



SEMIANNUAL REPORT TO THE CONGRESS



April 1 – September 30, 2017



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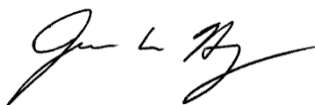
A MESSAGE FROM THE INSPECTOR GENERAL

On behalf of the Office of Inspector General (OIG) of the National Credit Union Administration (NCUA), I am pleased to present our Semiannual Report to the NCUA Board and the Congress highlighting our accomplishments and ongoing work for the six-month period ending September 30, 2017. 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 Office of Audit (OA) reviewed the NCUA's procurement program. Results of our audit determined the NCUA's procurement program was in need of reform. Specifically, we concluded management's control framework over the procurement program was not appropriate, complete, or effective during the scope period of our audit, or that those charged with governance and the authority to procure goods and services for the agency did not consistently follow applicable policies and procedures, laws, and regulations. We made ten recommendations to NCUA management to correct the policy and internal rule exceptions we identified. In addition, throughout our audit we continually brought issues to NCUA management's attention. Consequently, we noted management's immediate prioritization of the need for improvement and implementation of corrective actions. During this reporting period, the audit division also issued a report on Cybersecurity. Details can be found in the audit section of this report.

On the investigative side, the Office of Investigations (OI) closed two administrative misconduct cases during the reporting period, both of which were opened at the end of the previous reporting period. In total, the OI issued two Reports of Investigation documenting findings of administrative misconduct. One case resulted in a counseling memorandum to the employee, and the other in a letter of reprimand.

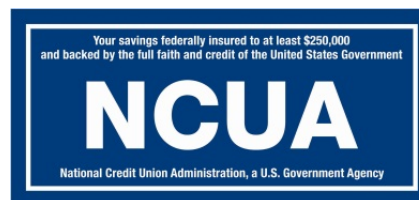
Finally, I would like to thank Chairman McWatters and Board Member Metsger for their sustained support of the OIG's work. As in the past, the NCUA Board and management are responsive to all OIG recommendations and strive to implement them expeditiously. I look forward to working with them in our ongoing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



James W. Hagen
Inspector General

THE NATIONAL CREDIT UNION ADMINISTRATION MISSION

The National Credit Union Administration's (NCUA) charge is to provide, through regulation and supervision, a safe and sound credit union system which promotes confidence in the national system of cooperative credit.



THE OFFICE OF INSPECTOR GENERAL MISSION

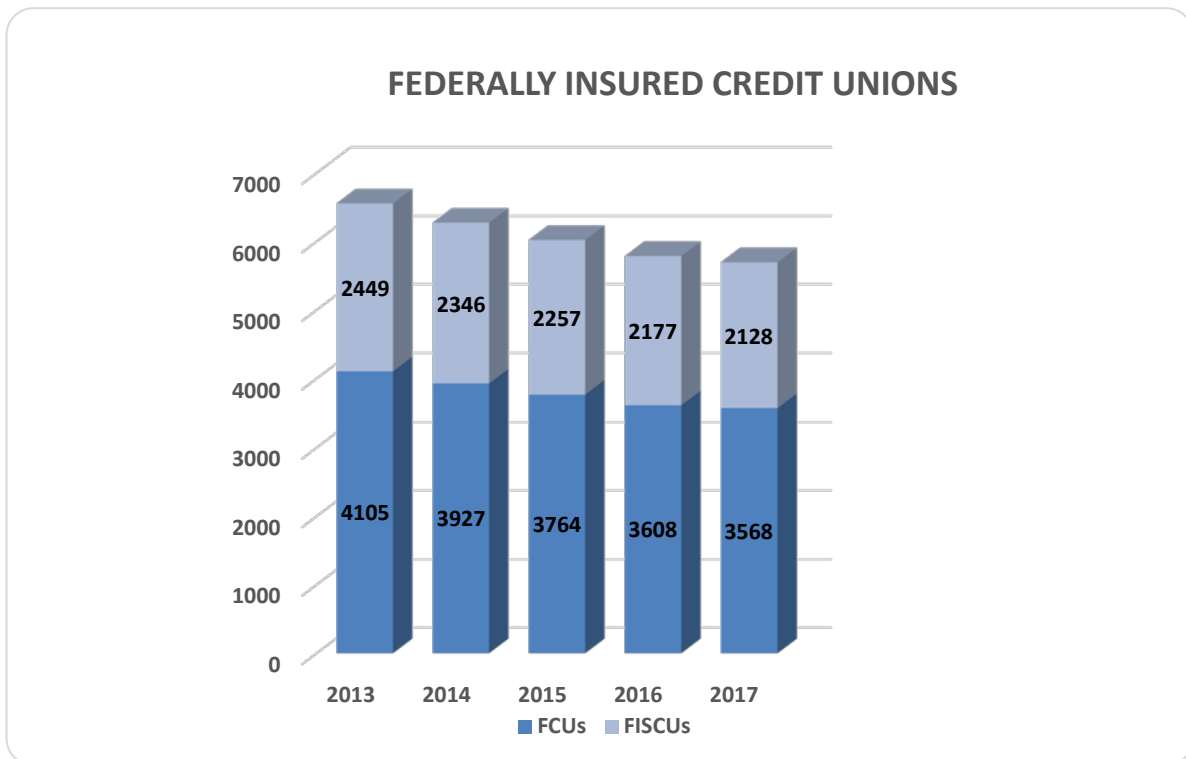
The Office of Inspector General (OIG) promotes the economy, efficiency, and effectiveness of NCUA programs and operations, and detects and deters fraud, waste, and abuse, thereby supporting the NCUA's mission of monitoring and promoting safe and sound federally insured credit unions.

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



INTRODUCTION

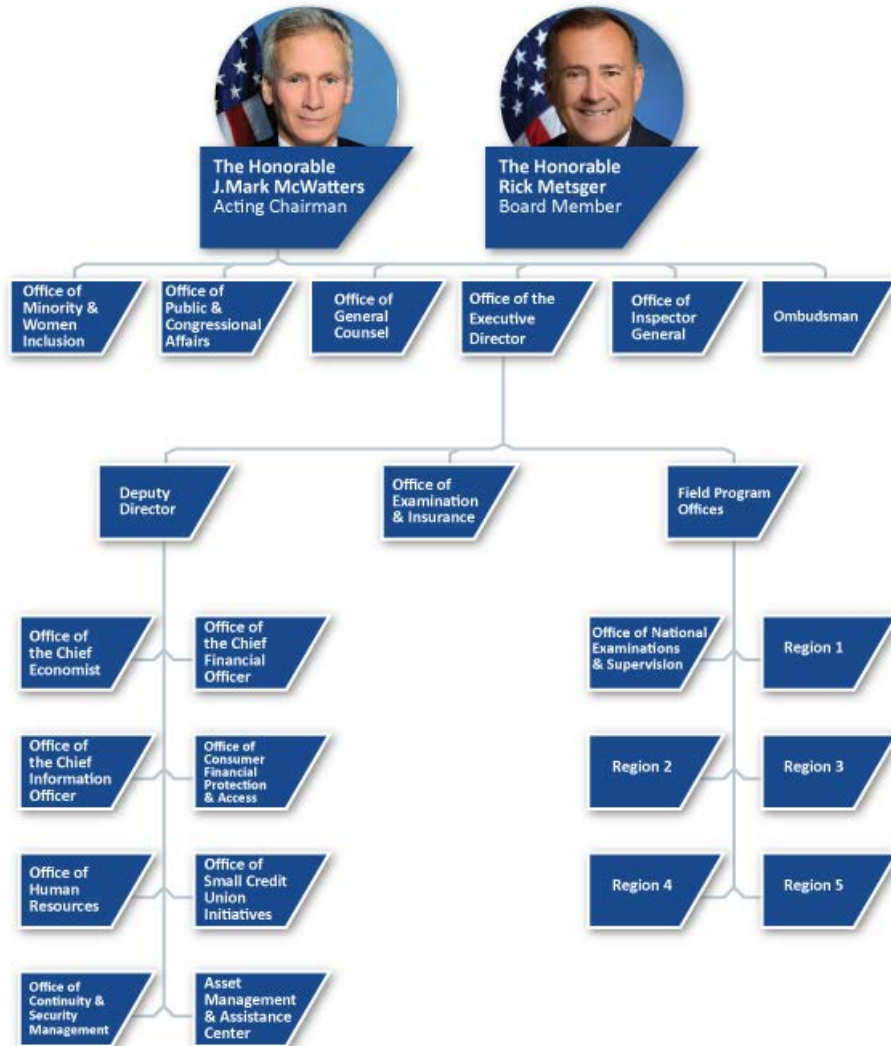
The NCUA was established as an independent, federal regulatory agency on March 10, 1970. The agency is responsible for chartering, examining, supervising, and insuring federal credit unions. It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. The NCUA is funded by the credit unions it supervises and insures. As of June 30, 2017, the NCUA was supervising and insuring 3,568 federal credit unions and insuring 2,128 state-chartered credit unions, a total of 5,696 institutions. This represents a decline of 40 federal and 49 state-chartered institutions since December 31, 2016, for a total decrease of 89 credit unions nationwide, primarily as a result of mergers and liquidations.



NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one term expires every two years. The Board is responsible for the management of the NCUA, including the NCUA Operating Fund, the Share Insurance Fund, the Central Liquidity Facility, the Community Development Revolving Loan Fund, and the Temporary Corporate Credit Union Stabilization Fund.

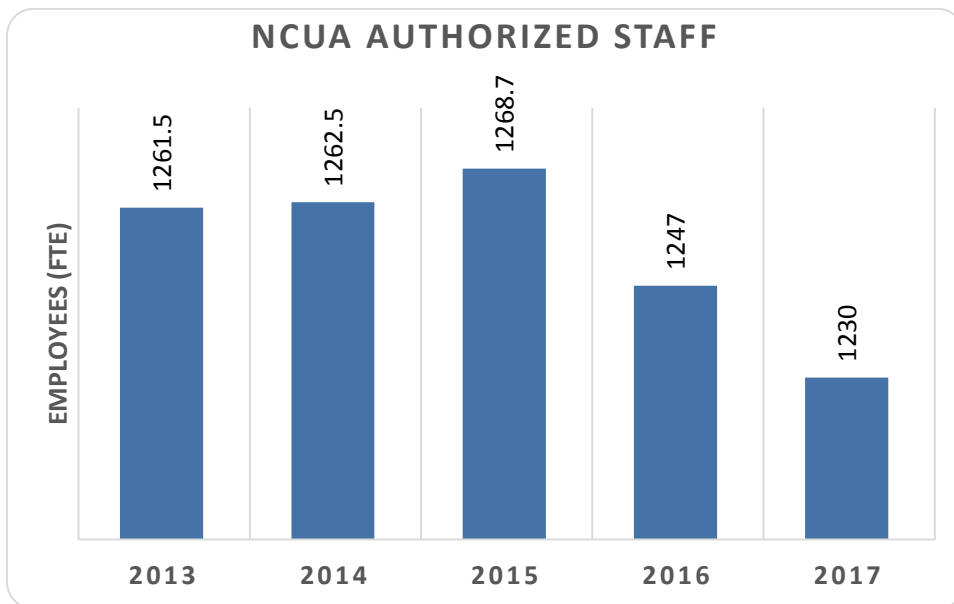
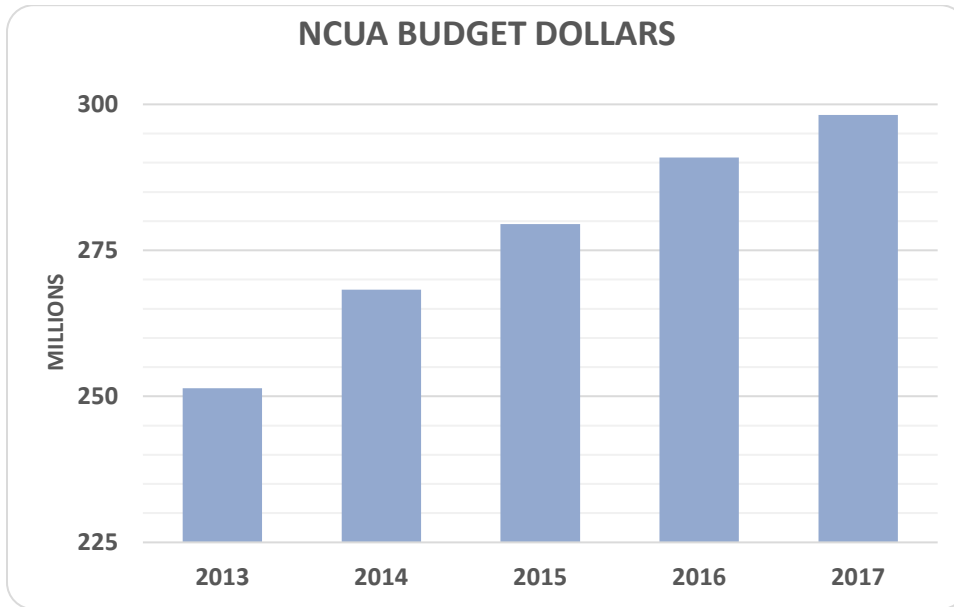
The NCUA executes its program through its central office in Alexandria, Virginia and regional offices in Albany, New York; Alexandria, Virginia; Atlanta, Georgia; Austin, Texas; and Tempe, Arizona. The NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer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

National Credit Union Administration Organizational Chart





The NCUA’s Board adopted its 2017 budget of \$298,164,000 on November 16, 2016. The full time equivalent (FTE) staffing authorization for 2017 is 1,230 representing a decrease of 17 FTE from 2016.





NCUA HIGHLIGHTS

Stabilization Fund to Close October 1st; Credit Unions Could Expect a Distribution in 2018

On September 28, 2017, the NCUA Board announced a plan to close the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) on October 1, 2017, nearly four years ahead of schedule, and set the Share Insurance Fund’s normal operating level at 1.39 percent.

With the Board-approved plan to close the Stabilization Fund, credit unions will avoid a possible Share Insurance Fund premium in 2017 and possibly receive a distribution in 2018. Absent any significant changes in the economy or the Share Insurance Fund’s performance, the NCUA estimates the distribution will be in the range of \$600 million to \$800 million in 2018. And potential future distribution will be \$600 million to \$1.1 billion. The method used to determine that distribution will be subject to the Board’s decision on a proposed rule currently under agency review.

Prior to 2013, the NCUA Board did not project a distribution to credit unions after the Stabilization Fund expired in 2021. However, a distribution became a possibility after the agency won legal recoveries of more than \$5.1 billion on behalf of the five failed corporate credit unions, materially decreasing the costs to the Stabilization Fund resulting from those failures.

The Federal Credit Union Act gives the NCUA Board authority to close the Stabilization Fund at its discretion prior to its expiration date in 2021. The NCUA is required by law to distribute funds, property, and other assets of the Stabilization Fund at its closing to the Share Insurance Fund.

The risks to the Share Insurance Fund have evolved and these risks will increase, at least temporarily, with the closure of the Stabilization Fund. To ensure sufficient equity, the Board approved raising the Share Insurance Fund’s normal operating level from the current 1.30 percent to 1.39 percent. The agency will continue to analyze the Share Insurance Fund’s risk exposure, and each subsequent year the NCUA Board will evaluate what the normal operating level needs to be based on the relevant data and trends as they evolve over time.

Community Development Financial Institutions Fund Awards \$39.5 Million to 56 Credit Unions

The NCUA announced on September 21, 2017, that 56 federally insured credit unions will receive awards totaling \$39.5 million from the Community Development Financial Institutions (CDFI) Fund.

Twenty-seven of the 56 are first-time awardees. This year, the CDFI Fund made awards with an emphasis on serving economically distressed areas, expanding opportunities in those areas, and collaboration with community partners.

NCUA Awards More Than \$1.8 Million in Grants

On September 5, 2017, the NCUA announced it will provide grants to 251 low-income credit unions to expand digital services to underserved communities, provide leadership training, and improve cybersecurity.

The NCUA's Office of Small Credit Union Initiatives will administer the grant funding provided by the Community Development Revolving Loan Fund (CDRLF). The CDRLF was established by Congress and offers grants and loans to credit unions serving low-income communities. Since 2001, Congress has provided the NCUA with more than \$18.8 million for these grants.

NCUA Plans Restructuring to Improve Efficiency

The NCUA Board announced on July 21, 2017, of its plans to restructure the agency for greater efficiency, responsiveness, and cost-effectiveness. The last restructuring occurred in 2003. For the current restructuring, the agency created internal review teams in late 2016 to rethink the agency's operations, to discuss how the agency can do its job better, and to make recommendations to the Board. Among the recommendations the Board approved:

- Consolidate the agency's five regional offices into three by closing the Albany, New York, and Atlanta, Georgia offices and eliminate four of the agency's five leased facilities;
- Create an Office of Credit Union Resources and Expansion by redefining and realigning chartering and field-of-membership, credit union development, grants and loans, and minority depository institutions programs;
- Restructure the Office of Examination and Insurance into specialized working groups; and
- Realign the Asset Management and Assistance Center to include changes to the servicing business model and moving to a financial supervisory structure.

