



**NCUA**  
National Credit Union Administration

OFFICE OF  
INSPECTOR GENERAL



# Semiannual Report to the Congress

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April 1–September 30, 2019

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## A Message from the Inspector General

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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 September 30, 2019. 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 regulatory process.

During this reporting period, the audit division issued a report on cybersecurity at the largest credit unions. We conducted a self-initiated audit to determine whether the Office of National Examinations and Supervision (ONES) provides for adequate oversight of its credit unions' cybersecurity programs to assess whether the credit unions are taking sufficient and appropriate measures to protect the confidentiality, availability, and integrity of credit union assets and sensitive credit union data against cyber-attacks.

We determined that ONES's examination program provides for adequate oversight of credit union cybersecurity programs. We learned the ONES's examination program includes the NCUA's Automated Cybersecurity Examination Tool (ACET) Maturity Assessment (ACET Assessment) the NCUA implemented effective for 2018. We also learned ONES completed required ACET Assessments of its credit unions during 2018 and plans to complete its remaining ACET Assessments during 2019. Furthermore, we learned the NCUA is in the process of updating its IT examination program for continued and enhanced oversight of its credit unions' cybersecurity programs beyond 2019. As a result, we did not make any recommendations.

On the investigative side, the Office of Investigations opened four cases and closed two cases during the reporting period. The two cases involved NCUA employees. In one case, our investigation sustained the allegations and the NCUA terminated the employee. The other investigation did not sustain the allegations. You will find more details about these cases later in this report.



I would like to thank Chairman Hood and Board Members McWatters and Harper for their continued support of the OIGs work and reports. The Board and NCUA management are responsive to OIG recommendations and strive to implement corrective actions expeditiously. I look forward to our continued working relationship to improve the operations at NCUA.

James W. Hagen  
Inspector General

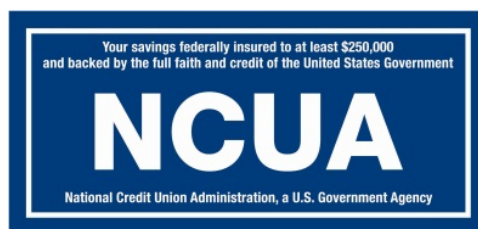


April 1–September 30, 2019

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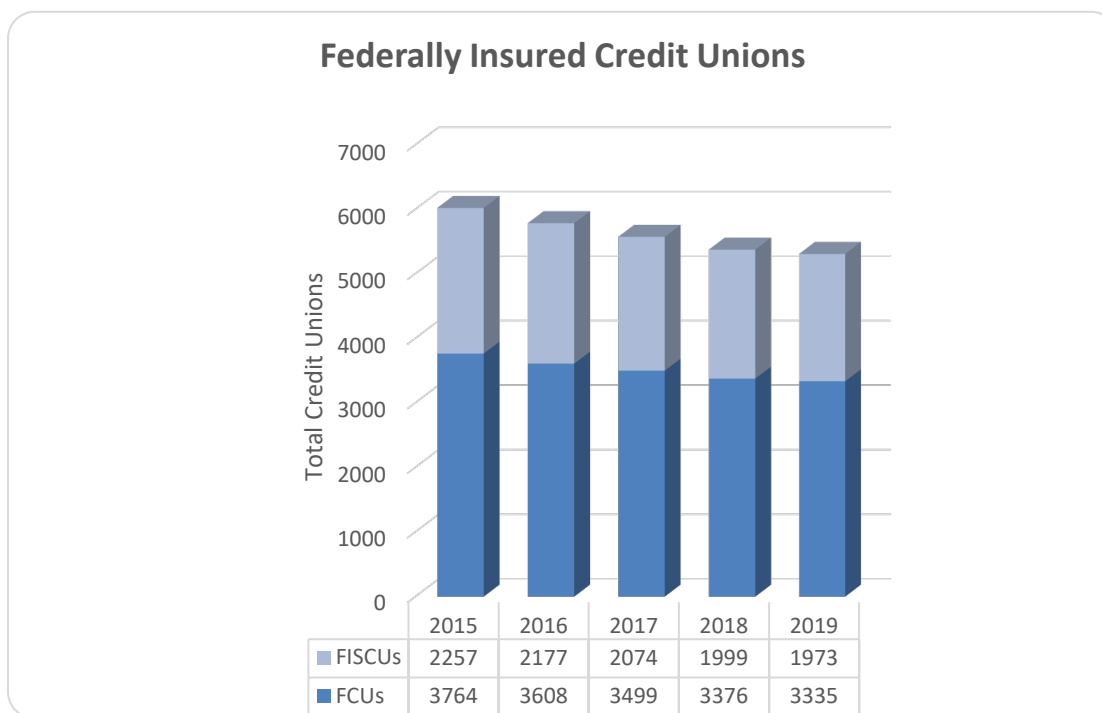
The Office of Inspector General (OIG) promotes the economy, efficiency, and effectiveness of NCUA programs and operations, and detects and deters fraud, waste, and abuse, thereby supporting the NCUA’s mission of monitoring and promoting safe and sound federally insured credit unions.

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.



## 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, 2019, the NCUA was supervising and insuring 3,335 federal credit unions and insuring 1,973 state-chartered credit unions, a total of 5,308 institutions. This represents a decline of 41 federal and 26 state-chartered institutions since December 31, 2018, for a total decrease of 67 credit unions nationwide, primarily as a result of consolidation consistent with long-running industry trends.



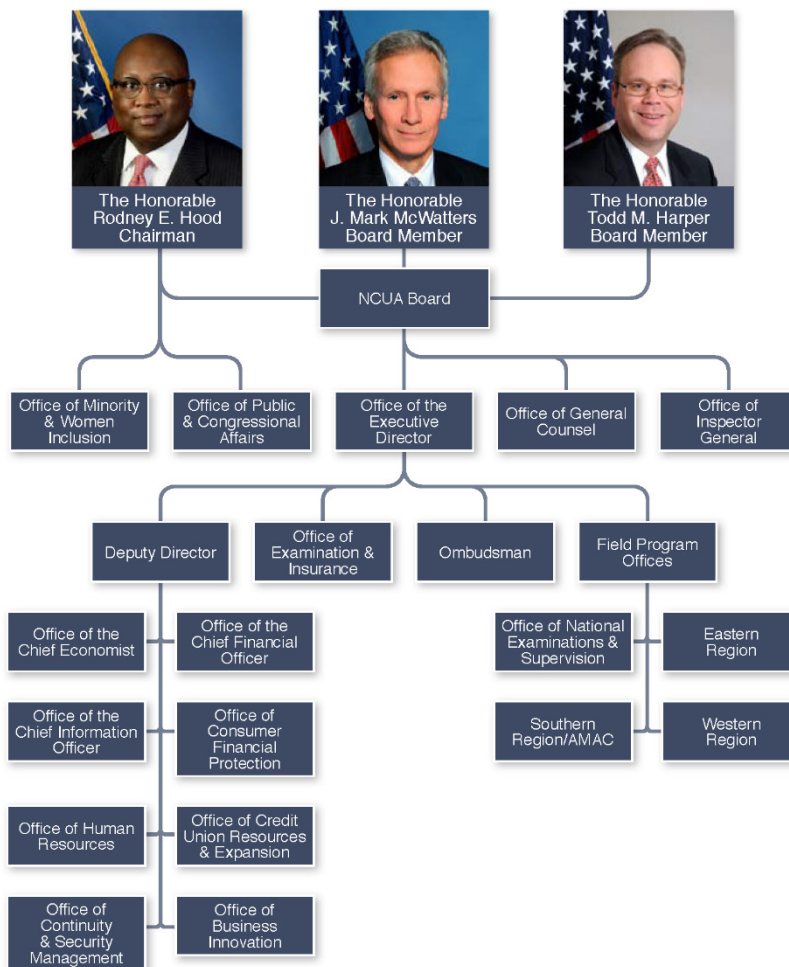
NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve 6-year terms. Terms are staggered, so that one term expires every 2 years. The Board is responsible for the management of the NCUA, including the 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).





