



**NCUA**  
National Credit Union Administration

OFFICE OF  
INSPECTOR GENERAL



# Semiannual Report to the Congress

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October 1, 2021–March 31, 2022

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October 1, 2021–March 31, 2022

## 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 the Congress highlighting our accomplishments and ongoing work for the 6-month period ending March 31, 2022. Our work reflects the legislative mandate of the Inspector General Act of 1978, as amended, to promote the economy, efficiency, and effectiveness of NCUA programs and operations, and 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 NCUA’s regulatory process.

The NCUA and OIG continue to work in a remote posture that started in March of 2020. The OIG completed a review of NCUA’s pandemic-related actions and the factors that have guided management’s decisions to either continue a remote working posture or return to the office. Our report determined the NCUA took actions designed to protect the health and safety of staff in response to COVID-19 that were based on reliable information and expert guidance. Although we found minor weaknesses in some internal controls related to the agency’s onsite approval and health self-certification processes, management changed these processes during our audit and we made no recommendations.

In addition, we issued a report of the audit of NCUA’s four funds. All four funds received an unmodified opinion from our contractor KPMG. There were no findings or recommendations that rose to the level of inclusion in the reports. Other audit reports completed during this period and described in more detail in this report include an audit of the NCUA’s hiring practices, a material loss review, the annual Federal Information Security Modernization Act (FISMA) review, and our final Digital Accountability and Transparency Act (DATA Act) report.

On the investigative side, the Office of Investigations (OI) opened one investigation during the reporting period and continued to work on an investigation opened at the end of the previous period.

Finally, I would like to thank Chairman Harper and Board Members Hauptman and Hood for their sustained support of the OIG’s work. As in the past, the NCUA Board and management are responsive to all OIG recommendations and strive to implement them expeditiously. I look forward to working with them in our ongoing efforts to promote economy and efficiency in agency programs and operations.

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

James W. Hagen  
Inspector General

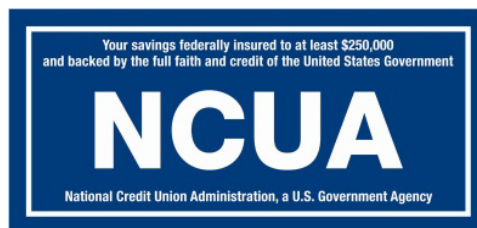


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## The National Credit Union Administration Mission

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The National Credit Union Administration’s (NCUA) mission 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

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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.

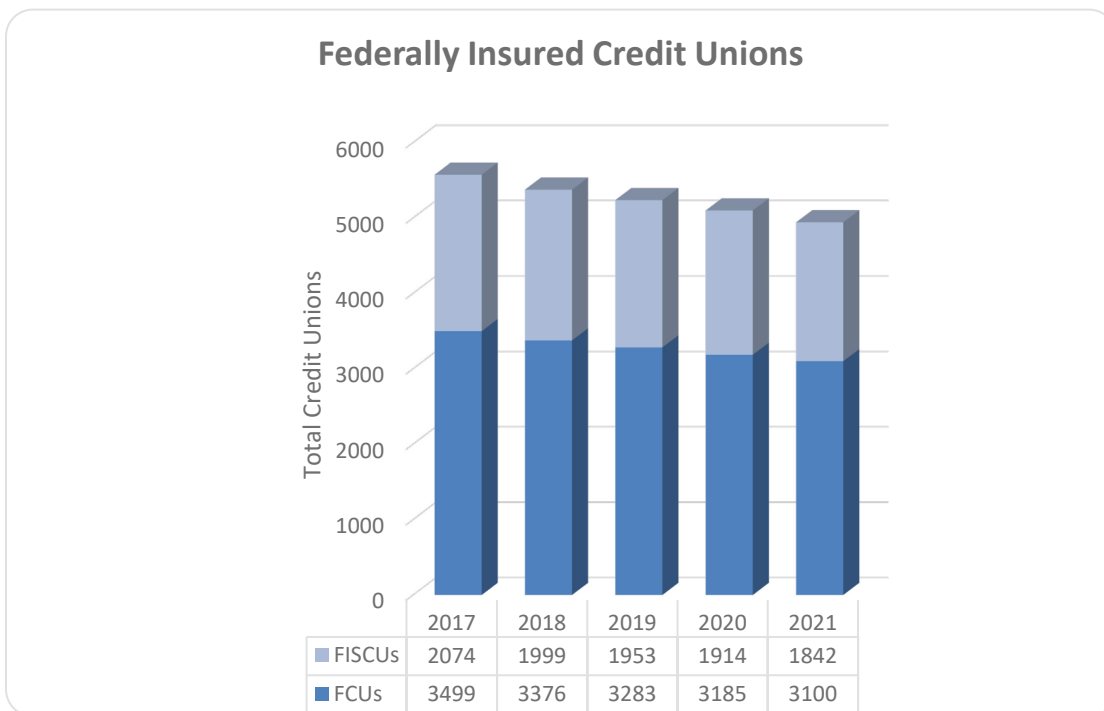
We accomplish our mission by conducting independent audits, investigations, and other activities, and by keeping the NCUA Board and the Congress fully and currently informed of our work.



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## 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 (FCUs). It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. The NCUA is funded by the credit unions it supervises and insures. As of December 31, 2021, the NCUA supervised and insured 3,100 FCUs and insured 1,842 state-chartered credit unions (FISCUs), a total of 4,942 institutions. This represents a decline of 85 federal and 72 state-chartered institutions since December 31, 2020, for a total decrease of 157 credit unions nationwide. The year-over-year decline is consistent with long-running industry consolidation trends.

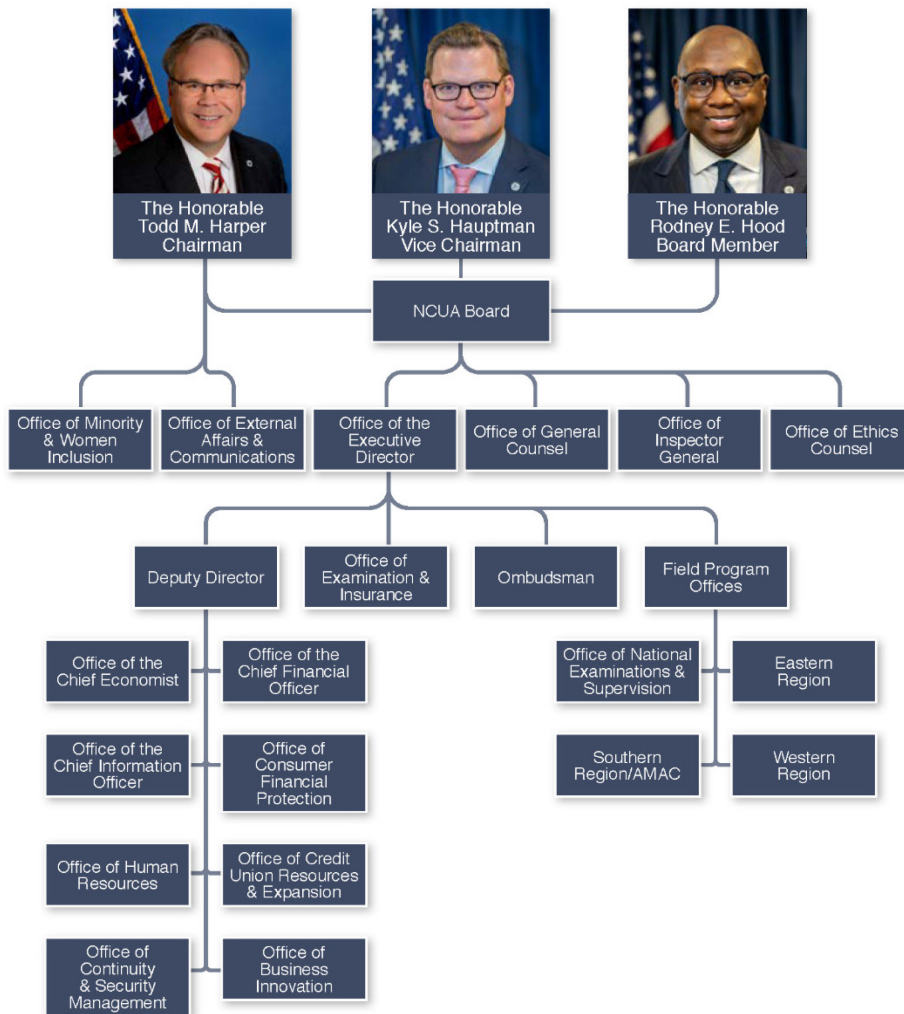


NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve 6-year terms, although a Board member’s term may be shorter when a member fills a past member’s unexpired term. Terms are staggered, so that one term expires every 2 years. The Board is responsible for the management of the NCUA, including the National Credit Union Share Insurance Fund (Share Insurance Fund), the NCUA Operating Fund, the Central Liquidity Facility (CLF), and the Community Development Revolving Loan Fund (CDRLF).