The NCUA also plans to eliminate agency offices with overlapping functions and improve functions such as examination reporting, records management, and procurement. The proposed plan anticipates a reduction in the agency's workforce by attrition.

McWatters Named NCUA Chairman

On June 27, 2017, President Donald J. Trump designated acting NCUA Board Chairman J. Mark McWatters as the NCUA's tenth Chairman of the Board. Mr. McWatters was nominated to the NCUA Board by President Barack H. Obama on January 7, 2014. Following Senate confirmation, Mr. McWatters took office as an NCUA Board Member on August 26, 2014. He served as acting Board Chairman from January 23, 2017, through June 27, 2017.

NCUA Legal Recoveries Reach \$5.1 Billion

On May 3, 2017, the NCUA announced that legal recoveries reached \$5.1 billion on behalf of five failed corporate credit unions that purchased residential mortgage-backed securities. The

NCUA received \$400 million from Credit Suisse for claims arising from losses related to purchases of residential mortgage-backed securities by U.S. Central Federal Credit Union (U.S. Central), Southwest Corporate Federal Credit Union (Southwest) and Western Corporate Federal Credit Union (Western).

The Credit Suisse settlement covers claims asserted in 2012 by the NCUA Board as liquidating agency for the three corporate credit unions in federal district court in Kansas. In April 2016, the NCUA received a judgment of \$50.3 million, along with a \$9.75 million award for attorney's fees, in a separate suit against Credit Suisse in federal district court in New York.

The NCUA was the first federal financial institution regulator to recover losses from investments in these securities on behalf of failed financial institutions. In its capacity as liquidating agent, the NCUA Board filed 26 complaints against 32 defendants in federal courts in New York, Kansas, and California. These include 20 suits over sales of securities the NCUA alleged were faulty, two suits alleging violations of law based on manipulation of the London Interbank Offered Rate, and four suits alleging failure to fulfill trustees' duties with respect to certain residential mortgage-backed securities trusts.

Net proceeds from recoveries are used to pay claims against the five failed corporate credit unions, including those of the Temporary Corporate Credit Union Stabilization Fund.

FEDERALLY INSURED CREDIT UNION HIGHLIGHTS

Credit unions submit quarterly call reports (financial and operational data) to the NCUA. An NCUA staff assessment of the June 30, 2016, quarterly call reports submitted by all federally insured credit unions found that key financial indicators are positive.

Key Financial Indicators Favorable

Looking at the June 30, 2017, quarterly statistics for major balance sheet items and key ratios shows the following for the nation's 5,696 federally insured credit unions: assets grew 7.7 percent; net worth to assets ratio decreased from 10.85 to 10.80 percent; and the loan to share ratio increased from 77.8 percent to 79.7 percent. The delinquency ratio remained at .75 percent. Credit union return on average assets remained at .77 percent.

Savings Shifting to Regular Shares

Total share accounts increased 9.70 percent. Regular shares increased 13.29 percent. Regular shares comprise 36.59 percent of total share accounts; share certificates comprise 17.90 percent; money market shares comprise 22.48 percent; share draft accounts comprise 14.48 percent; IRA/KEOGH accounts comprise 6.84 percent; nonmember deposits comprise .79 percent; and all other share accounts comprise .92 percent.

Loan Volume Increasing

Loans increased 10.11 percent resulting in an increase in total loans by \$43.92 billion. Total net loans of \$904.88 billion comprise 66.99 percent of credit union assets. First mortgage real estate loans are the largest single asset category with \$371.17 billion accounting for 40.65 percent of all loans. Other real estate loans of \$79.87 billion account for 8.75 percent of all loans. Used car loans of \$193.46 billion were 21.19 percent of all loans, while new car loans amounted to \$124.74 billion or 13.66 percent of total loans. Unsecured credit card loans totaled \$53.09 billion or 5.82 percent of total loans, while all other unsecured loans totaled \$38.19 billion or 4.18 percent. Leases receivable and all other loans were \$52.50 billion or 5.75 percent of total loans.



LEGISLATIVE HIGHLIGHTS

House Passes Flood Insurance Bill; Senate Declines to Move Bill Forward

On September 28, 2017, the House passed a bill, H.R. 3823 to make it easier for homeowners to obtain private flood insurance policies not provided directly through the National Flood Insurance Program. Yet shortly thereafter, the Senate declined to move the bill.

The House bill, which passed 264-155 with Republican and Democratic votes, strove to remove barriers that supporters of the legislation say make it harder for private insurance carriers to cover losses in flood-prone areas. Representatives Dennis Ross (R-Fla.) and Kathy Castor (D-Fla.) introduced the bill.

The private flood insurance bill was attached to broader legislation that would also reauthorize expiring Federal Aviation Administration (FAA) programs. Later the same day, however, the Senate passed an FAA reauthorization bill without the flood insurance provision included.

Two Republican Louisiana senators, John Kennedy and Bill Cassidy, said they opposed including the flood insurance bill to the FAA bill, rather than including it in a comprehensive insurance reform package.

The Mortgage Bankers Association has lauded the effort. On the House floor Financial Services Committee Chairman Jeb Hensarling (R-Tx.) said that the National Flood Insurance Program's hold on the market restricts homeowners' coverage options.

The Ross-Castor bill was passed by the House in 2016, but died in the Senate due to concerns about the adequacy of the private insurance coverage.

Congress Passes H.R. 3110, "The Financial Stability Oversight Council Insurance Member Continuity Act"

On September 19, 2017, the House passed H.R. 3110, bipartisan legislation introduced by Rep. Maxine Waters (D-Calif.), ranking member of the House Financial Services Committee, and Rep. Randy Hultgren (R-Ill.), which would extend the term of the FSOC independent member with insurance expertise. According to Rep. Waters, the bill ensures that the FSOC has a complete roster of voting members. Under current law, it is unclear whether the independent insurance member, who is nominated by the President and confirmed by the Senate to serve six years, can continue serving in this position as an acting official once the member's term expires.

H.R. 3110 now goes to the President's desk for approval.

House Passes Bill Keeping the NCUA Out of the Appropriations Process

On September 14, 2017, the House passed a FY18 funding measure that would keep the NCUA out of the appropriations process. However, since the House version of the funding measure will not become law, the bill, which would fund much of the Federal government, serves as a marker for the House position on how the NCUA is funded.

The version of the bill approved by the House Appropriations Committee would have subjected the NCUA to the annual funding process. The current House amendment will keep the NCUA outside of this process. The House position conflicts with provisions of the Financial CHOICE Act, which would subject the NCUA, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Federal Reserve Board of Governors to the appropriations process. That bill passed the House earlier this year.

While the House agreed to keep the NCUA out of the annual funding process, it defeated an amendment that would have removed the Consumer Financial Protection Board (CFPB) from the process.

The Senate Financial Appropriations Committee has not yet considered its version of the Financial Services funding measure.

These developments means that Congress must revisit all funding issues in December, when the current Continuing Resolution funding much of the Federal government expires.

House Financial Services Committee Passes CHOICE Act

The U.S. House Financial Services Committee passed the Financial CHOICE Act (H.R. 5983) on September 12, 2017, by a 30-26 vote. The bill was introduced by Committee Chair Rep. Jeb Hensarling (R-Texas) on April 26, 2017, as an alternative to the Dodd-Frank Act. The bill would make sweeping changes to the financial regulatory system by revising the changes that were put in place after the 2008-2009 economic crash. It would weaken the CFPB, the FSOC, and regulations that prevent commercial banks from trading for their own gain, among other changes.

The credit union industry supports a number of provisions contained in the bill, including a provision that would repeal the Durbin amendment, which is part of Dodd-Frank and requires a limit on fees charged to retailers for debit card purchases.

With regard to the NCUA, the bill would:

- Increase membership of the NCUA Board to five members, up from the current three;
- Allow the credit union system to examine and comment on the agency's budget before adoption while increasing transparency of the overhead transfer rate;
- Extend the examination period to 18 months, up from 12 months; and
- Create an independent ombudsman and independent examination appeals procedures.