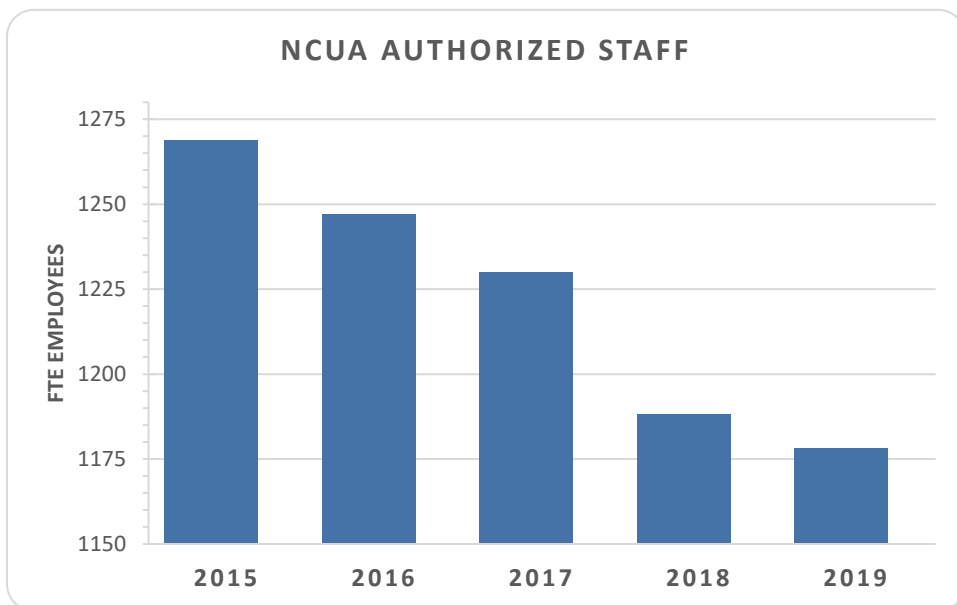
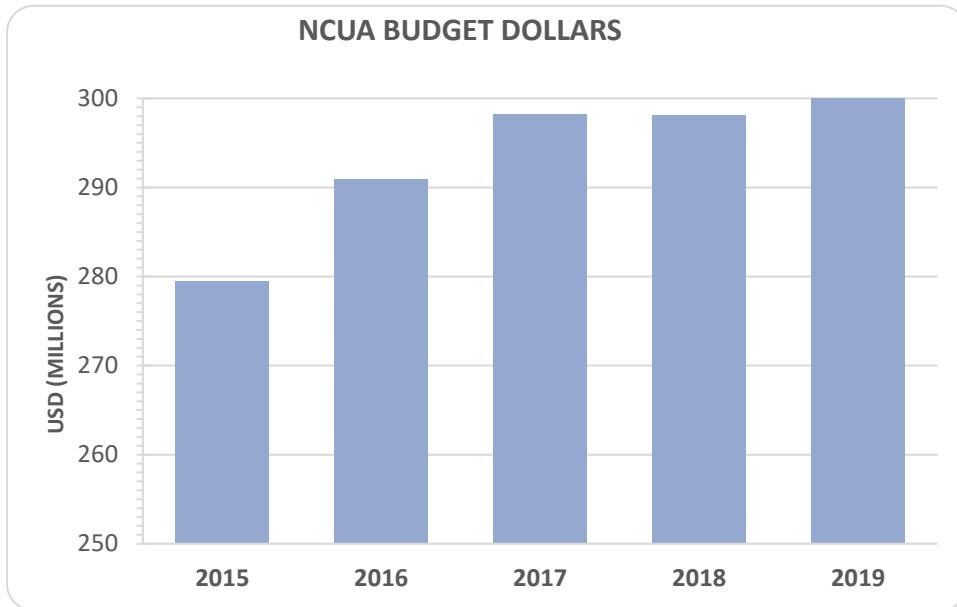
The NCUA executes its program through its Alexandria, Virginia central office, and regional offices in Alexandria, Virginia (Eastern); Austin, Texas (Southern); and Tempe, Arizona (Western). The NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer to the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


**National Credit Union Administration  
Organizational Chart**





The NCUA’s Board adopted its 2019 operating budget of 304,398,000 on November 15, 2018. The full time equivalent (FTE) staffing authorization for 2019 is 1,178 representing a decrease of 10 FTE from 2018.





## NCUA Highlights

### **Hood and Harper Sworn in as NCUA Board Chairman and Board Member**

On April 8, 2019, the Honorable Rodney E. Hood and the Honorable Todd M. Harper were sworn in as NCUA Board Members, and Mr. Hood was designated as Board Chairman. Mr. Hood previously served as Vice Chairman of the Board from November 2005 to August 2009. Mr. Harper previously served as director of the NCUA’s Office of Public and Congressional Affairs from February 2011 to February 2017 and was also chief policy advisor to former Board Chairmen Debbie Matz and Rick Metsger. Board Member J. Mark McWatters, whose term expired in August 2019, stated that he would remain on the Board until a new member is nominated and confirmed.

### **Chairman Hood Appoints H. Lenwood Brooks Chief of Staff**

On September 25, 2019, Chairman Hood appointed H. Lenwood Brooks, V, as his Chief of Staff. Mr. Brooks joined the NCUA on May 28 as Acting Chief of Staff and Director of the Office of External Affairs and Communications. Mr. Brooks came to the NCUA from the Securities Industry and Financial Markets Association, where he served as Vice President of Communications and led the trade association’s external affairs activities. Previously, Mr. Brooks served on Capitol Hill as an advisor to Senator Roger F. Wicker (R-Miss.), a member of the Senate Banking Committee.

### **NCUA Chairman Hood Appoints Johnny Davis as Cybersecurity Advisor**

On June 20, 2019, the NCUA Board Chairman Rodney E. Hood appointed Johnny E. Davis, Jr. as Special Advisor to the Chairman for Cybersecurity. In appointing Mr. Davis to this role, Chairman Hood stated that cybersecurity is one of his top priorities. Mr. Davis also serves as the Director of the Division of Critical Infrastructure in the NCUA’s Office of Examination and Insurance.

### **Catherine Galicia Named Senior Policy Counsel to Board Member Harper**

On July 12, 2019, Board Member Harper appointed Catherine Galicia as his Senior Policy Counsel. Ms. Galicia previously directed legislative affairs at the Consumer Financial Protection Bureau. Ms. Galicia has worked on financial services policy since 1995, including as senior counsel for the Senate Banking Committee, associate vice president for legislative affairs at the Mortgage Bankers Association, and vice president and director of government affairs at Banco Popular.



## NCUA-SBA Partnership to Help Credit Unions Support Small Businesses

The NCUA announced on April 30, 2019, a 3-year collaborative effort with the U.S. Small Business Administration (SBA) to bring small businesses and credit unions together and expand awareness about SBA programs. The NCUA and the SBA signed a memorandum of understanding to undertake a series of initiatives intended to help credit unions better understand and make use of SBA-backed loans and resources, including webinars, training events, and media outreach.

## NCUA Paid \$160.1 Million in Dividends

NCUA paid \$160.1 million in dividends from the Share Insurance Fund to more than 5,500 credit unions during the second quarter of 2019. The NCUA Board previously approved this payment in March because the Share Insurance Fund's equity ratio was 1.39 percent at the end of 2018, above the Board-approved normal operating level of 1.38 percent, which triggered a distribution under the Federal Credit Union Act and the NCUA's rules and regulations. This was the second equity distribution since the closure of the Temporary Corporate Credit Union Stabilization Fund and the transfer of its assets to the Share Insurance Fund in October 2017. The NCUA Board stated that it would continue to monitor the health and risk exposure of the Share Insurance Fund and would evaluate the normal operating level annually to determine its appropriate level, based on an analysis of data and trends.

