 Financial Statement Audits for Central Liquidity Facility, Community Development Revolving Loan Fund, Operating Fund and share Insurance fund



National Credit Union Administration

**Office of Inspector General**

March 22, 2016

Christopher W. Dentel  
Inspector General  
U.S. Consumer Product Safety Commission  
Bethesda, Maryland 20814

Subject: Report on the External Quality Control Review of the National Credit Union Administration Inspector General Audit Organization

Dear Mr. Dentel:

We appreciate the work conducted by your staff in reviewing the quality control process for the audit function at the National Credit Union Administration Office of Inspector General. We agree with your opinion that the system of quality control for the audit function has been suitably designed and complied with to provide reasonable assurance of performing and reporting in conformity with professional standards in all material aspects. We have no additional comments on the final System Review draft report provided. Thank you for your efforts in completing this review.

Sincerely,

A handwritten signature in black ink, appearing to read "James W. Hagen".

James W. Hagen  
Inspector General

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1775 Duke Street – Alexandria, VA 22314-6113 – 703-518-6300