Senate Passes the Saving Federal Dollars through Better Use of Government Purchase and Travel Cards Act

On August 3, 2017, the Senate passed S. 1099, “The Saving Federal Dollars through Better Use of Government Purchase and Travel Cards Act.” The bill was received in the House and referred to the House Committee on Oversight and Government Reform (HOCR) on August 4, 2017.

S. 1099 aims to increase the use of data analytics to manage government charge card programs. It is substantially similar to S. 1616, which passed the Senate during the 114th Congress but failed to pass the House. With respect to the Inspector General (IG) community, there are two key differences between the current bill and S. 1616. First, IGs were removed from the provision requiring certain entities to share their data analytic tools and information related to charge card oversight. Second, OMB, when promulgating guidance on sharing information related to charge card oversight, must now consider the recommendations made by IGs or best practices identified by IGs.

Furthermore, the bill requires the Director of the Office of Management and Budget to develop a plan to create a library of data analytics tools and data sources for use by Federal agencies, including use by IGs.

Congress Introduces/Passes Bills related to Whistleblower Protection

On June 23, 2017, Representative Duffy (R-WI) introduced H.R. 3042, the Dr. Chris Kirkpatrick Whistleblower Protection Act of 2017, and referred it to HOCR and the Committee on Veterans’ Affairs. Like H.R. 3042, S. 585 is also entitled “The Dr. Chris Kirkpatrick Whistleblower Protection Act of 2017.” The Senate passed S. 585 on May 25, 2017. The two bills have identical provisions. H.R. 3042 and S. 585 both add a 14th Prohibited Personnel Practice (PPP) to include accessing the medical records of employees or applicants for employment as part of, or in furtherance of, another PPP. In both bills, Title 5 would also be amended to provide for the mandatory corrective action against supervisors when it is determined that they retaliated against an employee. Furthermore, under both bills, agency heads must consult their IGs and the U.S. Office of Special Counsel for required training for managers.

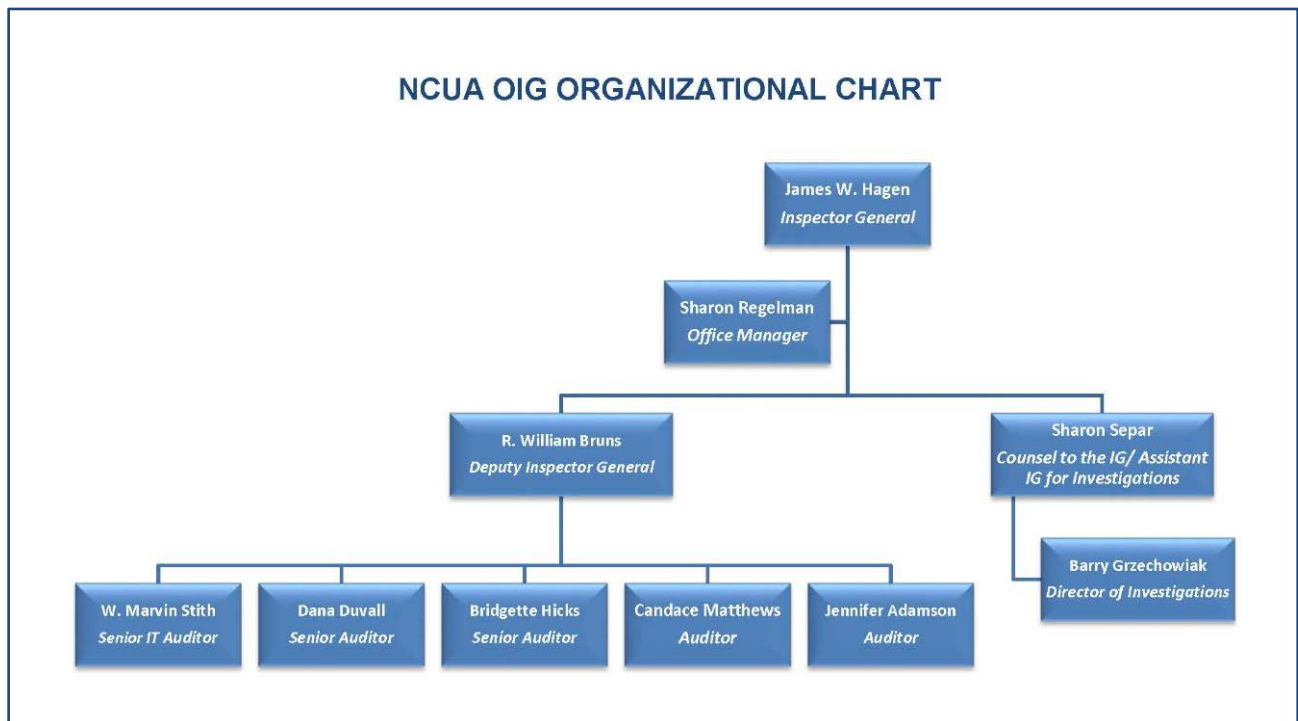


OFFICE OF INSPECTOR GENERAL

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

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

1. Conducting, supervising, and coordinating audits and investigations of all NCUA programs and operations;
2. Reviewing policies and procedures to ensure efficient and economic operations as well as preventing and detecting fraud, waste, and abuse;
3. Reviewing existing and proposed legislation and regulations to evaluate their impact on the economic and efficient administration of agency programs; and
4. Keeping the NCUA Board and the Congress apprised of significant findings and recommendations.



AUDIT ACTIVITY

OIG-17-07 – Audit of NCUA’s Procurement Program June 28, 2017

The Federal Credit Union Act (12 U.S.C. § 1766 (i)(2)), empowers the NCUA to enter into contracts for goods or services with public and private sector organizations and persons, by lease or purchase, without regard to the provisions of any other law applicable to executive or independent agencies of the United States. Without conceding this authority, the NCUA may adopt or adapt federal procurement laws and regulations for use in its procurement activities.

The NCUA structured its procurement program to provide a controlled and efficient framework that is fair to competing vendors and beneficial to the NCUA. In general, the NCUA conducts its procurement activities in compliance with the Federal Acquisition Regulation (FAR), which is a set of rules governing the federal acquisition process. Although the NCUA is exempt from complying with the FAR, it uses it for guidance. However, the NCUA’s policy is to use the General Services Administration federal supply schedule, and Government-wide Acquisition Contracts whenever practicable.

During this reporting period, the OIG audited the NCUA’s procurement program. Results of our audit determined the NCUA’s procurement program was in need of reform. Specifically, we concluded management’s control framework over the procurement program was not appropriate, complete, or effective during the scope period of our audit, or that those charged with governance and the authority to procure goods and services for the agency did not consistently follow applicable policies and procedures, laws, and regulations. Although the NCUA received the goods and services procured, we found the manner in which the agency obtained those goods and services led to a high frequency of policy and internal rule exceptions. We made ten recommendations to NCUA management to correct the policy and internal rule exceptions we identified. NCUA management agreed to all recommendations and provided corrective actions taken and planned.

OIG-17-08 – Audit of the NCUA Information Technology Examination Program’s Oversight of Credit Union Cybersecurity Programs September 29, 2017

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

The NCUA uses a risk-focused examination program the agency implemented in 2002, which provides examiners the flexibility to focus on areas exhibiting material current or potential risk. In a risk-focused examination, examiners have discretion in determining areas requiring the most attention and allocating the time and resources accordingly. NCUA Instructions have established requirements for federally insured credit union examinations, including Information Technology (IT) examinations. One of the objectives of the NCUA's IT examination is to evaluate management's ability to recognize, assess, monitor, and control information systems and technology related risks.

During this reporting period, the OIG audited the NCUA's IT examination program's oversight of credit union cybersecurity programs. The objectives of our audit were to determine whether it provides adequate oversight of credit union cybersecurity programs, and to assess whether credit unions are taking sufficient and appropriate measures to protect the confidentiality, availability, and integrity of credit union assets and sensitive credit union information against cyberattacks.

Results of our audit determined that required and optional components of the NCUA's IT examination program provide for significant oversight of federal credit union cybersecurity programs when compared to the NIST Cybersecurity Framework. In addition, we learned the NCUA is in the process of adapting its IT examination program to incorporate an Automated Cybersecurity Examination Tool (ACET) to specifically assess credit unions' cybersecurity programs based on the NIST Cybersecurity Framework. We reported our belief that incorporating ACET will address all of the voluntary control guidelines in the NIST Cybersecurity Framework, providing for comprehensive oversight of credit union cybersecurity programs and therefore made one recommendation to NCUA management to complete the implementation of ACET, which is in process. NCUA management agreed to the recommendation and provided corrective actions planned.