## CURE Expanding Resources for Credit Union

The NCUA Board held its fifth open meeting on May 23, 2019, and unanimously approved one item:

- A proposed rule allowing a federal credit union to accept nonmember and public unit shares up to 50 percent of its unimpaired capital and surplus.

### *Proposed Rule Raises Nonmember Shares Limit to 50 Percent*

Federal credit unions would be able to accept nonmember and public unit shares up to 50 percent of paid-in and unimpaired capital and surplus under a proposed rule approved by the Board.

Under the Federal Credit Union Act, a federal credit union may have up to 20 percent of total shares, or \$3 million, whichever is greater, from nonmembers under certain circumstances. A federal credit union can also request a waiver from this limit from an NCUA regional director, and that waiver request must include a specific, written plan for how the additional shares would be used.

The proposed rule would raise the nonmember share limit to 50 percent and eliminate the waiver request process. A federal credit union would be required to develop a specific use plan if its



nonmember shares, combined with its borrowings, exceeds 70 percent of paid-in and unimpaired capital and surplus.

## **Board Proposes Delaying Risk-Based Capital Rule Until 2022**

The NCUA Board held its sixth open meeting on June 20, 2019, and approved one item by a 2-1 Board vote:

- A proposed rule delaying the effective date of the agency’s risk-based capital (RBC) rule to January 1, 2022.

Chairman Hood and Board Member McWatters, who voted for the delay, said that it would provide the NCUA Board time to consider additional improvements to credit union capital standards, such as subordinated debt authority, capital treatment for asset securitization, and a community bank leverage ratio equivalent for credit unions. It also would give the agency time to integrate changes into the rule before it goes into effect. During the delay period, the NCUA’s current prompt corrective action requirements would remain in effect.

The Board previously had approved the RBC at its October 2015 meeting and it was scheduled to go into effect January 1, 2019. However, at its October 2018 meeting, the Board unanimously approved a rule that delayed the effective date to January 1, 2020, and raised the asset threshold for a complex credit union from \$100 million to \$500 million.

Based on Call Report data from the end of 2018, if the NCUA’s RBC rule were to go into effect today, 545 complex credit unions would be subject to its requirements, and more than 99 percent of all complex credit unions would be considered well capitalized.

## **Appraisal Rule to Boost Economic Activity and Job Creation in Communities**

The NCUA held its seventh open meeting on July 18, 2019, and approved three items:

- A final rule amending the agency’s regulation requiring real estate appraisals for certain transactions, intended to provide greater clarity and regulatory relief.
- A proposed interpretive rule and policy statement intended to expand career opportunities for people convicted of certain minor offenses.
- A final rule updating the agency’s fidelity bond requirements for corporate and natural-person credit unions.



## Payday Alternative Loan Rule to Create More Alternatives for Borrowers

The NCUA Board held its eighth open meeting on September 19, 2019, and approved three items:

- A final rule allowing federal credit unions to offer an additional payday alternative loan option to members.
- A final rule to clarify the agency’s regulation covering required credit union supervisory committee audits and providing credit unions with additional flexibility in the audit process.
- A final rule updating, clarifying, and simplifying federal credit union bylaws.



## 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 the federally insured credit union call reports, the NCUA produces a quarterly credit union data summary report and a quarterly financial trend report. 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. An NCUA OIG staff assessment of the June 30, 2019 quarterly data summary and financial trend reports found that key financial indicators were positive.

### Key Financial Indicators Favorable

The June 30, 2019 quarterly data summary report provided a comparison of the second quarter 2019 data to the same quarter in the previous year. For major balance sheet items and key ratios, the report presented the following four-quarter percentage changes for the nation's 5,308 federally insured credit unions: assets increased by 6.3 percent; net worth ratio increased from 11.01 to 11.27 percent; and the loan to share ratio increased from 83.0 percent to 83.3 percent. The delinquency ratio decreased from .67 percent to .63 percent. Credit union return on average assets increased from .90 percent to .97 percent.

### Savings Trend to Regular Shares

Total shares and deposits grew 6.0 percent, or \$72.1 billion, increasing the balance to \$1,279.8 billion. Regular shares accounted for 35.82 percent of total shares and deposits or \$458.45 billion. Money market shares comprised 20.63 percent or \$264.01 billion. Share certificates represented 20.70 percent or \$264.93 billion. Share drafts accounted for 14.77 percent or \$189.06 billion. IRA/KEOGH accounts comprised 6.21 percent or \$79.5 billion; non-member deposits comprised .95% or \$12.20 billion; and all other shares comprised .91% or \$11.64 billion of total shares and deposits.

### Loan Volume Increasing

Total loans increased 6.4 percent, or \$64.3 billion, bringing the balance to \$1,066.4 billion. Total net loans of \$1,056.98 billion comprised 69.53 percent of credit union assets. First mortgage real estate loans accounted for the largest single asset category with \$438.11 billion or 41.08 percent of total loans. Used vehicle loans of \$223.99 billion represented 21.0 percent, while new vehicle loans amounted to \$146.49 billion or 13.74 percent. Other real estate loans of \$90.39 billion accounted for 8.48 percent. Unsecured credit cards totaled \$62.41 billion or 5.85 percent, while all other unsecured loans totaled \$44.41 billion or 4.16 percent. Leases receivable and all other loans represented \$60.58 billion or 5.68 percent of total loans.



## Legislative Highlights

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### Bill Introduced to Lengthen Maturity of Credit Union Loans

On March 8, 2019, Representative Lee Zeldin (R-NY) introduced H.R. 1661, which would amend section 107(5) of the Federal Credit Union Act to grant the NCUA Board the ability to increase certain credit union loan maturities past 15 years.

### Bill Introduced to Require NCUA and CFPB to Review Regulations

On June 11, 2019, Representative Barry Loudermilk (R-GA) introduced the Comprehensive Regulatory Review Act, H.R. 3198, which would amend the Economic Growth and Regulatory Paperwork Reduction Act of 1996 by adding NCUA and the Consumer Financial Protection Bureau to those financial regulators who must complete a comprehensive review of their financial regulatory requirements every 7 years, rather than the 10 years specified in the 1996 law. After performing the reviews, regulators must consider tailoring regulations to limit compliance impact, cost, liability risk, and other burdens.

### Senate Passed Bill to Reduce Improper Payments

On July 16, 2019, the Senate passed the Payment Integrity Information Act of 2019, S. 375. The bill would require agencies to strengthen their reviews to determine whether a program's spending is at risk for improper payments, including requiring agencies to identify new methods for estimating and detecting improper payments to contractors; devise and implement a plan to eliminate known vulnerabilities; and require agencies to coordinate with each other in developing and using data analysis procedures. The bill also would require the Office of Management and Budget and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) to issue guidance for annual reporting on agencies' compliance.

### House Passed Inspector General Protection Act

On July 17, 2019, the House passed the Inspector General Protection Act, H.R. 1847, which would require agency heads to notify Congress at least 30 days in advance of a decision to place an IG in paid or unpaid non-duty status. This would add to the IG Act's existing requirement that the agency head communicate in writing to Congress the reasons for removing or transferring an IG not later than 30 days in advance of the removal or transfer.





## **Bill Introduced to Require Study of Third Party Access to Consumer Financial Data**

On July 25, 2019, Representative Gregory Meeks (D-NY) introduced the Open Banking Study Act of 2019, H.R. 4047, which would require NCUA and other federal financial regulators to carry out an independent study of credit unions' and other regulated entities' processes for allowing third parties to access consumer-authorized financial data.