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The NCUA executes its program through its Alexandria, Virginia central office, and regional offices in Alexandria, Virginia (Eastern); Austin, Texas (Southern); and Tempe, Arizona (Western). The NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer to the NCUA’s organizational chart below.

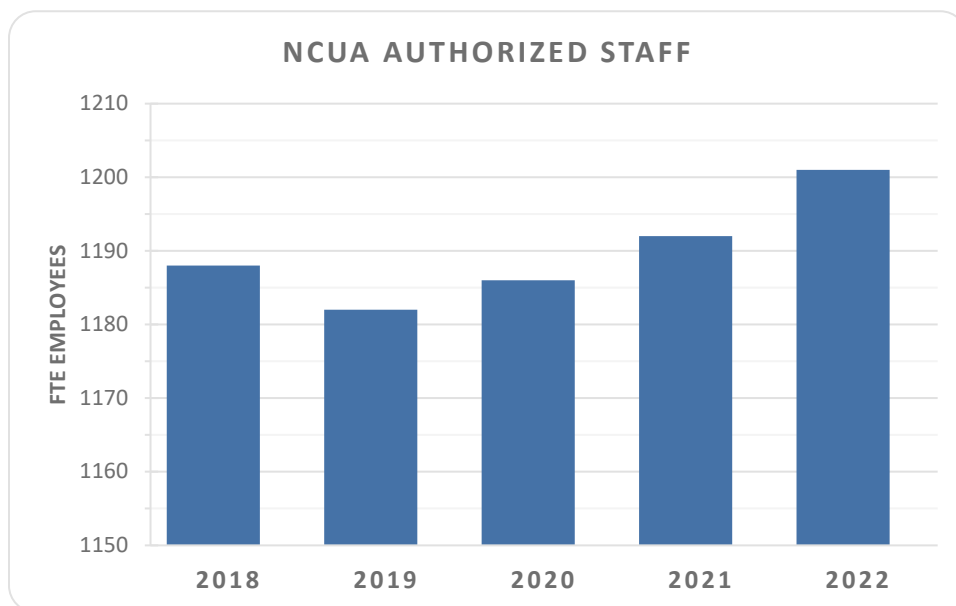
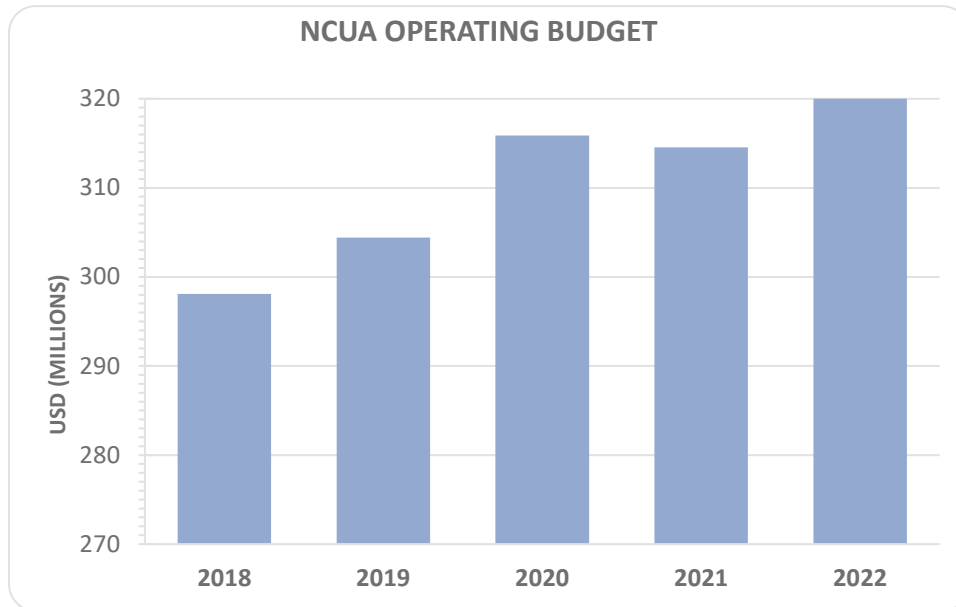






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On December 16, 2021, the NCUA Board approved the agency’s budgets for 2022 and 2023. Combined, the operating, capital, and National Credit Union Share Insurance Fund administrative budgets for 2022 total \$339.5 million. The combined budget for 2023 is \$381.3 million. The NCUA’s 2022 operating budget is \$320.1 million, an increase of approximately \$5.6 million compared to the 2021 Board-approved budget. Authorized staffing levels for 2022 increased by two full-time equivalents (FTE) compared to 2021.





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## NCUA Highlights

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### Chairman Harper Nominated for New Board Term

President Biden’s nomination of Chairman Harper for a full term on August 6, 2021, has been pending a vote by the full Senate since January 2022. Harper joined the NCUA Board in 2019 to fill an unexpired term and was designated chairman in January 2021 by President Biden, succeeding Chairman Hood. If confirmed, Harper’s board term will continue through April 10, 2027. Hood’s term ends in August 2023 and Vice Chairman Hauptman’s term ends in August 2025. The Federal Credit Union Act generally provides that NCUA Board members may not be appointed to succeed themselves, but the Act also notes that someone appointed to fill an unexpired term may be reappointed for a full 6-year term.

### Kelly Lay Selected as Director of the Office of Examination and Insurance

On December 10, 2021, the NCUA announced that the Board selected Kelly Lay as the new Director of the Office of Examination and Insurance. Lay succeeded Myra Toeppe, who retired after 10 years with the NCUA. Lay previously served as the NCUA’s Director of the Office of Business Innovation.

### Board Approved Final Rule on Shared Service Facilities

On November 18, 2021, the Board approved a final rule that eliminated the requirement that a multiple-common-bond federal credit union have an ownership interest in a shared service facility in order to add a new group or underserved area to the credit union’s field of membership. The definition of a service facility is important because to add a group or underserved area to a field of membership, the credit union must be within reasonable proximity to the group to be served, among other requirements. The final rule continues to mandate that a service facility in an underserved area must offer all three of these services: accepting shares for deposits, taking loan applications, and disbursing loan proceeds. ATMs do not meet those requirements and online and mobile banking platforms also do not qualify as service facilities.

### Board Approved 2022 Budget

On December 16, 2021, the Board approved the NCUA’s 2022 budget. The approved budget was \$320.1 million, \$5.9 million below what had been proposed and a 1.8 percent increase over the 2021 budget. The NCUA decided to eliminate plans to hire more than 40 new people in 2022 and to use leftover funds from 2021 for a \$15 million credit against federal credit unions’ 2022 operating fees, which reduced those fees by approximately 12 percent.



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## **NCUA Sends Letter Recommending Credit Unions Adopt ACET Tools**

In December 2021, the NCUA sent a letter to credit unions encouraging them to take advantage of the Automated Cybersecurity Evaluation Toolbox (ACET), which was created to help credit unions conduct maturity assessments that align with the Federal Financial Institutions Examination Council’s (FFIEC) cybersecurity assessment tool. The NCUA said ACET can be used to determine an institution’s cybersecurity preparedness using several industry standards and best practices.

## **NCUA Sends Letter Clarifying Digital Asset Rules**

In December 2021, the NCUA issued a letter to credit unions to clarify that they may partner with third-party cryptocurrency service providers to allow members to buy, sell, and hold digital assets and to provide guidance for such arrangements.