Audits in Progress

[Review of the NCUA's Comprehensive Records Management](#)

The Federal Records Act defines a record as including all recorded information, regardless of form or characteristics, made or received by a Federal agency under Federal law or in connection with the transaction of public business and preserved, or appropriate for preservation, as evidence of the organization, functions, policies, decisions, procedures, operations, or other activities. Electronic messages include electronic mail and other electronic messaging systems individuals use to communicate. Electronic messages created or received during agency business are Federal records and must be captured and managed in compliance with Federal laws, regulations, and policies.

Each federal agency is required to make and preserve records, as well as establish and maintain an active continuing program to economically and efficiently manage the agency's records. The program should include effective controls over the creation, maintenance, and use of agency records, and cooperation with the National Archives and Records Administration to improve

records management and security. For electronic message records, federal agencies must provide guidance on the proper management of federal records and issue instructions to staff on identifying, managing, retaining, and disposing of email messages determined to be federal records. Finally, agencies are required to protect federal records from unlawful or accidental removal, defacing, alteration, or destruction.

The NCUA OIG is currently conducting an audit of the NCUA's comprehensive records management process to determine whether the NCUA has a comprehensive records management framework, retention, and disposal system in place and whether the NCUA is in compliance with applicable records management policies, procedures, laws, and regulations. The audit could result in recommendations to NCUA management to improve its records management process going forward.

[Audit of the NCUA's Compliance with the DATA Act](#)

The Digital Accountability and Transparency Act of 2014 (DATA Act) requires Federal agencies to report financial and payment data in accordance with data standards established by the Department of Treasury and the OMB. In addition, the DATA Act requires agency Inspectors General review statistical samples of the data submitted by the agency and report on the completeness, timeliness, quality, and accuracy of the data sampled, and the use of the data standards by the agency. The IG community plans to provide Congress with the first required reports by November 8, 2017, with subsequent reports following on a 2-year cycle, in November 2019 and 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 2017, second quarter financial and award data 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 2017.

[FY 2017 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, 2017, and final FISMA audit report in November 2017.



Annual Financial Statement Audits

The accounting firm of KPMG is conducting the 2017 financial statement audits of the NCUA Operating Fund, National Credit Union Share Insurance Fund, the Central Liquidity Facility, the Community Development Revolving Loan Fund, and the Temporary Corporate Credit Union Stabilization Fund. In addition to the financial statement audits, KPMG is also providing audit assurance on the NCUA’s material line items and note disclosures (Closing Package) for the Audit of the U.S. Government’s Fiscal Year 2017 Consolidated Financial Statements (CFS).

- The NCUA Operating Fund was established as a revolving fund managed by the NCUA Board for the purpose of providing administration and service to the federal credit union system.
- The National Credit Union Share Insurance Fund was established as a revolving fund managed by the NCUA Board to insure member share deposits in all Federal credit unions and qualifying state credit unions.
- The 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 Temporary Corporate Credit Union Stabilization Fund (TCCUSF), established in 2009, allows the NCUA to borrow money from the Treasury to pay for corporate credit union losses, and then pay back the Treasury over time with funds obtained from assessments on federally insured credit unions. On September 28, 2017, the NCUA Board voted unanimously on a plan to close the TCCUSF on Oct. 1, 2017, nearly four years ahead of schedule.
- GAO has identified two material line balances and one note disclosure on the NCUA’s Balance Sheet that must be reported on as part of the CFS.

We expect to transmit our Governmentwide Financial Reporting System submission on the Closing Package by the required due date in November 2017, issue a financial statement report on the TCCUSF as of September 30, 2017, and issue the financial statement reports for the NCUA’s four permanent funds in February 2018.

Audit of the NCUA’s Information Technology Inventory

The NCUA’s Office of the Chief Information Officer (OCIO) ensures NCUA staff and contractors are equipped with the required IT equipment by procuring laptops, external monitors, hard drives, mobile devices (smartphones and smart tablets), and portable printers to fulfill the NCUA’s mission anywhere and anytime. OCIO and the Office of the Chief Financial Officer

(OCFO) are responsible for IT equipment from acquisition, receipt, and storage; distribution and inventory; transfer, loan, replacement, and return of equipment and disposition.

To account for this property, controls and accountability are essential. Proper controls provide physical oversight and surveillance of the property throughout its complete life cycle taking into account the environment in which the property is located and its vulnerability to theft, waste, fraud, and abuse. The accountability of property provides for a complete audit trail for property transactions from receipt to final disposition, achieved by conducting a physical inventory of the equipment. The objectives of this audit are to assess the NCUA’s IT equipment inventory policies, procedures, and practices, including its system of controls, and determine whether the NCUA adequately monitors and accounts for its IT equipment from acquisition through final disposition. The audit could result in recommendations to NCUA management to improve its IT equipment inventory process going forward.

Material Loss Reviews

The Federal Credit Union Act requires the NCUA OIG to conduct a Material Loss Review (MLR) of an insured credit union if the loss to the National Credit Union Share Insurance Fund (NCUSIF) exceeds \$25 million or an amount equal to 10 percent of the total assets of the credit union at the time in which the NCUA Board initiated assistance under Section 208 or was appointed liquidating agent. 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 NCUSIF, and (2) assess the NCUA’s supervision of the credit union. The Dodd-Frank Act further requires the OIG to assess all losses to the NCUSIF under the \$25 million threshold to determine whether unusual circumstances exist to warrant conducting a full-scope MLR.

During this reporting period, the NCUA did not have a loss to the NCUSIF greater than the \$25 million threshold. Therefore, the OIG did not conduct any full-scope MLRs. However, during the reporting period the NCUSIF did sustain losses under the \$25 million threshold. Accordingly, we conducted limited scope reviews of two credit unions to determine whether unusual circumstances existed. Based on our findings, we determined not to conduct a full scope MLR for any of these credit unions. We discuss these cases in detail on page 26.

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, 2017. NCUA management has agreed to implement corrective action, but has yet to complete those actions. This information was supplied by the NCUA Office of the Executive Director and is monitored within the OIG’s report recommendation tracking system.

Report Number, Title, and Date

- OIG-13-09 Material Loss Review of El Paso FCU, August 26, 2013
- OIG-15-11 Review of NCUA’s Interest Rate Risk Program, November 13, 2015

OIG-15-09 Audit of NCUA's Measures to Protect Electronic Credit Union Member Information During the Examination Process, June 8, 2015

Significant Recommendations Open and Brief Summary

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

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

In April 2016, the NCUA sponsored training to examiners provided by the FBI and a Bank Secrecy Act Program Officer to better identify fraud triggers. Additionally, the NCUA incorporated fraud topics into its Problem Resolution training for examiners and provided training to several regions on using Suspicious Activity Reports and LexisNexis to identify fraud triggers. The NCUA also incorporated fraud procedures into its Small Credit Union Examination Program and exam procedures through amendments to policy and Supervisory Letters. Management also continues to build its resources through training additional staff on using LexisNexis, fostering relationships with law enforcement, and sharing information as it becomes available. For completion in 2017, the NCUA is drafting a Fraud Indicator Report Instruction, which is in process. The NCUA is also updating the Examiner's Guide, Consolidated Fraud Guidance – Fraud Discovery Response Guidance and Procedures to include a section on procedures for when fraud is suspected. Finally, the NCUA is drafting a Database Search Memo from E&I to the regions on how to request LexisNexis searches.

2. OIG-15-11, 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.



Status: Open. The NCUA has committed to approaching the Board under a new process with a memo to the Executive Director regarding changes to the CAMEL to include the “S.” If the Board approves the change, it will target final implementation by the end of 2018. Management noted that while progress has been made in assessing changes required in the NCUA's systems, procedures, and examination guidance to add an "S" component, the change process will be complex. Management explained it involves regulatory changes followed by reprogramming multiple IT systems, data storage and retrieval, and revising examination policies and procedures. The NCUA is near finalization on several initiatives to better capture a credit union’s sensitivity to market risk and to improve interest rate risk clarity and transparency. However, the NCUA believes including the “S” to the CAMEL rating is a couple of years away from completion due to the Enterprise Solution Modernization project to revamp AIREs, which will need to be close to completion before management can logistically make this change to the CAMEL rating.

3. OIG-15-09, recommendation #5. Continue to pursue and implement the secure file transfer solution the NCUA is assessing to transfer sensitive, confidential, or personally identifiable electronic credit union member information.