## **House Passed SAFE Banking Act**

On September 25, 2019, the House passed the Secure and Fair Enforcement Banking Act of 2019 (the SAFE Banking Act), H.R. 1595, which would prohibit NCUA from penalizing credit unions for providing financial services to cannabis-related legitimate businesses and would protect credit unions from liability under federal law for providing such financial services or investing related income. This bill also applies to banks and their regulators. The related Senate bill, S. 1200, was introduced on April 11, 2019, and at the close of this reporting period, had 33 co-sponsors.



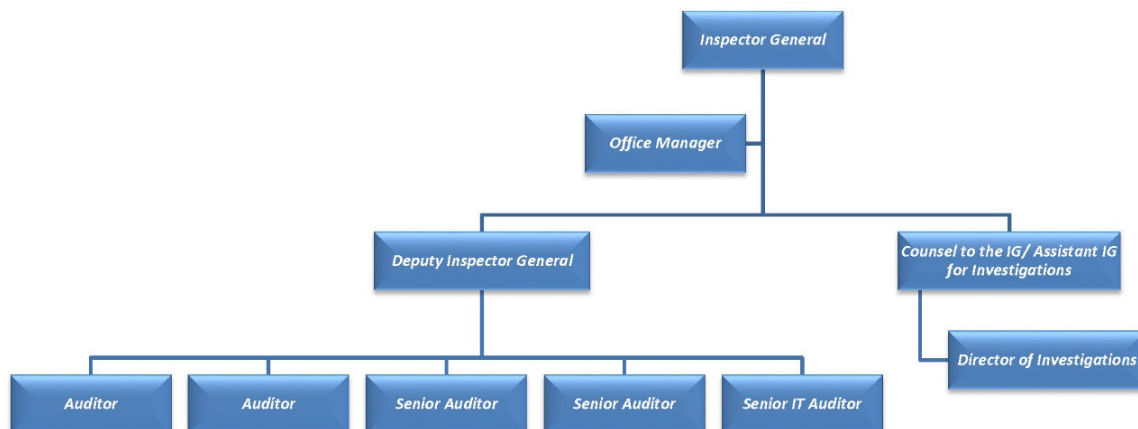
## Office of Inspector General

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, 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 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
4. Keeping the NCUA Board and the Congress apprised of significant findings and recommendations.

NCUA OIG ORGANIZATIONAL CHART





## Audit Activity

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### Audit Reports Issued

#### **OIG-19-07 Audit of the NCUA Office of National Examinations and Supervision Oversight of Credit Union Cybersecurity Programs, issued July 31, 2019**

The OIG conducted this self-initiated audit to further assess NCUA’s Information Technology (IT) examination program. The objective of our audit was to determine whether the Office of National Examinations and Supervision (ONES) provides for adequate oversight of its credit unions’ cybersecurity programs to assess whether the credit unions are taking sufficient and appropriate measures to protect the confidentiality, availability, and integrity of credit union assets and sensitive credit union data against cyber-attacks.

Results of our audit determined that ONES’s examination program provides for adequate oversight of credit union cybersecurity programs. In addition, we learned the NCUA is in the process of updating its IT examination program to include continued and enhanced maturity assessments of its credit unions’ cybersecurity programs beyond 2019. Because ONES provided adequate oversight by completing required ACET Assessments of its credit unions during 2018 and planned to complete its remaining ACET Assessments during 2019, we made no recommendations to management as a result of this audit.

### Audits in Progress

#### **Audit of NCUA’s State Supervisory Authority Examination Process**

The State Supervisory Authority is the primary regulator for federally insured state chartered credit unions (FISCUs) whereas NCUA is responsible for managing risk to the Share Insurance Fund, and other circumstances, as applicable. Supervision includes, but is not limited to, examinations, follow-up examinations, onsite contacts, offsite contacts, offsite monitoring, and quarterly trend analysis. NCUA’s FISCU examination program institutes standards for a high quality examination process. Each region maintains an operating agreement with each individual state. The operating agreements outline the method and procedures to monitor FISCUs for insurance risk.

Our objectives are to determine whether the NCUA provides shared oversight of FISCUs to assess their condition and address material risks that may negatively affect the Share Insurance Fund.



## **Audit of the NCUA’s Consumer Complaint Program**

The NCUA created the Office of Consumer Protection (OCP) in 2010 to establish an office with a sole focus on federal consumer protection matters. Due to agency reorganization, in 2016, OCP became the Office of Consumer Financial Protection and Access, and, in January 2018, was renamed the Office of Consumer Financial Protection (OCFP). The OCFP is located in the NCUA’s headquarters in Alexandria, VA. OCFP’s mission includes establishing, consolidating, and coordinating consumer protection functions within the agency. OCFP was delegated responsibility for answering inquiries from credit unions, their members, and consumers involving federal consumer protection and share insurance matters. The NCUA centralized its federal consumer protection inquiry and complaint processes within OCFP to provide accurate, consistent, and timely service in answering questions and resolving disputes about these matters.

Our objectives are to determine whether the NCUA processes consumer complaints: 1) efficiently and effectively; 2) in compliance with applicable laws, regulations, policies and procedures, and other requirements; and 3) uses consumer complaint information and trends data in operations.

## **Audit of the NCUA’s Examination Process and Oversight Authority of CUSOs and other (non-CUSO) Third-party Vendors**

The NCUA’s Office of Examination and Insurance is responsible for evaluating and reviewing Federally Insured Credit Unions’ third party relationships with vendors. There are two general classes of vendors: CUSOs, and other (non-CUSO) third party vendors. Credit unions utilize the skills and resources of qualified third parties to expand service offerings, increase efficiencies, and manage processes and programs. These relationships pose various potential risks to credit unions, as they must relinquish a certain level of control over products and services to the third party vendor as an inherent part of the relationship. The potential for vendor systemic risk is significant given the interconnectedness of the credit union industry and credit unions’ common use of vendors and CUSOs for services.

Out of four Federal Financial Institutions Examination Council banking agencies, the NCUA is the only one lacking examination authority over federal financial institution vendors. The NCUA has issued guidance regarding the due diligence credit unions should apply to third-party vendors. In addition, when NCUA deems a CUSO may pose an undue risk to the Share Insurance Fund, the agency performs a consensual review with CUSO management. However, due to lack of statutory vendor oversight and regulatory enforcement authority, the NCUA faces unique challenges for both CUSO and non-CUSO vendors.

Our objectives are to determine whether: 1) the NCUA’s examination process adequately assesses the risks imposed by CUSOs and third-party vendors on credit unions, and 2) the adequacy of the NCUA examiners’ assessment of credit union management’s due diligence over CUSOs and third-party vendors.



## **Audit of NCUA’s Handling of Personally Identifiable Information at Liquidated Credit Unions**

The Federal Credit Union Act provides the NCUA with the authority to liquidate failed credit unions and does so through the Asset Management and Assistance Center (AMAC). AMAC manages and disposes of assets acquired from liquidations, which includes the books, records, assets, and property of every description of liquidated federally insured credit unions. As the liquidating agent, AMAC also encounters many records that contain personally identifiable information (PII) such as names, addresses, dates of birth, Social Security numbers or other government-issued identifiers, and places of employment.

Our objectives of this audit are to: (1) assess the NCUA and the AMAC’s policies, procedures, and practices over liquidated credit unions, and (2) determine whether AMAC has adequate internal controls in place over liquidated credit unions’ records that contain PII from initial identification through destruction.

## **NCUA’s Compliance under the Digital Accountability and Transparency Act of 2014**

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 the 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 provide Congress with the second required report by November 8, 2019, with a subsequent report following on a 2-year cycle, in November 2021. The NCUA OIG is a participant in this IG community effort.