## **Board Approves Complex Credit Union Leverage Ratio Final Rule**

On December 16, 2021, the NCUA Board approved a final rule that simplified the risk-based capital requirements for eligible complex credit unions. Under this rule, a complex credit union, defined as those with more than \$500 million in assets, which maintains a minimum net worth ratio and meets other qualifying criteria, is eligible to opt into the complex credit union leverage ratio framework if it has a minimum net worth ratio of nine percent.

## **NCUA Extends Temporary Pandemic Rules For Loans**

On December 21, 2021, the NCUA Board approved an extension of the effective date of its temporary final rule that raised the maximum amount of loan participations that a federal credit union is allowed to purchase from a single originating lender to over \$5 million, or 200 percent of the credit union’s net worth. This modification of regulatory requirements is to help ensure that credit unions remain operational and can address economic conditions caused by the COVID–19 pandemic. The rule will remain in place until December 31, 2022.

## **Board Proposes Increasing Threshold for ONES Supervision**

On February 17, 2022, the Board issued a proposal to increase the threshold for supervision for the large credit unions by the agency’s Office of National Examinations and Supervision (ONES) from \$10 billion to \$15 billion.

## **NCUA Issues Letter Explaining Changes in CAMEL Rating System**

On March 8, 2022, the NCUA issued a letter to credit unions explaining changes that added components to the agency’s examination rating system to account for a credit union’s sensitivity



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to market risk and redefine the system’s definition of liquidity risk. The revised exam rating system, or CAMELS, which stands for capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk, was adopted by the Board in October 2021. The revisions reflect recommendations the OIG made in audit report OIG-15-11, Review of NCUA’s Interest Rate Risk Program. The new rating system will apply to examinations and supervision contacts started on or after April 1, 2022. In its letter, the agency said the new sensitivity to market risk (S) component rating reflects the exposure of a credit union’s current and prospective earnings and economic capital arising from changes in market prices and interest rates. The liquidity risk (L) component rating reflects a credit union’s ability to monitor and manage liquidity risk and the adequacy of liquidity levels.



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## Federally Insured Credit Union Highlights

Credit unions complete and submit quarterly call reports that contain financial and statistical data to the NCUA. Based on data compiled from these call reports, the NCUA produces a quarterly credit union data summary report<sup>1</sup> and a quarterly financial trend report.<sup>2</sup> The quarterly data summary report provides an overview of credit union financial performance and includes listings of summarized accounts, selected performance indicators, performance by asset category, as well as balance sheet and income statement details. The financial trends report presents year-to-date financial trends in various chart formats. Following is our summary of the December 31, 2021, quarterly data summary and financial trends reports.

### Key Financial Indicators

The December 31, 2021, quarterly data summary report provided a comparison of the fourth quarter 2021 data to the same quarter in the previous year. For major balance sheet items and key ratios, the report presented the following percentage changes over four quarters (December 2020 to December 2021) for the nation's 4,942 federally insured credit unions: total assets increased by 11.7 percent, net worth ratio decreased from 10.32 percent to 10.26 percent, and the loan-to-share ratio decreased from 73.2 percent to 70.2 percent. The delinquency rate decreased from .60 percent to .49 percent. Credit union return on average assets increased from .70 percent to 1.07 percent.

### Share Trends and Distribution

Total shares and deposits increased 12.7 percent, \$201 billion, bringing the balance to \$1.79 trillion. Regular shares accounted for 36.67 percent of total shares and deposits, \$655.9 billion. Money market shares comprised 22.77 percent, \$407.3 billion. Share drafts accounted for 20.53 percent, \$367.1 billion. Share certificates represented 13.84 percent, \$247.6 billion. IRA/KEOGH accounts comprised 4.65 percent, \$83.2 billion; non-member deposits comprised .63 percent, \$11.3 billion; and all other shares comprised .9 percent, \$16.2 billion, of total shares and deposits.

### Loan Trends and Distribution

Total loans increased 8 percent, \$92.7 billion, bringing the balance to \$1.26 trillion. Total net loans comprised 60.4 percent of credit union assets. First mortgage real estate loans accounted for the largest single asset category with \$571.8 billion, 45.55 percent of total loans.

<sup>1</sup> <https://www.ncua.gov/analysis/credit-union-corporate-call-report-data/quarterly-data-summary-reports>

<sup>2</sup> <https://www.ncua.gov/analysis/credit-union-corporate-call-report-data/financial-trends-federally-insured-credit-unions>



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Used vehicle loans of \$262.5 billion represented 20.91 percent, while new vehicle loans amounted to \$142 billion, 11.31 percent. Other real estate loans of \$84.7 billion accounted for 6.75 percent. Unsecured credit cards totaled \$64.2 billion, 5.11 percent, while all other unsecured loans totaled \$51.89 billion, 4.13 percent. Leases receivable and all other loans represented \$78.2 billion, 6.23 percent of total loans.



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## Legislative Highlights

### **Consolidated Appropriations Act of 2022: Inspector General Access to Records**

The Consolidated Appropriations Act of 2022, which was signed into law on March 15, 2022, provides that none of the funds made available in the Act may be used to deny an Inspector General funded under the Act timely access to any records, documents, or other materials available to the agency. Inspectors General must report any failures to comply with this requirement to the Committees on Appropriations of the House of Representatives and the Senate within 5 calendar days. Although the NCUA OIG is not funded under the Act, which means this provision does not apply, the Inspector General Act's existing guarantee of the OIG's timely access to all records applies.

### **Consolidated Appropriations Act of 2022: Credit Union Expulsion of Problematic Members**

The Appropriations Act also contains the Credit Union Governance Modernization Act (CUGMA), which amends the Federal Credit Union Act to add a new avenue through which credit unions can expel problematic members. Before the amendment, a credit union could only expel a member pursuant to a two-thirds vote of the membership at a special meeting or pursuant to a nonparticipation policy that could only be used for members who were not actively using their accounts. CUGMA now enables credit unions to expel members who repeatedly or substantially violate a credit union's membership agreement, repeatedly disrupt a credit union's operations, or who have engaged in fraud or other criminal behavior, by issuing a notice of expulsion to the member, who then has 60 days to request a hearing before being expelled. Credit unions may implement the new policy once the NCUA establishes what constitutes a violation under a new ruling, which the NCUA must do no later than 18 months after March 15, 2022.

### **Consolidated Appropriations Act of 2022: Cybersecurity Reporting**

The Appropriations Act includes new requirements for infrastructure owners and operators to report cyberattacks within 72 hours and ransomware payments within 24 hours to the Cybersecurity and Infrastructure Security Agency (CISA). The covered entities are defined in Presidential Policy Directive 21, which identifies 16 critical sectors, including the financial services sector. Within 24 hours of receiving information related to a covered incident, CISA must share the information with the appropriate sector risk management agency, which for the financial services sector is the U.S. Department of the Treasury. CISA must publish a notice of proposed rulemaking (NPRM) to implement the statute within 24 months of March 15, 2022, and issue a final rule within 18 months of the NPRM.



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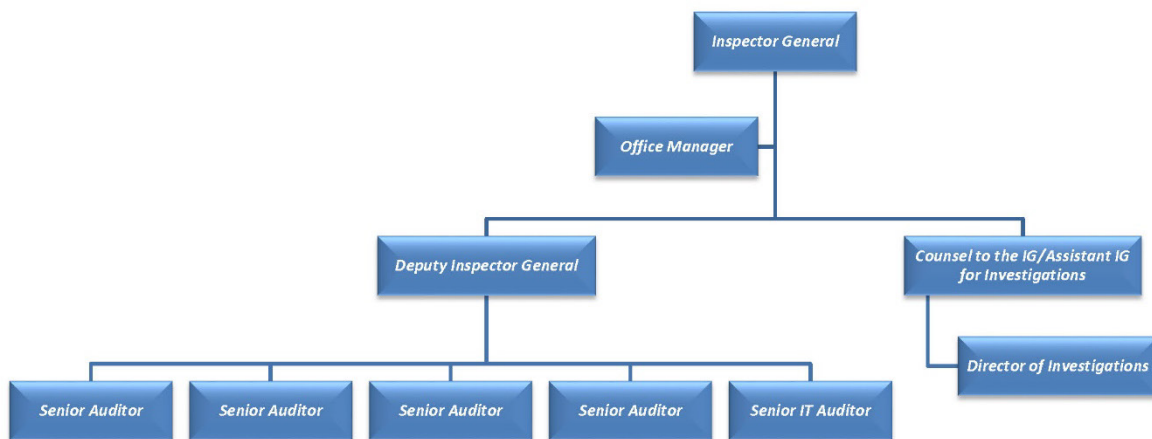
## Office of Inspector General

The Office of Inspector General was established at the NCUA in 1989 pursuant to an amendment of the Inspector General Act of 1978. 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, four Senior 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 relating to NCUA programs and operations;
2. Reviewing policies and procedures to ensure efficient and economic programs and operations and prevent and detect 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 operations; and
4. Keeping the NCUA Board and the Congress apprised of significant findings and recommendations.