Status: Open. Management indicated that the Office of the Chief Information Officer has implemented the internal piece of the Secure File Transfer Portal (SFTP) solution. However, as part of the Examination and Supervision Solution requirements validation, the NCUA’s Cybersecurity Steering Committee has decided to continue piloting the external piece of the SFTP with large credit unions.

Summary of Audit Reports Over Six Months Old with Unimplemented Recommendations

Following are summaries of six OIG audit reports having 33 unimplemented recommendations, including any associated cost savings as of September 30, 2017. 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, August 26, 2013, Number of Unimplemented Recommendations: 2, 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 Recommendations

Recommendation #1 – Implement a more comprehensive strategy for identifying and responding to fraud risk triggers. Areas to address include:

- a. Implementing training programs to educate examiners on identifying fraud risk factors and understanding controls to prevent and detect fraud.
- b. Developing specific examination procedures to identify fraud risk factors. At a minimum, examiners should identify procedures when a lack of segregation of duties exists and conduct interviews with staff, management, and representatives of the Board of Directors and Supervisory Committee.
- c. Building resources to respond to fraud risk factors efficiently. We agree with suggestions provided by Region IV management, to include developing fraud teams at the national or regional level, identifying a list of vendors approved to perform such procedures on an as-needed basis, requiring credit unions themselves to have forensic procedures performed when deemed appropriate, or an appropriate combination of these responses.

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 conducted by external CPA firms.

- 2. OIG-14-06 – Material Loss Review of Taupa Lithuanian Credit Union, March 26, 2014, Number of Unimplemented Recommendations: 1, Potential Cost Savings: \$0

We determined Taupa Lithuanian Credit Union (Taupa) failed due to its management fraudulently overstating assets, specifically cash on deposit, and understating shares. We also determined the NCUA could have mitigated the loss to its Share Insurance Fund had examiners adequately identified the transaction risks and addressed the red flags that were present at Taupa by performing additional procedures related to those risks.

Unimplemented Recommendation

Recommendation #1 – Implement a more comprehensive strategy for responding to red flags, including examiner fraud training programs, specific procedures to address fraud risks, and building fraud specific resources and tools.



3. OIG-15-09 – Measures to Protect Electronic Credit Union Member Information During the Examination Process, June 8, 2015, Number of Unimplemented Recommendations: 2, Potential Cost Savings: \$0

We determined the NCUA provides examiners with appropriate tools with which to securely receive electronic information from credit unions during the examination process. However, we also determined: 1) the NCUA does not require credit unions to provide sensitive, confidential, and personally identifiable credit union member information to NCUA staff in a protected manner; 2) the NCUA needs to improve its policies, procedures and training to help ensure NCUA staff take appropriate measures to protect sensitive, confidential, and personally identifiable electronic credit union member information during examinations; and 3) the NCUA needs to improve its guidance to require NCUA staff to use specific tools to transfer sensitive, confidential, and personally identifiable electronic credit union member information during examinations.

Unimplemented Recommendations

Recommendation #5 – Continue to pursue and implement the secure file transfer solution the NCUA is assessing to transfer sensitive, confidential, or personally identifiable electronic credit union member information.

Recommendation #7 – Enhance NCUA annual security awareness training to reinforce to NCUA staff the availability, use, and applicability of secure NCUA tools to transfer sensitive, confidential, or personally identifiable electronic credit union member information.

4. OIG-15-10 – FY 2015 Independent Evaluation of The Effectiveness of NCUA’s Information Security Program Under the Federal Information Security Modernization Act of 2014, November 13, 2015, Number of Unimplemented Recommendations: 3, Potential Cost Savings: \$0

During the 2015 FISMA audit, we evaluated the NCUA’s information security program and practices, its privacy management program, and conducted a vulnerability assessment of the NCUA’s information systems components. In resolving prior year issues and recommendations, we determined the NCUA continued to strengthen its information security program during 2015. The NCUA also made progress in documenting its privacy program and did not have any repeat findings from prior years. We also determined the NCUA needs to make improvements in its risk management and configuration management programs and with its authentication controls.

Unimplemented Recommendations

Recommendation #2 – OCIO realign its current information system risk tolerance with the organization-wide risk tolerance.

Recommendation #4 – OCIO complete the migration of its unsupported applications from their existing platform to platforms that are vendor-supported.

Recommendation #6 – OCIO update the General Support System Security Plan to include the control implementation descriptions for NIST privacy controls once the NCUA documents and disseminates the organization-wide privacy policies and procedures and associated controls.

5. OIG-15-11 - Review of NCUA’s Interest Rate Risk Program, 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.

6. OIG-16-08 – FY2016 Federal Information Security Modernization Act Compliance, November 10, 2016, Number of Recommendations: 23, Potential Cost Savings: \$0

The NCUA OIG identified the following seven information security program areas where the NCUA needs to make improvements: configuration management; incident response; contingency planning programs; account management, plan of action and milestones; oversight of contractor systems; and documenting program controls in its system security plan.

Because of concerns over publicly revealing information that could compromise the security of the agency’s information technology infrastructure, there are 15 recommendations in this report that we did not make public. In addition, there are eight recommendations that were made public as follows:

Recommendation #5 – Update the NCUA Identity and Access Management Procedures policy to address the consequence of new hires not completing the Rules of Behavior within the required ten-day window of entry on duty and enforce the specified consequence.

Recommendation #10 – OCIO implement a process to ensure the NCUA maintains a complete inventory of all approved software by June 30, 2017.



Recommendation #15 – The NCUA finalize its organizational-wide risk tolerance by incorporating the degree of risk of uncertainty and communicate the risk tolerance organization-wide.

Recommendation #16 – OCIO re-align its current information system risk tolerance with the organization-wide risk tolerance.

Recommendation #17 – Coordinate developing, documenting and implementing a process to ensure program offices notify OCIO of contractor systems early in the procurement process to allow completion of a risk assessment before the system is permitted to operate within the NCUA’s information system environment.

Recommendation #18 – OCIO enforce policy to ensure it assesses risk(s) for all contractor systems and documents and formally accepts residual risk(s) to the agency prior to initial use.

Recommendation #19 – Update the OCIO Plan of Action and Milestones (POA&M) Policy and Procedures to address reasonable timelines within which the agency must fully document and update its POA&M items on an ongoing basis.

Recommendation #20 – Enforce NCUA policy to ensure the agency appropriately and timely documents and updates POA&M items to reflect the current status on an ongoing basis, and the agency tests, validates and documents corrective actions in order to close POA&Ms.

Recommendations for Corrective Action Made During the Reporting Period

Following are summaries of two OIG audit reports issued during this reporting period having five open recommendations, including any associated cost savings as of September 30, 2017. For each of these reports, NCUA management has agreed to implement corrective action. The OIG monitors this information within its report recommendation tracking system.

Brief Report Summary and Recommendations

1. OIG-17-07 – Review of NCUA’s Procurement Program, June 28, 2017, Number of open Recommendations: 4, Potential Cost Savings: \$0

We determined that management’s control framework over the procurement program was not appropriate, complete, or effective during the scope period of our audit, or that those charged with governance and the authority to procure goods and services for the agency did not consistently follow applicable policies and procedures, laws, and regulations. In addition, we determined the manner in which the agency obtained those goods and services led to a high frequency of policy and internal rule exceptions.



Open Recommendations

Recommendation #1 – Assess PRISM to ensure it produces complete, accurate, and valid data to meet the NCUA's procurement objectives.

Recommendation #3 – Implement a Debarment and Suspension program in accordance with the NCUA's Delegation of Authority for Procurement and Property Management PRO 16.

Recommendation #6 – Ensure the Division of Procurement and Facilities Management appoints Contracting Officer's Representatives throughout the NCUA, as necessary, for continual monitoring of contracts to assist in preventing internal control deficiencies.

Recommendation #9 – Ensure that Contracting Officers and Contracting Officer's Representatives adhere to the Procurement Policy Manual and maintain contract files in a secure environment throughout the life of the contract.

- 2. OIG-17-08 – Audit of the NCUA Information Technology Examination Program's Oversight of Credit Union Cybersecurity Programs: Number of Recommendations: 1 Potential Cost Savings: \$0

Open Recommendation

Recommendation #1 – Implement the Automated Cybersecurity Examination Tool and determine how it best fits into the NCUA's Risk-Focused Examination program to ensure more comprehensive examinations of credit unions' cybersecurity programs.