The NCUA OIG is currently conducting an audit to assess 1) the completeness, timeliness, quality, and accuracy of fiscal year 2019, first quarter financial and award data – October 1, 2018 – December 31, 2018) submitted for publication on USASpending.gov, and 2) the NCUA’s implementation and use of the Government-wide financial data standards established by OMB and Treasury. We anticipate issuing a final report by the deadline in November 2019.

## **FY 2019 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 its 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 October 31, 2019, and final FISMA audit report in November 2019.

### **NCUA 2019 Financial Statement Audits**

The OIG has contracted the accounting firm of KPMG to conduct the 2019 financial statement audits of the NCUA Operating Fund, Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund. In addition to the financial statement audits, KPMG is providing audit assurance on the NCUA’s material line items and note disclosures for the Audit of the U.S. Government’s Fiscal Year 2019 Consolidated Financial Statements.

- The NCUA Operating Fund was established as a revolving fund managed by the NCUA Board for the purpose of providing administration and service to the federal credit union system.
- The Share Insurance Fund was established as a revolving fund managed by the NCUA Board to insure member share deposits in all Federal credit unions and qualifying state credit unions.
- The Central Liquidity Facility was established as a mixed ownership government corporation managed by the NCUA Board to improve general financial stability by meeting the liquidity needs of credit unions.
- The purpose of the Community Development Revolving Loan Fund is to stimulate economic activities in the communities served by low-income credit unions. This in turn will result in increased income, ownership, and employment opportunities for low-wealth residents and other economic growth.

The NCUA, as a Calendar Year (CY) significant component entity, is required to have audited financial statements. In November 2019, we will issue an auditor’s report on the material line items and note disclosures that were identified and communicated by the U.S. Department of Treasury for fiscal year 2019 that includes the following:

- Report on the CY significant component entity’s material line items and note disclosures for fiscal years ended September 30, 2019 and 2018, including
  - Opinion on the CY significant component entity’s material line items, including the accompanying notes.

In February 2020, we will issue the auditor’s reports and opinions on the financial statements of the NCUA’s four permanent funds for calendar years ended December 31, 2019 and 2018.



## Material Loss Reviews

The Federal Credit Union Act requires the NCUA OIG to conduct an 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 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 sustained one loss that exceeded the statutory threshold. Accordingly, we are currently conducting the following MLR.

### Material Loss Review of CBS Employees Federal Credit Union

During this reporting period, the OIG contracted with Moss Adams LLP to conduct an MLR of CBS Employees Federal Credit Union. Moss Adams is reviewing the credit union to: 1) determine the cause(s) of the failure and the resulting estimated \$39 million loss to the Share Insurance Fund, 2) assess NCUA's supervision of the credit union, and 3) provide appropriate suggestions and/or recommendations to mitigate future losses. To achieve these objectives, Moss Adams will analyze NCUA examination and supervision reports and related correspondence; interview management and staff from NCUA's Western Region; and review NCUA guidance, policies and procedures, NCUA Call Reports, and Financial Performance Reports. We expect to issue the final report in November 2019.

The Dodd-Frank Act further requires the OIG to assess all losses to the Share Insurance Fund under the material loss threshold to determine whether unusual circumstances exist to warrant conducting a full-scope MLR. During the reporting period, the Share Insurance Fund sustained one loss under the threshold. Accordingly, we conducted a limited scope review to determine whether unusual circumstances existed. We discuss this further on page 27.



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

Following is a list of OIG reports with significant unimplemented recommendations as of September 30, 2019. 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-13-09** *Material Loss Review of El Paso Federal Credit Union*, issued August 26, 2013, recommendation #3. Update policies and procedures to require third party confirmations be obtained regularly for all accounts where the balance or activity is significant to the operations of the credit union.

Status: Open. In September 2019, the NCUA Board voted to approve a final rule to clarify the agency’s regulation covering required credit union supervisory committee audits and providing credit unions with additional flexibility in the audit process. The final rule also addressed third party confirmations for material accounts. The new rule will become effective on January 6, 2020.

2. **OIG-15-11** *Review of NCUA’s Interest Rate Risk Program*, issued November 13, 2015, recommendation #1. Modify the NCUA’s CAMEL Rating System by developing an “S” rating to better capture a credit union’s sensitivity to market risk (“S” for market risk Sensitivity) and to improve interest rate risk clarity and transparency.

Status: Open. Management indicated that adopting the “S” for the CAMEL rating system involves public notice and comment, NCUA Board approval, and cohering regulation and system changes. Management noted that the agency is engaged in a multi-year effort to update its legacy systems – the Enterprise Solutions Modernization program. As part of this program, management incorporated the ability to assign and capture the “S” component as an optional part of the CAMEL rating during the new examination application released in September 2019. The change clears one of the IT hurdles to adopt the “S” rating if the Board so chooses, and to capture the “S” rating for federally insured state-chartered credit unions in the states where the state regulators have adopted the “S” rating. Management indicated that should the Board choose to adopt the “S” rating, they will be in a position to consider the necessary policy changes.

3. **OIG-19-06** *Material Loss Review of Melrose Credit Union, Lomto Federal Credit Union, and Bay Ridge Federal Credit Union*, issued March 29, 2019, recommendation #1. Institute a formal process to regularly identify, analyze, and document concentration risk issues in credit unions or groups of credit unions, including but not limited to loan concentrations that could potentially pose a significant risk to the share insurance fund.





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Additionally, the NCUA should consider developing appropriate thresholds for different concentrations that would require increased levels of risk mitigation and resources to minimize the risk to the Insurance Fund.

Status: Open. In its formal response to the report, management agreed with the recommendation and indicated they had already started to evaluate ways to enhance its processes via the Enterprise Risk Management Council (ERMC). The ERMC reviewed the results of an initial analysis of loan concentrations within credit unions, and will consider thresholds as part of a process that will be in place by December 31, 2020. In addition, the Office of Examination & Insurance has formed a Concentration Risk Working Group to develop a formal process to regularly identify, analyze, and document concentration risk issues and evaluate thresholds.

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

Following are summaries of seven OIG audit reports over six months old having twenty-two unimplemented recommendations, including any associated cost savings as of September 30, 2019. 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 report recommendation tracking system.

### Brief Report Summary and Unimplemented Recommendations

1. **OIG-13-09** *Material Loss Review of El Paso’s Federal Credit Union*, issued August 26, 2013, Number of Unimplemented Recommendations: 1, Potential Cost Savings: \$0

We determined that El Paso’s Federal Credit Union failed due to management’s misappropriation of assets, specifically \$20 million in unrecorded nonmember share certificates, which was over four times the value of the credit union’s total assets. Our review identified issues such as management integrity, operational irregularities, internal control, and record keeping deficiencies. In addition, weak Board oversight and governance issues created an environment in which the omission of share certificates from the books of the credit union could go undetected. We also determined the loss to the NCUA’s Share Insurance Fund could have been mitigated had examiners identified several warning signs that we believe should have triggered further examination procedures designed to identify suspicious activity.

#### Unimplemented Recommendation

Recommendation #3—Current procedures allow examiners to rely on bank statements provided by credit union personnel as primary evidence for account balances. Given the importance of this information and its susceptibility to fraud, particularly in cases where internal controls are weak, certain account balances should be independently verified. Therefore, we recommend NCUA management update policies and procedures to require third party confirmations be



obtained regularly for all accounts where the balance or activity is significant to the operations of the credit union. In addition, NCUA management should require this as part of agreed-upon procedures in reviews conducted by external CPA firms.