### NCUA OIG ORGANIZATIONAL CHART







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## Audit Activity

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### Audit Reports Issued

#### **OIG-21-07 *Audit of the NCUA’s Compliance Under the Digital Accountability and Transparency Act of 2014, issued November 8, 2021***

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 to review statistical samples of the data submitted by agencies and issue three reports on a 2-year cycle beginning in November 2017. The reports must address an agency’s compliance with completeness, timeliness, quality, accuracy, and use of the data standards by the agency. The NCUA OIG issued its third and final required DATA Act report on November 8, 2021.

Results of our audit determined that NCUA’s submission to Treasury’s DATA Act Broker was complete and submitted timely. We determined the NCUA fully implemented and used the government-wide financial data standards for spending information as defined by OMB and Treasury. We also determined the agency’s internal controls operated effectively to report financial data in accordance with the DATA Act. Furthermore, we assessed the NCUA’s award-level submission to determine quality data. Based on our assessment, we determined the NCUA’s data quality score increased significantly due to internal control improvements to “Excellent” quality for the fourth quarter of fiscal year 2020.

#### **OIG-21-08 *Audit of the NCUA’s Schedule of Other Assets and Contributed Capital as of September 30, 2021, issued November 15, 2021***

We contracted with and supervised the independent accounting firm KPMG to conduct the audit of the NCUA’s schedule of other assets and contributed capital as of September 30, 2021, and the related notes. The schedule was prepared for the purpose of providing financial information to the U.S. Department of Treasury and the U.S. Government Accountability Office (GAO) to use in preparing and auditing the Financial Report of the U.S. Government, which included: (1) an opinion on the schedule, (2) an assessment of internal controls over financial reporting specific to the schedule, and (3) an assessment of compliance and other matters specific to the schedule. KPMG issued an unmodified audit opinion with no reportable findings.

#### **OIG-21-09 *National Credit Union Administration Federal Information Security Modernization Act of 2014 Audit – Fiscal Year 2021, issued November 22, 2021***

We contracted with and supervised the independent public accounting firm CliftonLarsonAllen LLP (CLA) to independently evaluate the NCUA’s information systems and security program



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and controls for compliance with the Federal Information Security Modernization Act of 2014 (FISMA).

CLA concluded that the NCUA implemented an effective information security program by achieving an overall Level 4 - Managed and Measurable maturity level, complied with FISMA, and substantially complied with agency information security and privacy policies and procedures. Although the NCUA implemented an effective information security program, its implementation of a subset of selected controls was not fully effective. Specifically, CLA noted weaknesses in six of the nine domains in the FY 2021 IG FISMA Reporting Metrics. As a result, CLA made seven recommendations to assist the NCUA in strengthening its information security program.

#### **OIG-21-10 *Audit of the NCUA's COVID-19 Work Posture, issued December 10, 2021***

We conducted this self-initiated audit to assess the NCUA's work posture during the COVID-19 pandemic. Our objectives were to determine: (1) what factors guided NCUA management's policy decisions regarding the pandemic during the initial outbreak, (2) what factors are guiding management's future decisions to either continue a remote working posture or return to the office, (3) what factors guided management in providing NCUA staff with various benefits such as supply expenses and other leave options, and (4) what guidelines have been put in place to protect staff when a return to the office is approved, such as building safety, social distancing, and the use of personal protective equipment.

Results of our audit determined the NCUA took actions designed to protect the health and safety of staff in response to COVID-19 that were based on reliable information and expert guidance. Although we identified minor weaknesses in some internal controls related to the agency's onsite approval and health self-certification processes, management changed these processes during our audit and therefore no longer followed the processes we originally reviewed. As a result, we had no findings or recommendations.

#### **OIG-21-11 *Material Loss Review of Indianapolis' Newspaper Federal Credit Union, issued December 15, 2021***

We contracted with Moss Adams LLP to conduct a Material Loss Review of Indianapolis' Newspaper Federal Credit Union, a federally insured credit union. We reviewed the Credit Union to: (1) determine the cause(s) of the Credit Union's failure and the resulting estimated \$2.29 million loss to the Share Insurance Fund, (2) assess the NCUA's supervision of the Credit Union, including implementation of the prompt corrective action requirements of Section 216 of the Federal Credit Union Act, and (3) provide appropriate observations and/or recommendations to prevent future losses.

We determined the Credit Union failed due to alleged fraudulent activities perpetrated by the credit union's Chief Executive Officer, Credit Union employees, and the Chairman of the Credit Union's Board of Directors. As a result of our review, we made two observations and one



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recommendation to NCUA management related to the agency's Small Credit Union Examination Program.

### [OIG-22-01](#) *Audit of the NCUA's Hiring Practices, issued January 12, 2022*

We conducted this self-initiated audit to assess the NCUA's hiring practices. The objectives of our audit were to determine whether the NCUA's: (1) hiring practices are in accordance with Office of Personnel Management (OPM), NCUA, and other federal requirements, and (2) hiring processes facilitated the efficient selection of high-quality candidates to help NCUA divisions and offices meet mission requirements.

Results of our audit determined that the NCUA's hiring practices were substantially compliant with applicable requirements; however, some practices needed closer review to ensure full compliance. Our audit also determined the NCUA's hiring process facilitated the efficient selection of candidates. However, we determined that when using a recruiting firm, the NCUA should validate referred candidates' qualifications prior to conducting interviews to improve the efficiency of the hiring process. We made one recommendation to NCUA management to help ensure the NCUA's hiring practices comply with all applicable requirements going forward.

### [OIG-22-02/03/04/05](#) *NCUA 2021 Financial Statement Audits, issued February 15, 2022*

We contracted with and supervised the independent accounting firm KPMG to conduct the NCUA 2021 financial statement audits of the Share Insurance Fund, the Operating Fund, the Central Liquidity Facility (CLF), and the Community Development Revolving Loan Fund (CDRLF).

The Share Insurance Fund is a revolving fund managed by the NCUA Board to insure member share deposits in all FCUs and state credit unions that are federally insured. The fund's total assets for 2021 were \$20.7 billion, an increase of \$1.6 billion (8.4%) from 2020. The increase was largely attributable to investments. KPMG issued an unmodified audit opinion on the Share Insurance Fund's financial statements (OIG-22-02).

The 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 fund's total assets for 2021 were \$199 million, up from \$182 million in 2020. KPMG issued an unmodified audit opinion on the Operating Fund's financial statements (OIG-22-03).

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 CLF's total assets for 2021 were \$1.15 billion, up from \$1.055 billion in 2020. KPMG issued an unmodified audit opinion on the CLF's financial statements (OIG-22-04).

The CDRLF was established to stimulate economic activities in the communities served by low-income credit unions. The CDRLF's total assets for 2021 were \$17.88 million, up from



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\$17.86 million in 2020. KPMG issued an unmodified audit opinion on the CDRLF's financial statements (OIG-22-05).

## Audits in Progress

### **Audit of the NCUA's Continuity of Operations Program (COOP)**

The NCUA's Office of Continuity and Security Management (OCSM) is responsible for continuity of operations and emergency management, physical security at NCUA facilities, personnel security, and national security and intelligence activities. OCSM provides an important link between the intelligence community and the credit union system by managing NCUA's threat analysis processes and working with the intelligence community and other partners to provide information on threats to the credit union system.