REPORT ON CREDIT UNION LOSSES UNDER MATERIALITY LEVEL OF \$25 MILLION

Dodd-Frank requires the NCUA OIG to perform a limited review when the Share Insurance Fund incurs a loss below the \$25 million threshold with respect to an insured credit union. The OIG must report to the NCUA Board and the Congress every six months on the results of the limited reviews and the timeframe for performing any subsequent in-depth reviews we determine are necessary.

This report on losses below the \$25 million threshold covers the six-month period from April 1, 2017 to September 30, 2017. For all losses to the Share Insurance Fund under the MLR threshold, we determined (1) why the NCUA initiated assistance, and (2) whether any unusual circumstances existed that might warrant an in-depth review of the loss.

For each limited review, we performed procedures that included, but were not limited to (1) obtaining and analyzing the regulator's supervisory memoranda and other pertinent documents; (2) preparing a schedule of CAMEL ratings assigned to the institution through full scope or other examinations during the five years preceding the failure; (3) conducting interviews

as needed; (4) inquiring about any investigative actions that were taken, planned, or considered involving credit union officials or others; and (5) analyzing supervisory history and other review methods.

We conducted limited scope reviews of two credit unions that incurred losses to the Share Insurance Fund under \$25 million between April 1, 2017 and September 30, 2017. Based on those limited reviews, we determined that none of the losses warranted conducting additional work because we found no unusual circumstances, or we had already addressed the reasons identified for the losses in recommendations to the agency in previous MLR reports.

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



DECISIONS REGARDING LOSSES LESS THAN \$25 MILLION					
OIG Decision**	Credit Union	Region	Date Closed	Est. Loss to Share Insurance Fund	Grounds for Liquidation or Appointment
Terminate	Love Gospel Assembly Federal Credit Union	I	8/2/2017	\$30,771	At-cost failure due to poor record keeping and inadequate management rendering the credit union insolvent. The NCUA approved a voluntary assisted merger with USAlliance Federal Credit Union.
Terminate	Madco Credit Union	4	8/21/2017	\$25,000	At-cost failure due to severe operational concerns and potential unrecorded liabilities and unrecognized losses rendering the credit union insolvent. The NCUA approved an involuntary assisted merger with 1 st MidAmerica Credit Union.

***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 – APRIL 1 THROUGH SEPTEMBER 30, 2017

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

External Peer Review of the NCUA OIG, Office of Audit

The Consumer Product Safety Commission (CPSC) OIG completed our most recent peer review on March 30, 2016, for the three-year period ended September 30, 2015. The CPSC OIG issued its report entitled *System Review Report* and rendered the opinion that the system of quality control for the NCUA OIG, Office of Audit, was suitably designed and complied with, thus providing reasonable assurance the system of controls conformed with applicable professional standards in all material respects. As a result, we received a peer rating of pass. In addition, we have no outstanding recommendations from this external peer review. A copy of this report is included herein as Appendix A.

External Peer Review of Architect of the Capitol OIG, Office of Audit

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



INVESTIGATIVE ACTIVITY

In accordance with professional standards and guidelines established by the United States Department of Justice, 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 referrals and allegations of misconduct on the part of NCUA employees, former employees, and contractors. Investigations may involve possible violations of regulations involving Federal employee responsibilities and conduct, agency policies, Federal criminal law, and other statutes and regulations.

We also routinely receive complaints from credit union officials and their members involving NCUA programs and officials. 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 and Access (OCFPA) or appropriate regional office for response, or close the matter if contact with OCFPA or the regional office indicates that the matter has already been appropriately handled. The table below details OI’s investigative activity and reports issued during the reporting period.

Investigative Activity/Reports Issued During the Reporting Period	Total Number
(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 and/or State and 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 did not conduct any investigations involving a senior NCUA employee. OI did issue two investigative reports on non-senior level NCUA employees, as described below:

Official Misconduct (Unprofessional Conduct)

During the previous reporting period, the OIG obtained information that an NCUA examiner behaved in an abusive and disrespectful manner toward hotel management and employees while on official business. The examiner admitted to this behavior during an investigative interview and the investigation substantiated the unprofessional conduct. The OIG issued a Report of Investigation (ROI) during the previous reporting period. As a result, the examiner received a two-day suspension. This investigation was closed this reporting period.

Official Misconduct (Unprofessional Conduct)

During the reporting period, we obtained information that an NCUA examiner made inappropriate comments to another employee while on official business. During an investigative interview, the examiner admitted to making such comments. The OIG issued an ROI. The agency issued a counseling memorandum to the examiner. The investigation was closed during the reporting period.

Official Misconduct (Unprofessional Conduct)

During the reporting period, we obtained information that an NCUA examiner made inappropriate comments to other NCUA examiners and state examiners while on official business. The examiner admitted to the comments during an investigative interview. OI issued an ROI. The agency issued a letter of reprimand to the examiner. The investigation was closed during the reporting period.

Whistleblower Retaliation

We did not handle directly any instances 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 OIG and Congress or using budgetary constraints designed to limit the capabilities of OIG.

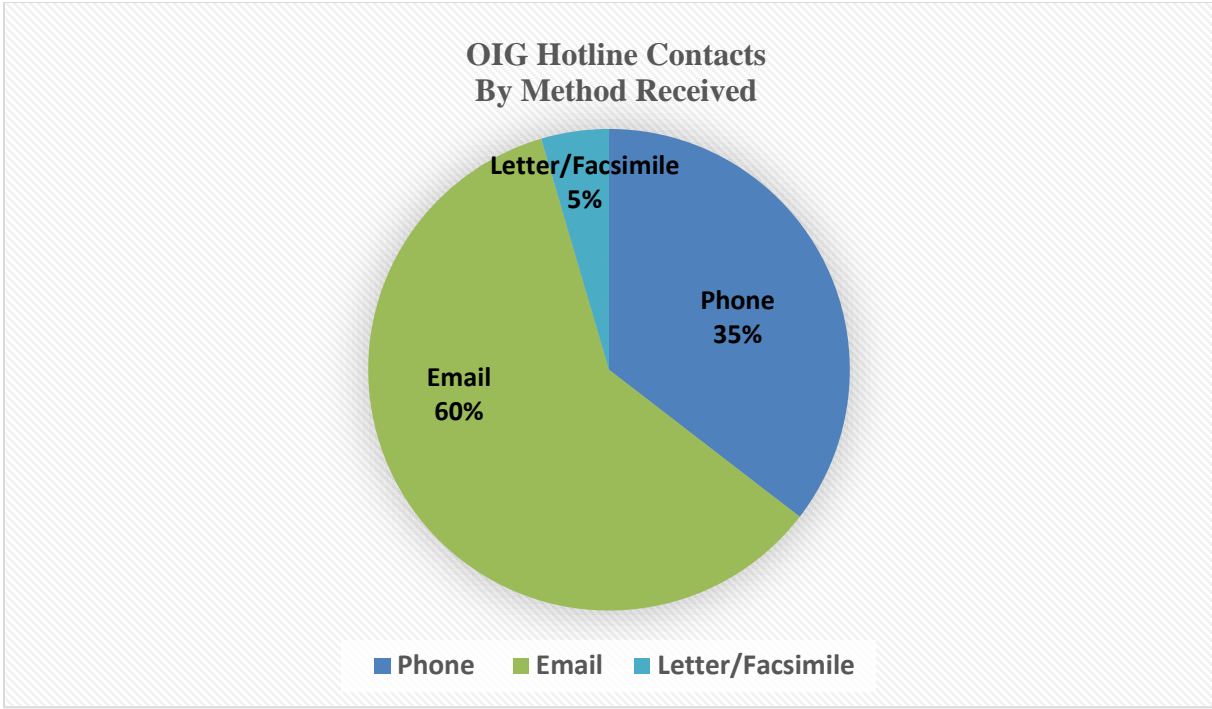
Moreover, there have been no incidents where the NCUA resisted or objected to OIG oversight activities. There have also been no restrictions or delays in our access to to agency information.

OIG HOTLINE

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, OIG receives complaints from an off-site post office box, electronic mail, and facsimile messages. OI has also developed an electronic version of a hotline complaint form, located on the NCUA intranet. The electronic form offers an additional venue for confidential employee and contractor communication with OIG. All information received from any of these sources is referred to as a hotline contact. Our Office Manager, under the direction of the Director of Investigations, administers the OIG hotline program.

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

During this six-month period, we processed approximately 110 hotline contacts, the majority of which were from consumers seeking assistance with problems encountered within their respective credit unions. As discussed above, these contacts were generally referred to OCFPA and regional offices for action. A relatively small number of these contacts required additional action by OI to determine whether the matter warranted investigation.