2. **OIG-15-11** *Review of NCUA's Interest Rate Risk Program*, issued November 13, 2015, Number of Unimplemented Recommendations: 2, Potential Cost Savings: \$0

We determined the NCUA may not have been effectively capturing Interest Rate Risk (IRR) when assigning a composite CAMEL rating to a credit union. The NCUA currently assesses sensitivity to market risk under the "L" in its CAMEL rating. However, we determined that combining sensitivity to market risk with liquidity may understate or obscure instances of high IRR exposure in a credit union. The addition of an "S" rating to its CAMEL Rating System to capture and separately assess a credit union's sensitivity to market risk should improve the NCUA's ability to accurately measure and monitor interest rate risk.

### Unimplemented Recommendations

Recommendation #1—Modify the 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.

Recommendation #2—Revise the current "L" in the NCUA's CAMEL Rating System to reflect only liquidity factors.

3. **OIG-17-10** *FY2017 Federal Information Security Modernization Act Compliance*, issued November 8, 2017, Number of Unimplemented Recommendations: 1, Potential Cost Savings: \$0

The NCUA OIG identified the following four information security program areas where the NCUA needs to make improvements: risk management, identify and access management, information security continuous monitoring, and security training.

### Unimplemented Recommendation

Recommendation #4—The NCUA System Owners, in coordination with the Office of the Chief Information Officer, document and implement role-based account management procedures including but not limited to authorizing, creating, modifying, disabling, removing, logging, and reviewing system accounts in accordance with the NCUA policy.

4. **OIG-18-05** *Audit of the NCUA's Comprehensive Records Management Process*, issued March 14, 2018, Number of Unimplemented Recommendations: 1, Potential Cost Savings: \$0



We determined that the NCUA lacked a comprehensive records management program and needed to implement the steps to correct the areas of identified weakness. In addition, we found that the depth and scope of the issues we identified were due in large part to management not making records management a priority due to competing priorities. We concluded that the NCUA did not have a comprehensive records management framework, retention, and disposal system in place. We also concluded that those charged with governance over records management for the agency did not consistently follow applicable laws, regulations, and guidance to ensure the NCUA had a comprehensive records management program in place.

## Unimplemented Recommendation

Recommendation #5—Fully utilize NARA’s Capstone approach, or a comparably developed approach, by storing email in an easily searchable, retrievable, and retainable format to ensure usability by the NCUA, and to ensure NARA can receive and access the records.

5. **OIG-19-07** *FY2018 Federal Information Security Modernization Act Compliance*, October 31, 2018, Number of Open Recommendations: 10, Potential Cost Savings: \$0

The NCUA OIG identified the following information security program areas where the NCUA needs to make improvements: information security continuous monitoring, configuration management, personnel security, and risk management.

## Unimplemented Recommendations

Recommendation #1—The Office of the Chief Information Officer update the *OCIO NCUA Information Systems Security Manual* to establish a timeframe within which System Owners document the system risk assessments and Plan of Action and Milestones after completing security control assessments.

Recommendation #2—The NCUA management ensure system owners for the GSS (the Office of the Chief Information Officer) and the IIS (Credit Union Resources and Expansion) address all control weaknesses from Security Control Assessments in their System Risk Assessments and Plans of Action and Milestones

Recommendation #3—The NCUA management ensure the system owners timely and adequately manage and maintain the completion dates within the Plan of Action and Milestones.

Recommendation #4—The Office of the Chief Information Officer ensure the Office of the Chief Information Officer (OCIO) National Credit Union Administration (NCUA) Information Systems Security Manual addresses documenting security impact analysis results and the level of detail required.



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Recommendation #5—The Office of the Chief Information Officer ensure configuration management procedures address explicit review and discussion of the security impact analysis results prior to approving or denying system changes.

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

Recommendation #7—The Office of Continuity and Security Management work with the Office of Human Resources to improve the notification process for when employees transfer to new positions.

Recommendation #8—The Office of the Chief Information Officer enforce the policy to remediate patch and configuration related vulnerabilities within agency defined timeframes.

Recommendation #9—The Office of the Chief Information Officer implement a process to detect and migrate unsupported software to supported platforms before support for the software ends.

Recommendation #10—The Office of the Chief Information Officer implement a process to identify authorized software in its environment and remove any unauthorized software.

- 6. *OIG-19-05 Audit of the NCUA’s Information Technology Equipment Inventory***, issued March 28, 2019, Number of Open Recommendations: 4, Potential Cost Savings: \$440,000

Our audit determined that although the NCUA has an instruction on the disposition of personal property, including the disposition of IT equipment, the instruction needs improvements, including broadening its application to the entire life cycle of IT equipment, not just its disposition. In addition, we determined that procedures implementing the instruction are needed, including requiring employees to sign receipts when they are issued IT equipment and requiring performance plans for employees responsible for IT equipment inventory management to have that criterion reflecting that responsibility.

Our audit also determined that the NCUA did not adequately monitor, account for, and dispose of all of its IT equipment. We found that the NCUA did not follow its instruction to dispose of IT equipment “as promptly as possible” and that two offices within the NCUA did not effectively communicate with each other regarding equipment disposition. We also determined that the NCUA did not use existing procedures to remove disposed equipment from its financial systems and that its current financial system did not provide reliable information for inventory verifications because it was not a comprehensive asset management system. We determined that the implementation of such a comprehensive asset management system could provide NCUA management with reliable information to support decision-making and evaluate the performance of the inventory management program. Our audit identified \$440,000 in funds that could have been put to better use.



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## Unimplemented Recommendations

Recommendation #3—Ensure performance criteria are incorporated into performance plans for all employees who are responsible for managing the agency’s IT equipment.

Recommendation #4—Implement a comprehensive asset management system that designated employees must update, within a specific number of days, upon acquisition, distribution, and disposition of IT equipment, in accordance with NCUA’s instruction, handbook, and related documents.

Recommendation #5—Survey IT equipment at least annually to identify excess or exhausted equipment, and then sell, transfer, or donate within a specific timeframe, according to parameters established in NCUA’s instruction, handbook, and related documents.

Recommendation #7—Consider in future contracts for IT equipment the ability to buy or lease assets on demand, which would reduce costs for equipment not needed.

7. **OIG-19-06** *Material Loss Review of Melrose Credit Union, LOMTO Federal Credit Union and Bay Ridge Federal Credit Union*, issued March 29, 2019, Number of Open Recommendations: 3, Potential Cost Savings: \$0

Our audit determined the Credit Unions failed due to significant concentration of loans collateralized by taxi medallions, unsafe and unsound lending practices, weak Board and management oversight, and inadequate risk management practices.

## Unimplemented Recommendations

Recommendation #1—Institute a formal process to regularly identify, analyze, and document concentration risk issues in credit unions or groups of credit unions, including but not limited to loan concentrations, that could potentially pose a significant risk to the share insurance fund. Additionally, the NCUA should consider developing appropriate thresholds for different concentrations that would require increased levels of risk mitigation and resources to minimize the risk to the Insurance Fund.

Recommendation #2—Revise examination quality control procedures to prioritize assessing and developing risk responses for credit unions with high levels of concentration risk. The procedures should require escalated review of repeat informal enforcement actions for unresolved recommendations. If the repeat actions represent safety and soundness concerns, require escalated enforcement action, including formal enforcement action, when warranted.

Recommendation #3—Include an update to the annual examination scope requirements that examiners review credit unions’ lending procedures with respect to analyzing the ability of the borrower to meet debt service requirements. Ensure examiners address through the enforcement process any credit unions not sufficiently considering the borrower’s ability to repay the loan due



to undue reliance on the value of the collateral. If left unresolved, ensure the quality control procedures review the need for elevated enforcement action.

## **Recommendations for Corrective Action Made During the Reporting Period**

During the reporting period the OIG issued one report, which had no recommendations for corrective action.