We are conducting this self-initiated audit to determine whether the NCUA's COOP is: (1) in accordance with applicable laws, regulations, policies and procedures, and (2) ready and able to execute should the need arise.

### **Audit of the NCUA's Contracting Officer's Representative (COR) Program**

The Division of Procurement and Financial Management (DPFM) within the Office of the Financial Officer (OCFO) is responsible for NCUA's COR Program, which includes overseeing COR appointments, training/certification, and oversight of COR duties.

We are conducting this self-initiated audit to determine whether the NCUA is adhering to its Acquisition Policy Manual specific to its COR Program Manual's provisions regarding the COR Program. Our audit will determine whether: (1) NCUA staff serving in the role of Contracting Officer Representatives have been appropriately nominated, appointed, and received training for certification; and (2) appointed CORs are performing contract administration in accordance with applicable policies and procedures.

### **Audit of NCUA's Minority Depository Institution Preservation Program (MDIPP)**

The NCUA's Office of Credit Union Resources and Expansion (CURE), which administers the MDIPP, supports the growth of all credit unions, with a particular focus on low-income-designated credit unions and minority institutions. Minority Depository Institutions (MDIs) serve the financial needs of racial minorities because traditional financial institutions have historically underserved these populations. Federally insured credit unions self-designate as MDIs by affirming to the NCUA that more than 50 percent of its current members, eligible potential members, and board of directors are from one or a combination of the four minority categories (Black American, Asian American, Hispanic American, or Native American) as defined by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA).



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We are conducting this self-initiated audit to determine whether the NCUA’s MDIPP is achieving its goals.

### **Audit of NCUA’s Bank Secrecy Act Enforcement**

In 1970, Congress passed the Currency and Foreign Transactions Reporting Act commonly known as the “Bank Secrecy Act” (BSA), establishing recordkeeping and reporting requirements by private individuals, banks, and other financial institutions. The BSA is intended to safeguard the U.S. financial system and the financial institutions that make up that system from the abuses of financial crime, including money laundering, terrorist financing, and other illicit financial transactions. Every credit union must comply with Bank Secrecy Act (BSA) requirements. BSA compliance requires credit unions to track cash transactions and purchases of cash equivalents, such as money orders, and to comply with other recordkeeping and reporting requirements. The NCUA has authority to ensure compliance with BSA requirements, which is a condition of federal insurance.

We are conducting this self-initiated audit to determine whether the NCUA: (1) adequately reviews compliance with the Bank Secrecy Act (BSA) during credit union safety and soundness examinations, (2) issues timely formal or informal enforcement actions to address BSA-related violations, (3) tailors enforcement actions to address deficiencies identified during the supervisory process, (4) follows up on reported BSA violations to ensure credit unions take appropriate corrective action before closure of the violation, and (5) appropriately refers significant BSA violations and deficiencies to the Department of Treasury.

### **FY 2022 Independent Evaluation of the NCUA’s Compliance with the Federal Information Security Modernization Act of 2014 (FISMA)**

During this reporting period, the NCUA OIG engaged CliftonLarsonAllen, LLP (CLA) to independently evaluate the NCUA’s information systems and security program and controls for compliance with the FISMA.

CLA is evaluating the NCUA’s security program through interviews, documentation reviews, technical configuration reviews, social engineering testing, and sample testing. The NCUA is being evaluated against standards and requirements for federal government agencies such as those provided through FISMA, National Institute of Standards and Technology Special Publications, and OMB memoranda. We anticipate issuing the IG FISMA Reporting Metrics by July 28, 2022, and the final FISMA audit report in November 2022.

### **Material Loss Reviews (MLR)**

The Federal Credit Union Act requires the OIG to conduct a material loss review (MLR) of an insured credit union if the loss to the Share Insurance Fund exceeds \$25 million and an amount equal to ten percent of the total assets of the credit union at the time in which the NCUA Board



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initiated assistance or was appointed liquidating agent pursuant to the Act. When losses exceed this materiality threshold, we review the loss to: (1) determine the cause(s) of the credit union's failure and the resulting loss to the Share Insurance Fund, and (2) assess the NCUA's supervision of the credit union. During this reporting period, the Share Insurance Fund had no losses exceeding the materiality threshold.

In addition, for any loss to the Share Insurance Fund that does not meet the threshold, the Dodd-Frank Act requires the OIG to conduct a limited-scope review to determine whether unusual circumstances exist related to the loss that would warrant conducting a full-scope MLR. For the current reporting period, the Share Insurance Fund incurred losses below the threshold because of three failed credit unions during this reporting period. We conducted limited-scope reviews on each of these failed credit unions, which are discussed further on page 24.

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

Following is a list of OIG reports with significant unimplemented recommendations as of March 31, 2022. 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.

### Significant Recommendations Open and Brief Summary

1. **OIG-20-07** *Audit of the NCUA's Examination and Oversight Authority of Credit Union Service Organizations and Vendors*, issued September 1, 2020, recommendation #1. Continue efforts to work with appropriate Congressional committees regarding amending the Federal Credit Union Act to grant the NCUA the authority to subject credit union service organizations and credit union vendors to examination and enforcement authority to the same extent as if they were an insured credit union.

Status: Open. Management indicated the agency has had continued conversations with House Financial Services Committee and Senate Banking Committee staff. In addition, NCUA provided technical assistance on a new draft bill released as part of a November 17, 2021, House Financial Services Committee hearing. The draft bill would eliminate the 2002 sunset of NCUA's Y2K third-party vendor authority.

2. **OIG-18-07** *FY2018 Federal Information Security Modernization Act Compliance*, October 31, 2018, recommendation #8. The OCIO enforce the policy to remediate patch and configuration related vulnerabilities within agency defined timeframes.

Status: Open. Management indicated the agency continues to make significant improvement toward achieving defined timeframes to remediate vulnerabilities. Specifically, vulnerabilities that are web facing and ensuring agency laptops comply with policy. Management also noted



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that vulnerabilities affecting internal servers that exceed the defined timeframes have been documented in a plan of action and milestone or an acceptance of risk until the vulnerability can be remediated.

3. **OIG-22-01** *Audit of the NCUA's Hiring Practices*, issued January 12, 2022, recommendation #1. Review and adjust as necessary its current practices that are meant to ensure that the NCUA fully complies with regulations, policies, and procedures governing its hiring practices, specifically:
  - Candidates receive timely notification of the status of their applications,
  - Required documentation, such as the job analysis and NCUA qualification statement, are included in USA Staffing case files, and
  - When contracting with a recruiting firm, all required language is included in the contract with the firm.

Status: Open. Management indicated they will review and adjust their current practices as necessary and plan to complete this review by June 30, 2022.

## Summary of Audit Reports Over 6 Months Old with Unimplemented Recommendations

Following are summaries of four OIG audit reports over 6 months old that have a total of seven unimplemented recommendations, including any associated cost savings as of March 31, 2022. For each of these reports, NCUA management has agreed to implement corrective action, but has yet to complete those actions. The OIG monitors this information within its audit report open recommendation tracking system.

### Brief Report Summary and Unimplemented Recommendations

1. **OIG-18-07** *FY2018 Federal Information Security Modernization Act Compliance*, October 31, 2018, Number of Open Recommendations Remaining: 4, Potential Cost Savings: \$0

The OIG identified information security program areas where the NCUA needs to make improvements.

#### Unimplemented Recommendations

Recommendation #6—The Office of Continuity and Security Management complete its employee background reinvestigations.



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Recommendation #8—The OCIO enforce the policy to remediate patch and configuration related vulnerabilities within agency defined timeframes.

Recommendation #9—The OCIO implement a process to detect and migrate unsupported software to supported platforms before support for the software ends.

Recommendation #10—The OCIO implement a process to identify authorized software in its environment and remove any unauthorized software.

**2. OIG-19-10 NCUA Federal Information Security Modernization Act of 2014 Audit—Fiscal Year 2019**, issued December 12, 2019, Number of Open Recommendations Remaining: 1, Potential Cost Savings: \$0

The OIG made the following recommendation that will assist the agency in improving the effectiveness of its information security and its privacy programs and practices.