OIG Hotline Contacts	Number
Phone	39
Email	66
Letter/Facsimile	5
Total:	110



LEGISLATIVE AND REGULATORY REVIEWS

Section 4(a) of the Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the NCUA and to make recommendations concerning their impact. Moreover, we routinely review agency program and policy guidance, in order to make recommendations concerning economy and efficiency in the administration of NCUA programs and operations and the prevention and detection of fraud, waste and abuse.

During the reporting period, OIG reviewed 23 items, including proposed legislation, final and proposed regulations, and NCUA Letters to Credit Unions. OIG also responded to eight Freedom of Information Act (FOIA) requests.

SUMMARY OF STATUTES AND REGULATIONS REVIEWED	
Legislation	Title
S. 1099	Saving Federal Dollars Through Better Use of Government Purchase and Travel Cards Act
H.R. 3110	Financial Stability Oversight Council Insurance Member Continuity Act
H.R. 1624	Municipal Finance Support Act of 2017
H.R. 2864	Improving Access to Capital Act
H.R. 2133	Community Lending Enhancement and Regulatory Relief Act
H.R. 3042/S. 585	Dr. Chris Kirkpatrick Whistleblower Protection Act
H.R. 2195	The Office of Special Counsel (OSC) Access Act
H.R. 378	Bonuses for Cost-Cutters Act of 2017
H.R. 10	Financial CHOICE Act/2.0
H.R. 702	Federal Employee Antidiscrimination Act of 2017
S. 696	Stop Improper Federal Bonuses Act
Regulations/Rulings	Title
12 CFR 747	Final Action: Civil Monetary Penalty Inflation Adjustment
12 CFR Part 792	Final Action: Freedom of Information Act Regulation



12 CFR Part 709	Final Action: Safe Harbor
12 CFR Part 741	NPR: Requirements for Insurance: National Credit Union Share Insurance Fund Equity Distributions
12 CFR Part 701	Proposed Rule: Emergency Mergers—Chartering and Field of Membership
12 CFR Part 704	Proposed Rule: Corporate Credit Unions
12 CFR Part 746	Proposed Rule: Appeals Procedures
12 CFR Part 746	Supervisory Review Committee: Procedures for Appealing Material Supervisory Determinations
12 CFR Part 701, 708a, and 708b	NPR w/request for comments: Bylaws; Bank Conversions and Mergers; and Voluntary Mergers of Federally Insured Credit Unions
Letters to Credit Unions	Title
17-05 (September 2017)	Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses
17-04 (August 2017)	FFIEC Uniform HMDA Resubmission Guidelines
17-03 (April 2017)	Prepaid Rule Implementation Delay



TABLE I: ISSUED REPORTS WITH QUESTIONED COSTS

	Number of Reports	Questioned Costs	Unsupported Costs
(A) For which no management decision had been made by the start of the reporting period.	0	\$0	\$0
(B) Which were issued during the reporting period.	0	0	0
Subtotals (A + B)	0	0	0
(C) For which management decision was made during the reporting period.	0	0	0
(i) Dollar value of disallowed costs	0	0	0
(ii) Dollar value of costs not allowed	0	0	0
(D) For which no management decision has been made by the end of the reporting period.	0	0	0
(E) Reports for which no management decision was made within six months of issuance.	0	0	0

Questioned costs are those costs the OIG has questioned because of alleged violations of laws, regulations, contracts, or other agreements; findings which at the time of the audit are not supported by adequate documentation; or the expenditure for the intended purpose is unnecessary or unreasonable. Unsupported costs (included in "Questioned Costs") are those costs the OIG has questioned because of the lack of adequate documentation at the time of the audit.



TABLE II: ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

	Number of Reports	Dollar Value
(A) For which no management decision had been made by the start of the reporting period.	0	\$0
(B) Which were issued during the reporting period.	0	0
Subtotals (A + B)	0	0
(C) For which management decision was made during the reporting period.	0	0
(i) Dollar value of recommendations agreed to by management.	N/A	N/A
(ii) Dollar value of recommendations not agreed to by management.	N/A	N/A
(D) For which no management decision was made by the end of the reporting period.	0	0
(E) For which no management decision was made within six months of issuance.	0	0

Recommendations that "Funds to be put to Better Use" are those OIG recommendations that funds could be used more efficiently if management took actions to reduce outlays, de-obligate funds from programs/operations, avoid unnecessary expenditures noted in pre-award reviews of contracts, or any other specifically identified savings.



TABLE III: SUMMARY OF OIG ACTIVITY DURING THE REPORTING PERIOD

Part I – Audit Reports Issued		
Report Number	Title	Date Issued
OIG-17-07	Audit of NCUA’s Procurement Program	6/28/2017
OIG-17-08	Review of NCUA’s Supervisory Oversight of Credit Union Cybersecurity Programs	9/28/2017
Part II – Audits in Progress (as of September 30, 2017)		
Audit of the NCUA’s Comprehensive Records Management		
Audit of the NCUA’s Compliance with the DATA Act		
2017 Independent Evaluation of the NCUA’s Compliance with FISMA		
2017 Financial Statement Audits		
Audit of the NCUA’s Information Technology Inventory		



**INDEX OF REPORTING REQUIREMENTS OF THE INSPECTOR
GENERAL ACT OF 1978, AS AMENDED**

Section	Reporting Requirement	Page
4(a)(2)	Review of legislation and regulations	32
5(a)(1)	Significant problems, abuses, and deficiencies	13
5(a)(2)	Recommendations for corrective action	19
5(a)(3)	Significant recommendations on which corrective action has not been completed	17
5(a)(4)	Matters referred to prosecutive authorities	None
5(a)(5)	Summary of instances where agency refused or failed to provide requested information	None
5(a)(6)	List of audit reports issued during the reporting period	36
5(a)(7)	Summary of significant reports issued during the reporting period	13
5(a)(8)	Statistical table on audit reports with questioned costs	34
5(a)(9)	Statistical table on audit reports with recommendations that funds be put to better use	35
5(a)(10)(A)	Summary of each audit report over six months old for which no management decision has been made	None
5(a)(10)(B)	Summary of each audit report over six months old for which no management comment was returned within 60 days	None
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	None
5(a)(12)	Significant management decisions with which the OIG disagreed	None
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	27
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	None
5(a)(17)	Statistical table on investigative reports issued during the reporting period	28



Section	Reporting Requirement	Page
5(a)(18)	Description of metrics used for developing the investigative report statistical table	28
5(a)(19)	Investigations conducted involving a senior Government employee	None
5(a)(20)	Detailed description of any instances of whistleblower retaliation	None
5(a)(21)	Detailed description of any attempt by the Agency to interfere with the independence of the Office	None
5(a)(22)(A)	Detailed description of any inspection, evaluation, and audit that was closed and was not disclosed to the public	None
5(a)(22)(B)	Detailed description of any investigation involving a senior Government employee that was closed and was not disclosed to the public	None



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

**ISSUED:
March 30, 2016**



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

Christopher W. Dentel
Inspector General

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System Review Report

March 30, 2016

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

Dear Mr. Hagen:

We have reviewed the system of quality control for the audit organization of the National Credit Union Administration (NCUA), Office of Inspector General (OIG) in effect for the year ended September 30, 2015. A system of quality control encompasses NCUA OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*.¹ The elements of quality control are described in *Government Auditing Standards*. The NCUA OIG is responsible for establishing and maintaining a system of quality control that is designed to provide NCUA OIG with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and NCUA OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*.² During our review, we interviewed NCUA OIG personnel and obtained an understanding of the nature of the NCUA OIG audit organization, and the design of NCUA OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audits and attestation engagements, collectively referred to as "audits," and administrative files to test for conformity with professional standards and compliance with NCUA OIG's system of quality control. The

¹ United States Governmental Accountability Office, *Government Auditing Standards*, dated December 2011

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

audits selected represented a reasonable cross-section of the NCUA OIG audit organization, with emphasis on higher-risk audits. Prior to concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with the NCUA OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

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

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

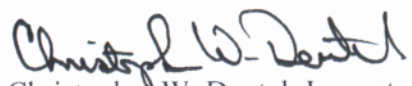
The enclosure to this report identifies the NCUA OIG offices that we visited and the audits that we reviewed.

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

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

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

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



Christopher W. Dentel, Inspector General

Enclosure

ENCLOSURE

Scope and Methodology

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

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

We visited NCUA's offices located Alexandria, VA.

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



Office of Inspector General

March 22, 2016

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

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

Dear Mr. Dentel:

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

Sincerely,

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

James W. Hagen
Inspector General