## Report on Credit Union Non-Material Losses

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 (\$25 million plus 10 percent of the credit union’s assets) in the preceding six months due to the failure of an insured credit union. 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 six-month period from April 1 to September 30, 2019. 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, but are 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 taken, planned, or considered involving credit union officials or others; and 5) analyzing supervisory history and other review methods.

We identified one credit union that incurred a non-material loss to the Share Insurance Fund between April 1 and September 30, 2019, and conducted a limited scope review of that credit union. The chart below provides detailed information about the credit union such as the liquidation date, the estimated loss to the Share Insurance Fund, and grounds for conservatorship, merger, or other factors. We determined that proceeding with an in-depth review of the loss was not warranted because we did not identify unusual circumstances in connection with the loss.



<b>DECISIONS REGARDING LOSSES LESS THAN \$25 MILLION</b>					
<b>OIG Decision<sup>1</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	Monroe Education Employees Federal Credit Union	Southern	07/29/19	\$335,530	At cost failure due to insufficient management, poor internal controls, recordkeeping errors, high loan delinquencies and charge-offs, and undercapitalization. The NCUA approved and assisted merger of Monroe Education Employees Federal Credit Union with Gulf Winds Credit Union, effective July 29, 2019.

<sup>1</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 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 the NCUA; and (5) other, such as apparent fraud, request by the NCUA Board or management, Congressional interest, or IG request.





## Peer Reviews

*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 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 the NCUA OIG, Office of Audit**

The Farm Credit Administration (FCA) OIG completed our most recent peer review on January 24, 2019, for the 3-year period ending September 30, 2018. The FCA 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 the Government Accountability Office OIG, Office of Audit**

The NCUA OIG completed a peer review of the GAO OIG. On September 5, 2018, we issued an external peer review report for the audit function of the GAO OIG for the three year period ended March 31, 2018. The GAO received a rating of *Pass* and has no outstanding recommendations related to the peer review report.



## Investigative Activity

In accordance with professional standards and guidelines established by the United States Department of Justice (DOJ) and CIGIE, 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, the Office of General Counsel, or the appropriate regional office for response, or close the matter if contact with OCFP, OGC, or the regional office indicates that the matter has already been appropriately handled.

During this reporting period, OI opened four investigations and closed two investigations. We also continued to work on two investigations that were opened during prior reporting periods. As the table below indicates, we referred one investigative subject for prosecution during the reporting period, which was declined.

<b>Investigative Activity/Reports Issued During the Reporting Period</b>	<b>Total Number</b>
(A) Investigative reports issued during the reporting period	2
(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

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 DOJ or 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

During the reporting period, OI closed two investigations and issued two reports of investigations involving senior government employees, as described below:

#### **Misuse of Position and False Statements**

During the reporting period, OIG received allegations that an NCUA Senior Capital Market Specialist had sent improper text messages about her previous employer, an NCUA-regulated credit union. While investigating these allegations, OI found that the employee had resigned from her previous employment after being asked to resign and did not disclose that to NCUA. In her Declaration for Federal Employment, she had answered no to a question asking if she had left any job by mutual agreement because of specific problems. And, in completing the Questionnaire for Public Trust Positions, she answered no to questions asking whether she had left a job by mutual agreement following allegations of unsatisfactory performance or left a job for other reasons under unfavorable circumstances. On July 1, 2019, OI referred the matter for prosecution under 18 U.S.C. § 1001 (False Statements) to the United States Attorney's Office for the Eastern District of Virginia (EDVA). On July 2, 2019, EDVA declined the case for prosecution. A report of investigation was issued and the investigation was closed during the reporting period by OI. NCUA removed the Senior Capital Market Specialist effective September 30, 2019.

#### **Unauthorized Access to Computer Server/Documents (Not Sustained)**

During the reporting period, OIG received allegations that the personal server of a credit union service organization executive had been breached from an IP address registered to the NCUA. The NCUA's Office of the Chief Information Officer (OCIO) identified the IP address as belonging to an NCUA employee. However, the allegations were not substantiated because our investigation did not find that this employee or any other NCUA employee accessed a personal server.

### Whistleblower Retaliation

We received one whistleblower reprisal complaint from a contractor employee during the reporting period, which our investigation did not substantiate.



## 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.

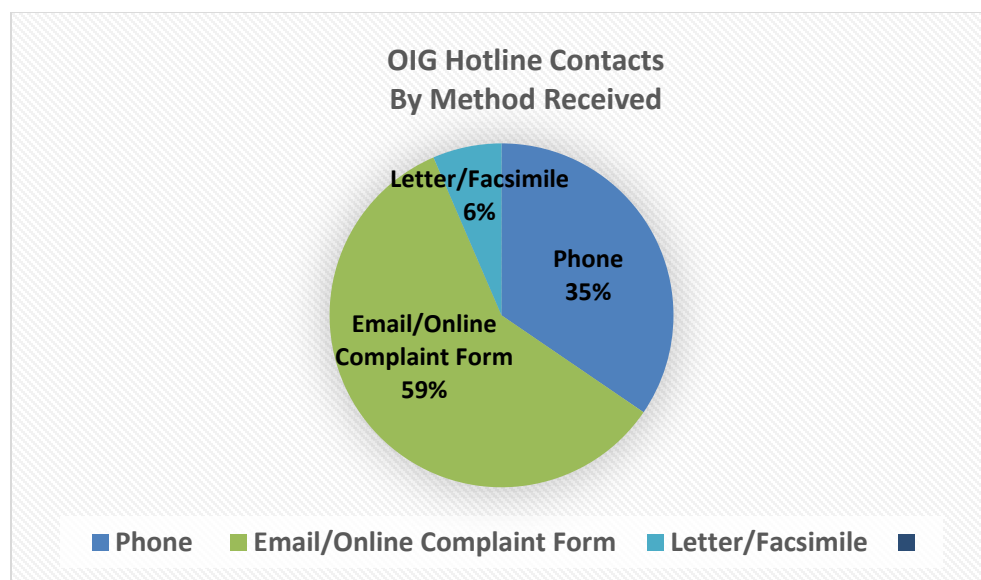


April 1–September 30, 2019

## 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 version of a 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 contact. Our Office Manager, under the direction of the Director of Investigations, administers the OIG hotline program.

During this 6-month period, we processed approximately 139 hotline contacts, the majority of which were from consumers seeking assistance with problems encountered within their respective credit unions. We referred most of these contacts to the OCFP’s Consumer Assistance Center for action. A small number of hotline contacts required additional action by OI to determine whether the matter warranted investigation by our office. OIG also responded to nine Freedom of Information Act requests during the reporting period.



OIG Hotline Contacts	Number
Phone	48
Email/Online Complaint Form	82
Letter/Facsimile	9
<b>Total:</b>	<b>139</b>



## 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.

### **NCUA Accepts OIG Recommendations for Accountable Property Instruction and Handbook and Acquisition Policy Manual**

Last reporting period, we made recommendations to the NCUA, based on our audit of the NCUA's IT inventory, that the NCUA revise its instruction on the disposition of accountable property, including the disposition of IT equipment, to broaden its application to the entire life cycle of IT equipment, not just its disposition. The NCUA accepted our recommendations by issuing a revised instruction and handbook that addressed the receipt, transfer, and disposal of accountable property.

We also made recommendations in the last reporting period that NCUA, in the revision of its acquisition policy manual, include requirements that the contracting officer and others involved in contracting promptly report to the OIG any reasonable belief that an NCUA employee, contractor, subcontractor, or potential contractor may have engaged in activities involving criminal or civil violations or other misconduct, and to further cooperate in any OIG investigation, audit, review, or inquiry. The NCUA accepted our recommendations.