Unimplemented Recommendation

Recommendation #4—Ensure the agency implements, tests, and monitors standard baseline configurations for all platforms in the NCUA information technology environment in compliance with established NCUA security standards. This includes documenting approved deviations from the configuration baselines with business justifications.

**3. OIG-20-01 Material Loss Review of C B S Employees Federal Credit Union**, issued February 11, 2020, Number of Open Recommendations Remaining: 1, Potential Cost Savings: \$0

The OIG made the following recommendation that will assist the agency in improving the effectiveness of its examination program.

Unimplemented Recommendation

Recommendation #2—Amend guidance related to member account verifications. Specifically, the amended guidance should require reconciliation from the print processor to the share and loan subsidiaries when a statement verification is performed.

**4. OIG-21-06 Audit of the NCUA’s Governance of Information Technology Initiatives**, issued September 28, 2021, Number of Open Recommendations Remaining: 1, Potential Cost Savings: \$0

The NCUA OIG made the following recommendation that will assist the agency in improving the effectiveness over its Information Technology governance initiatives.





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### Unimplemented Recommendation

Recommendation #1—Document and publish Information Technology Investment Management policies and procedures to include definitions, roles, responsibilities, and processes associated with information technology governance and selecting, controlling, and evaluating information technology investments.

## Recommendations for Corrective Action Made During the Reporting Period

During the reporting period, the OIG issued a total of six audit reports. The following three audit reports have nine total recommendations to help improve the effectiveness of the NCUA's programs and operations.

**1. OIG-21-09 NCUA Federal Information Security Modernization Act of 2014 Audit—Fiscal Year 2021**, issued November 22, 2021, Number of Open Recommendations: 7, Potential Cost Savings: \$0

Recommendation #1—Review the SCRM NIST guidance and update the SCRM plan, policies, and procedures to fully address supply chain risk management controls and practices.

Recommendation #2—Document and implement a plan to deploy multifactor authentication to address increased risks with the large number of personnel teleworking without a PIV card during the pandemic.

Recommendation #3—Implement automatic disabling of inactive Salesforce Call Center user accounts for DOCA users in accordance with NCUA policy.

Recommendation #4—Document and approve a formal acceptance of risk for not disabling Salesforce inactive accounts after 30 days in accordance with NCUA policy for users whose business needs do not require regular access to the system.

Recommendation #5—Complete and issue policies to implement the CUI program.

Recommendation #6—Upon issuance of the CUI policies, design and implement media marking to designate protection standards for safeguarding and/or disseminating agency information.

Recommendation #7— [Note: We redacted this recommendation under (b) (7)(E)].



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2. **OIG-21-11** *Material Loss Review of Indianapolis' Newspaper Federal Credit Union*, issued December 15, 2021, Number of Open Recommendations: 1, Potential Cost Savings: \$0

Recommendation #1—Enhance annual Small Credit Union Examination Program training related to concentration risk. Enhanced examiner training should include additional emphasis on applicable NCUA guidance (e.g., NCUA Letter to Credit Unions, 10-CU-03 – Concentration Risk), as well as discussion and training related to the application and enforcement of such guidance. Training should also include discussion of the importance of application to smaller credit unions and the risk of loss to the Share Insurance Fund.

3. **OIG-22-01**, *Audit of the NCUA's Hiring Practices*, issued January 12, 2022, Number of Open Recommendations: 1, Potential Cost Savings: \$0

Recommendation #1—Review and adjust as necessary its current practices that are meant to ensure that the NCUA fully complies with regulations, policies, and procedures governing its hiring practices, specifically:

- Candidates receive timely notification of the status of their applications,
- Required documentation, such as the job analysis and NCUA qualification statement, are included in USA Staffing case files, and
- When contracting with a recruiting firm, all required language is included in the contract with the firm.

## Report on Credit Union Non-Material Losses

As previously mentioned, the Dodd-Frank Act requires the OIG to perform a limited review when the Share Insurance Fund incurs a loss below the material loss threshold in the preceding 6 months due to the failure of an insured credit union.<sup>3</sup> The OIG must report on the results of the limited reviews and the timeframe for performing any subsequent in-depth reviews that we determine are necessary.

The report below covers the 6-month period from October 1, 2021 to March 31, 2022. For non-material losses to the Share Insurance Fund, we determine: (1) the grounds identified for appointing the NCUA as the liquidating agent, and (2) whether any unusual circumstances existed that might warrant an in-depth review of the loss.

For each limited review, we perform procedures that include: (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 5

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<sup>3</sup> The threshold is \$25 million and an amount equal to ten percent of the total assets of the credit union at the time in which the NCUA Board initiated assistance or was appointed liquidating agent pursuant to the Federal Credit Union Act.



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years preceding the failure; (3) conducting interviews as needed; (4) inquiring about any investigative actions taken, planned, or considered involving credit union officials or others; and (5) analyzing supervisory history and other review methods.

We conducted limited reviews of three failed credit unions that incurred losses to the Share Insurance Fund under \$25 million between October 1, 2021 to March 31, 2022. Based on those limited reviews, we determined none of the losses warranted conducting additional audit work. For the three failed credit unions, we concluded that either: (1) there were no unusual circumstances, or (2) we had already addressed the reasons identified for failure in recommendations to the agency in our MLR Capping report or other MLR reports.

The chart below provides details on the three credit union losses to the Share Insurance Fund of less than \$25 million. It provides details on the credit union such as supervision, date of failure, 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 an MLR of the credit union.



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<b>DECISIONS REGARDING LOSSES LESS THAN \$25 MILLION</b>					
<b>OIG Decision<sup>4</sup></b>	<b>Credit Union</b>	<b>Region</b>	<b>Liquidation Date</b>	<b>Est. Loss to Share Insurance Fund</b>	<b>Grounds for Liquidation or Appointment</b>
Terminate	Portsmouth Schools Federal Credit Union (PSFCU)	Eastern	12/30/2021	\$806,089	PSFCU entered into an involuntary liquidation, an emergency purchase and assumption agreement with Newport News Shipbuilding Employees Credit Union d/b/a Bayport. PSFCU was insolvent with a net worth that continued to deteriorate due to record keeping losses and an alleged fraud perpetrated by a former supervisory committee chairman.
Terminate	Prairie View Federal Credit Union (PVFCU)	Southern	2/9/2022	\$200,000	NCUA liquidated PVFCU and conducted an emergency assisted merger with Cy-fair FCU due to a declining net worth made worse with the discovery of alleged fraud committed by a former PVFCU manager.
Terminate	Empire Financial Federal Credit Union (EFFCU)	Eastern	3/4/2022	\$16,690	NCUA conserved EFFCU, then involuntary liquidated the credit union with an emergency purchase and assumption agreement with Jovia Financial FCU. EFFCU was insolvent because of its failure to have an adequate Bank Secrecy Act/Anti-Money Laundering compliance program, which included failure to file numerous required related regulation reports.

<sup>4</sup> 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 Material Loss Review 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 the NCUA; and (5) other, such as apparent fraud, request by the NCUA Board or management, Congressional interest, or Inspector General request.



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## Peer Reviews

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*Government Auditing Standards* require audit organizations that perform audits and attestation engagements of federal government programs and operations undergo an external peer review every 3 years. The objectives of an external peer review include a review of an audit organization's system of quality control to determine the suitability of its design and whether the audit organization is in compliance with the quality control system so as to provide reasonable assurance the audit organization conforms to applicable professional standards.

### **External Peer Review of the OIG, Office of Audit**

The Peace Corps OIG completed our most recent peer review on March 21, 2022, for the 3-year period ended September 30, 2021. The Peace Corps OIG issued its report entitled *System Review Report* and rendered the opinion that the system of quality control for the 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*. See Appendix A for a copy of the System Review Report.

### **External Peer Review of the National Labor Relations Board OIG, Office of Audit**

The NCUA OIG completed a peer review of the National Labor Relations Board (NLRB) OIG. On November 17, 2020, we issued an external peer review report for the audit function of the NLRB OIG for the 3-year period ended September 30, 2020. The NLRB received a rating of *Pass* and has no outstanding recommendations related to the peer review report.



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## Investigative Activity

In accordance with professional standards and guidelines established by the U.S. Department of Justice and the Council of the Inspectors General on Integrity and Efficiency (CIGIE), the OIG’s 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 allegations of misconduct on the part of NCUA employees, former employees, applicants, and contractors. Investigations examine possible violations of applicable federal laws and regulations as well as NCUA-specific policies.

We receive allegations through our hotline, email, and directly from NCUA and contractor personnel.

We also receive complaints from credit union officials and their members regarding NCUA programs, employees, and contractors. We examine these complaints and determine if there is any indication of misconduct or wrongdoing by an NCUA employee or contractor. If not, we refer the complaint to the NCUA’s Office of Consumer Financial Protection (OCFP), the Office of General Counsel, or the appropriate regional office for response, or close the matter if contact with those offices indicates that the matter already was appropriately handled. Harassment allegations are addressed by the NCUA’s Office of Ethics Counsel and the Office of Minority and Women Inclusion (for EEO complaints).

During this reporting period, OI opened one investigation. We also continued to work on an investigation that we opened during a prior period. As the table below indicates, we referred one investigative subject for prosecution during the reporting period.

Investigative Activity/Reports Issued During the Reporting Period	Total Number
(A) Investigative reports issued during the reporting period	0
(B) Persons referred to the Department of Justice for criminal prosecution during the reporting period	1
(C) Persons referred to state and local prosecuting authorities for criminal prosecution during the reporting period	0
(D) Indictments and criminal informations during the reporting period that resulted from any prior referral to prosecuting authorities	0



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With regard to the information provided in the table above, OI maintains a manual case tracking system. If investigative allegations involve a named suspect, then cases are designated and tracked by subject name. Cases referred to federal, state, or local prosecuting authorities for criminal prosecution are also designated, referred, and tracked by subject name, if known. In cases where the subject is unknown, OI uses a subject matter title to designate, track, and, as appropriate, refer cases.

## Investigations

OI did not close any investigations involving a senior government employee during the reporting period.

## Whistleblower Retaliation

We did not receive any complaints of whistleblower retaliation during the reporting period.

## Attempts to Interfere with IG Independence

There were no attempts on the part of management to interfere with IG independence, including restricting communications between the OIG and Congress or using budgetary constraints designed to limit the capabilities of the OIG.

Moreover, there have been no incidents where the NCUA resisted or objected to OIG oversight activities. There have also been no restrictions or delays in our access to agency information.

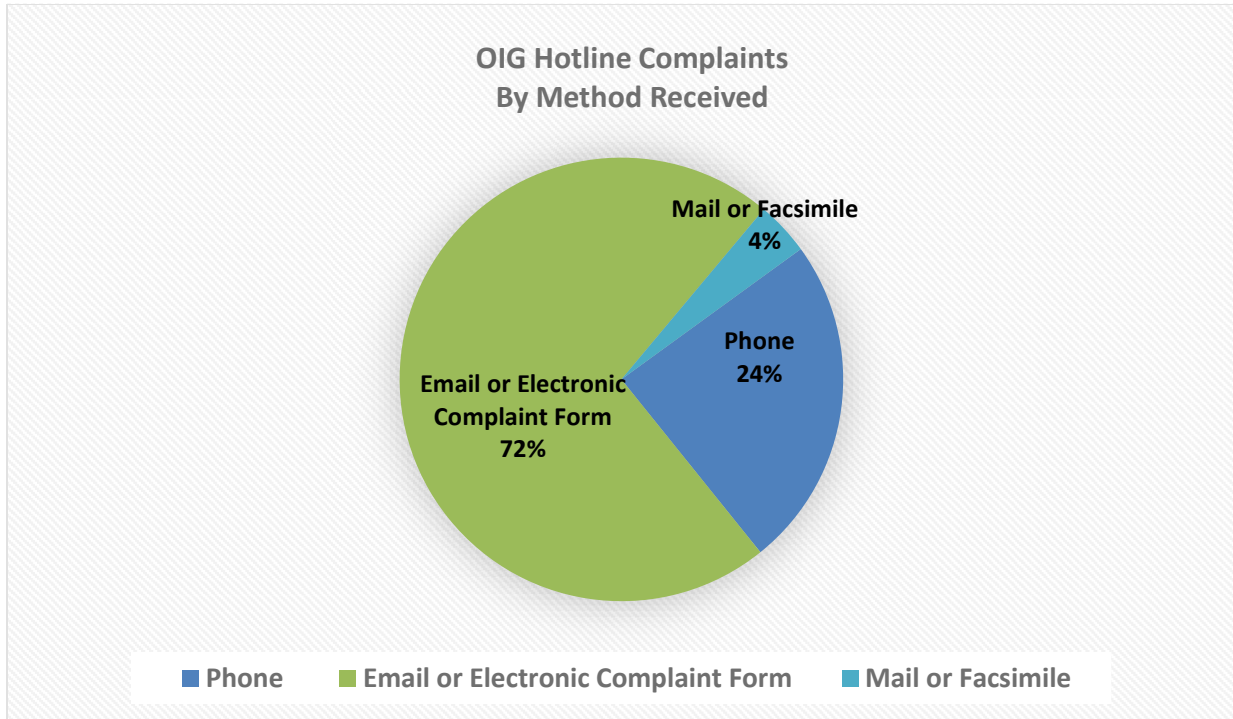
## OIG Hotline and FOIA Requests

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. An electronic hotline complaint form is located on the NCUA intranet. The electronic form offers a means for confidential employee and contractor communication with the OIG. All information received from any of these sources is referred to as a hotline complaint. Our Office Manager, under the direction of the Director of Investigations, administers the OIG hotline program.

During this 6-month period, we processed 129 hotline complaints, the majority of which were from consumers seeking assistance with problems encountered within their respective credit unions. We referred most of these complaints to the OCFP's Consumer Assistance Center for action. A small number of hotline complaints required additional action by OI to determine whether the matter warranted investigation by our office. OIG also responded to one Freedom of Information Act request and no Privacy Act requests during the reporting period.



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<b>Complaints by Method Received</b>	<b>Number</b>
Phone	31
Email or Electronic Hotline Complaint Form	92
Mail or Facsimile	5
<b>Total:</b>	<b>129</b>





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## Reviews of Legislation, Regulations, and Policies

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.

OIG reviewed the legislation and NCUA regulations and letters to credit unions that are listed below.

List of Legislation and NCUA Regulations and Letters Reviewed	
Legislation	Title
H.R. 2471	Consolidated Appropriations Act, 2022
H.R. 6762	Special Inspector General for Law Enforcement Act
H.R. 6497, S. 2902, S. 3600	Federal Information Security Modernization Act
Regulations	Title
12 C.F.R. Parts 700, 701, 702, 708a, 708b, 750, 790	Asset Threshold for Determining the Appropriate Supervisory Office
12 C.F.R. Part 701	Succession Planning
Letters to Credit Unions	Title
21-CU-13	Subordinated Debt Final Rule Effective January 1, 2022
21-CU-15	Automated Cybersecurity Evaluation Toolbox
21-CU-16	Relationships with Third Parties that Provide Services Related to Digital Assets
22-CU-02	NCUA’s 2022 Supervisory Priorities
22-CU-05	CAMELS Rating System
21-FCU-06	Federal Credit Union Meeting Flexibility in 2022 Due to the COVID-19 Pandemic
22-FCU-01	Operating Fee Schedule Adjusted for 2022
22-FCU-02	Final Rule on Definition of Service Facility



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<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 6 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.



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<b>TABLE II: ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE</b>	<b>Number of Reports</b>	<b>Dollar Value</b>
(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.	0	\$0
(ii) Dollar value of recommendations not agreed to by management.	0	\$0
(D) For which no management decision was made by the end of the reporting period.	0	\$0
(E) For which no management decision was made within six months of issuance.	0	\$0

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.