### **OIG-Related Legislation and Priorities**

In addition to reviewing NCUA-related legislation, regulations, and policies, we reviewed and provided comments on a summary of legislation and legislative priorities concerning OIGs that was developed by CIGIE and provided to the CIGIE Chair/Deputy Director for Management, Office of Management and Budget. One of the legislative priorities is providing inspectors general with statutory authority to subpoena testimony from non-Federal employees. Federal employees, such as NCUA employees, already are required to cooperate with OIGs in investigations, audits, and other work. Providing OIGs statutory testimonial subpoena authority is important because OIG oversight can be substantially hampered if contractors or others outside of agencies refuse to cooperate in OIG investigations and audits. Another legislative priority for OIGs is to create a specific exemption under the Freedom of Information Act for sensitive information relating to a federal agency's information security program or practices. This is important because OIGs' FISMA reviews and other IT-related work contain sensitive information that, if released, could jeopardize information security.

We also reviewed a draft bill that would change the IG Act's semiannual reporting requirement.



April 1–September 30, 2019

OIG also reviewed the following legislation and NCUA regulations and letters to credit unions during this reporting period.

<b>List of Legislation and NCUA Regulations and Letters Reviewed</b>	
<b>Legislation</b>	<b>Title</b>
H.R. 1661	Amendment to Section 107(5) of Federal Credit Union Act
H.R. 3198	Comprehensive Regulatory Review Act
S. 375	Payment Integrity Information Act of 2019
H.R. 1847	Inspector General Protection Act
H.R. 4047	Open Banking Study Act of 2019
H.R. 1595	Secure and Fair Enforcement Banking Act of 2019
<b>Regulations</b>	<b>Title</b>
84 Fed. Reg. 16796	Proposed Rule: Compensation in Connection with Loans to Members and Lines of Credit to Members
84 Fed. Reg. 25018	Proposed Rule: Public Unit and Nonmember Shares
84 Fed. Reg. 30048	Proposed Rule: Delay of Effective Date of the Risk-Based Capital Rules
84 Fed. Reg. 36488	Proposed Interpretive Ruling and Policy Statement: Exceptions to Employment Restrictions Under Section 205(d) of the Federal Credit Union Act
<b>Letters to Credit Unions</b>	<b>Title</b>
19-CU-02	Guidance to NCUA Staff on Evaluating Secondary Capital Plans
19-11	CFPB Delays Compliance Date for Underwriting Requirements of the Payday, Vehicle Title, and Certain High-Cost Installment Loans Rule
19-12	CFPB and FRB Issue Amendments to Regulation CC
19-13	CFPB Announces Adjusted 2020 TILA Fees and Thresholds
19-14	Federal Reserve Issues Correction to Final Rule on Availability of Funds and Collection of Checks



<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>	<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

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.



<b>TABLE III: SUMMARY OF OIG ACTIVITY DURING THE REPORTING PERIOD</b>		
<b>Part I—Audit Reports Issued</b>		
Report Number	Title	Date Issued
OIG-19-07	Audit of the NCUA Office of National Examinations and Supervision Oversight of Credit Union Cybersecurity Programs	7/31/19
<b>Part II—Audits in Progress (as of September 30, 2019)</b>		
Audit of NCUA’s State Supervisory Authority Examination Process		
Audit of the NCUA’s Consumer Complaint Program		
Audit of the NCUA’s Examination Process and Oversight Authority of CUSOs and other (non-CUSO) Third-party Vendors		
Audit of the NCUA’s Handling of Personally Identifiable Information at Liquidated Credit Unions		
Audit of the NCUA’s Compliance under the Digital Accountability and Transparency Act of 2014 (DATA Act)		
Audit of the NCUA’s Compliance with the Federal Information Security Modernization Act of 2014 (FISMA 2014)		
FY 2019 Financial Statement Audits for the Share Insurance Fund, Operating Fund, Central Liquidity Facility, and Community Development Revolving Loan Fund		
Material Loss Review of CBS Employees Federal Credit Union		



<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	34
5(a)(1)	Significant problems, abuses, and deficiencies	15
5(a)(2)	Recommendations for corrective action made during the reporting period	26
5(a)(3)	Significant recommendations on which corrective action has not been completed	20
5(a)(4)	Matters referred to prosecutive authorities	30
5(a)(5)	Summary of instances where agency refused or failed to provide requested information	32
5(a)(6)	List of audit reports issued during the reporting period	38
5(a)(7)	Summary of significant reports issued during the reporting period	15
5(a)(8)	Statistical table on audit reports with questioned costs	36
5(a)(9)	Statistical table on audit reports with recommendations that funds be put to better use	37
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	21
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	29
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	App. A



<b>INDEX OF REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT OF 1978, AS AMENDED</b>		
<b>Section</b>	<b>Reporting Requirement</b>	<b>Page</b>
5(a)(17)	Statistical table on investigative reports issued during the reporting period	30
5(a)(18)	Description of metrics used for developing the investigative report statistical table	30
5(a)(19)	Investigations conducted involving a senior Government employee	31
5(a)(20)	Detailed description of any instances of whistleblower retaliation	31
5(a)(21)	Detailed description of any attempt by the Agency to interfere with the independence of the Office	32
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

**OFFICE OF  
INSPECTOR GENERAL**

**Peer Review Report**

**Peer Review of the National  
Credit Union Administration  
Office of Inspector General's  
Audit Organization**

**Issued January 24, 2019**



**FARM CREDIT ADMINISTRATION**

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January 24, 2019

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## **System Review Report**

### **Rating**

In our opinion, the system of quality control for the audit organization of the NCUA OIG in effect for the year ended September 30, 2018, 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 rating of *pass*, *pass with deficiencies*, or *fail*. The NCUA OIG has received an External Peer Review rating of *pass*.

We conducted this review in accordance with the objective, standards, testing, and limitations set forth below.

### **Objective**

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, 2018. A system of quality of control encompasses the NCUA OIG's organizational structure and the policies adopted, and procedures established, to provide it with reasonable assurance of conforming with *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. The NCUA OIG is responsible for establishing and maintaining a system of quality control that is designed to provide the 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.

### **Standards and Guidance**

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*. During our review, we interviewed NCUA OIG personnel and obtained an understanding of the nature of the NCUA OIG audit organization, and the design of the NCUA OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audits and

administrative files to test for conformity with professional standards and compliance with the NCUA OIG's system of quality control. We selected the only performance audit conducted within the scope and the monitoring file of the most recently issued report within the scope. Prior to concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with the NCUA OIG's management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

### **Independent Public Accountant Monitoring**

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 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.

### **Testing and Limitations**

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.

Enclosure 1 to this report identifies the NCUA OIG office that we visited and the audits we reviewed.



Wendy R. Laguarda  
Inspector General  
Farm Credit Administration

Enclosure



**Scope and Methodology**

We tested compliance with the NCUA OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of the audit report issued during the period October 1, 2015 through September 30, 2018. We also reviewed the internal quality control reviews performed by the NCUA OIG. In addition, we reviewed the NCUA OIG's monitoring of audits performed by Independent Public Accounting Firms (IPAs) where the IPA served as the auditor for the review.

We visited the Alexandria, VA office of the NCUA OIG.

**Reviewed Audits performed by the NCUA OIG:**

<b>Report Title</b>	<b>Report Date</b>
Audit of the NCUA's Comprehensive Records Management Process	March 2018
Audit of NCUA's Procurement Program	June 2017

**Reviewed Monitoring Files of the NCUA OIG for Contracted Audits:**

<b>Report Title</b>	<b>Report Date</b>
NCUA's 2017 Financial Statement Audits for the Share Insurance Fund, Operating Fund, Central Liquidity Facility, and Community Development Revolving Loan Fund	February 2018
FY 2017 Independent Evaluation of the NCUA's Compliance with the Federal Information Security Modernizations Act of 2014	November 2017