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TABLE III: SUMMARY OF OIG ACTIVITY DURING THE REPORTING PERIOD		
Part I—Audit Reports Issued		
Report Number	Title	Date Issued
OIG-21-07	Audit of the NCUA’s Compliance Under the Digital Accountability and Transparency Act of 2014	11/08/21
OIG-21-08	Audit of the NCUA’s Schedule of Other Assets and Contributed Capital as of September 30, 2021	11/15/21
OIG-21-09	National Credit Union Administration Federal Information Security Modernization Act of 2014 Audit – Fiscal Year 2021	11/22/21
OIG-21-10	Audit of the NCUA’s COVID-19 Work Posture	12/10/21
OIG-21-11	Material Loss Review of Indianapolis’ Newspaper Federal Credit Union	12/15/21
OIG-22-01	Audit of the NCUA’s Hiring Practices	01/12/22
OIG-22-02/03/04/05	FY 2021 Financial Statement Audits (SIF, OF, CLF, CDRLF)	02/15/22
Part II—Audits in Progress ( <i>as of March 31, 2022</i> )		
Audit of the NCUA’s Continuity of Operations Program (COOP)		
Audit of the NCUA’s Contracting Officer’s Representative (COR) Program		
Audit of NCUA’s Minority Depository Institution Preservation Program (MDIPP)		
Audit of NCUA’s Bank Secrecy Act Enforcement		
FY 2022 Independent Evaluation of the NCUA’s Compliance with the Federal Information Security Modernization Act of 2014 (FISMA)		



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<b>INDEX OF REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT OF 1978, AS AMENDED</b>		
Section	Reporting Requirement	Page
4(a)(2)	Review of legislation and regulations	29
5(a)(1)	Significant problems, abuses, and deficiencies	17
5(a)(2)	Recommendations for corrective action made during the reporting period	21
5(a)(3)	Significant recommendations on which corrective action has not been completed	18
5(a)(4)	Matters referred to prosecutive authorities	26
5(a)(5)	Summary of instances where agency refused or failed to provide requested information	27
5(a)(6)	List of audit reports issued during the reporting period	32
5(a)(7)	Summary of significant reports issued during the reporting period	13
5(a)(8)	Statistical table on audit reports with questioned costs	30
5(a)(9)	Statistical table on audit reports with recommendations that funds be put to better use	31
5(a)(10)(A)	Summary of each audit report over six months old for which no management decision has been made	N/A
5(a)(10)(B)	Summary of each audit report over six months old for which no management comment was returned within 60 days	N/A
5(a)(10)(C)	Summary of each audit report over six months old for which there are unimplemented recommendations	19
5(a)(11)	Significant revised management decisions	N/A
5(a)(12)	Significant management decisions with which the OIG disagreed	N/A
5(a)(14)(A)(B)	Results of any peer review conducted during the reporting period, or if no peer review was conducted, a statement identifying the date of last peer review	25
5(a)(15)(16)	Peer reviews conducted by another OIG during the reporting period, and any outstanding recommendations from any current or prior peer review	25



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<b>INDEX OF REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT OF 1978, AS AMENDED</b>		
Section	Reporting Requirement	Page
5(a)(17)	Statistical table on investigative reports issued during the reporting period	26
5(a)(18)	Description of metrics used for developing the investigative report statistical table	26
5(a)(19)	Investigations conducted involving a senior Government employee	27
5(a)(20)	Detailed description of any instances of whistleblower retaliation	27
5(a)(21)	Detailed description of any attempt by the Agency to interfere with the independence of the Office	27
5(a)(22)(A)	Detailed description of any inspection, evaluation, and audit that was closed and was not disclosed to the public	N/A
5(a)(22)(B)	Detailed description of any investigation involving a senior Government employee that was closed and was not disclosed to the public	N/A



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## Appendix A

## SYSTEM REVIEW REPORT (PEER REVIEW OF NCUA OIG)



## System Review Report

March 21, 2022

Mr. James W. Hagen  
 Inspector General  
 National Credit Union Administration  
 Office of Inspector General  
 775 Duke Street, Suite 4206  
 Alexandria, VA 22314

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 ending September 30, 2021. A system of quality control encompasses NCUA OIG's organizational structure, the policies adopted and procedures established to provide it with reasonable assurance of conforming in all material respects with *Government Auditing Standards* and applicable legal and regulatory requirements. The elements of quality control are described in *Government Auditing Standards*.

In our opinion, the system of quality control for the audit organization of NCUA OIG in effect for the year ending September 30, 2021, has been suitably designed and complied with to provide NCUA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards and applicable legal and regulatory requirements in all material respects.

Audit organizations can receive a rating of pass, pass with deficiencies, or fail. NCUA OIG has received an External Peer Review rating of pass.

#### **Monitoring of GAGAS Engagements Performed by Independent Public Accountants**

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 Council of the Inspectors General on Integrity and Efficiency (CIGIE) related to NCUA OIG's monitoring of engagements conducted in accordance with generally accepted government auditing standards (GAGAS engagements) by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring of GAGAS 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;

#### **Peace Corps Office of Inspector General**

Paul D. Coverdell Peace Corps Headquarters · 1275 First Street NE, Washington, DC 20526 · 202.692.2900 · OIG@peacecorpoig.gov



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accordingly, we do not express an opinion on NCUA OIG’s monitoring of work performed by IPAs.

#### **Letter of Comment**

We have issued a letter dated March 21, 2022, that sets forth a finding that was not considered to be of sufficient significance to affect our opinion expressed in this report.

#### **Basis of Opinion**

Our review was conducted in accordance with *Government Auditing Standards* and the *CIGIE Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General*.

During our review, we communicated with 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 GAGAS engagements and administrative files to test for conformity with professional standards and compliance with NCUA OIG’s system of quality control. The GAGAS engagements selected represented a reasonable cross-section of the NCUA OIG audit organization, with an emphasis on higher-risk engagements.

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 NCUA OIG’s quality control policies and procedures to the extent we considered appropriate. These tests covered the application of NCUA OIG’s policies and procedures on selected GAGAS engagements. 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.

Prior to concluding the peer 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. Enclosure 1 to this report identifies the engagements we reviewed.

#### **Responsibilities and Limitations**

NCUA OIG is responsible for establishing and maintaining a system of quality control designed to provide NCUA OIG with reasonable assurance that the organization and its personnel comply in all material respects with professional standards and applicable legal and regulatory requirements. Our responsibility is to express an opinion on the design of the system of quality control and NCUA OIG’s compliance based on our review.

There are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and may 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.





October 1, 2021–March 31, 2022

Sincerely,

A handwritten signature in cursive script that reads "Joaquin Ferrao".

Joaquin Ferrao  
Acting Inspector General  
Enclosures



October 1, 2021–March 31, 2022

Enclosure 1

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 2 engagements reports conducted in accordance with generally accepted government auditing standards (GAGAS engagement) issued from October 1, 2020, through September 30, 2021. We also reviewed the internal quality control reviews performed by NCUA OIG.

In addition, we reviewed NCUA OIG’s monitoring of GAGAS engagements performed by IPAs where the IPA served as the auditor from October 1, 2018, through September 30, 2021. During the period, NCUA OIG contracted for the audit of its agency’s fiscal year 2020 financial statements. NCUA OIG also contracted for other GAGAS engagements that were performed in accordance with *Government Auditing Standards*.

Due to the ongoing COVID-19 pandemic and mandatory telework for NCUA OIG, we conducted this peer review virtually.

Reviewed GAGAS Engagements Performed by NCUA OIG

Report No.	Report Date	Report Title
OIG-21-06	09/28/2021	Audit of NCUA’s Governance of Information Technology Initiatives
OIG-21-01	02/09/2021	Audit of NCUA’s Consumer Complaint Program

Reviewed Monitoring Files of NCUA OIG for Contracted GAGAS Engagements

Report No.	Report Date	Report Title
OIG-21-02/03/04/05	02/16/2021	NCUA’s 2020 Financial Statement Audits for the Share Insurance Fund, Operating Fund, Central Liquidity Facility, and Community Development Revolving Loan Fund



October 1, 2021–March 31, 2022



Enclosure 2

Office of Inspector General

March 15, 2022

Joaquin Ferrao  
Acting Inspector General  
Peace Corps Office of Inspector General  
Washington, D.C. 20526

Subject: System Review Report of the National Credit Union Administration Office of Inspector General Audit Organization

Dear Mr. Ferrao:

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 and applicable legal and regulatory requirements 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