

Semiannual Report to the Congress

October 1, 2015 – March 31, 2016





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A MESSAGE FROM THE INSPECTOR GENERAL

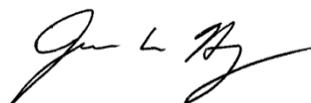
On behalf of the Office of Inspector General (OIG) of the National Credit Union Administration (NCUA), I am pleased to present our Semiannual Report to the NCUA Board and Congress highlighting our accomplishments for the six-month period ending March 31, 2016.

In determining the discretionary audit work that our office of audit conducts we look at the key challenges and risks facing the agency that will threaten the safety and soundness of the credit union system. A rising rate environment may prove challenging for those credit unions (CU's) that hold either high concentrations of long-term assets funded with short-term liabilities, or have rate-sensitive deposits and fixed-rate assets. The latter is especially true if fixed-rate assets lose value, which can cause deposit rates to rise, liquidity to decrease, and earnings to compress by lowering net interest margins.

Interest rate risk (IRR) remains a significant challenge and we conducted an audit to determine whether NCUA's IRR policy and procedures help to effectively reduce IRR and what action NCUA has taken to identify and address CU's with IRR concerns. We determined that NCUA has taken steps to identify and address CU's with interest rate risk concerns. However, we determined that NCUA may not be effectively capturing IRR when assigning a composite CAMEL rating to a CU. The details of our findings follow in the semiannual report.

On the investigative side, the Office of Investigations (OI) closed one case during the reporting period. This case was opened in the previous reporting period. In total, the OI issued one Report of Investigation, which detailed an investigation that was handled as an administrative misconduct case.

The NCUA Board and management have been very receptive to the findings and recommendations set forth in our reports and investigations. Since this is the last Semiannual Report we will issue during Chairman Matz' tenure at NCUA, I would like to take a moment and commend her for her leadership of the agency through the financial crisis, one of the most difficult periods in the agency's history. The OIG issued many Material Loss Review (MLR) reports during the crisis that contained significant recommendations for change to avoid future losses. The Chairman always kept an open mind regarding our findings and ensured that the agency took corrective action on our recommendations. In particular, she directed management to implement a rigorous follow-up process to ensure corrective actions were taken to address OIG recommendations. Quick corrective action also eliminated the need for repeat recommendations in future MLR reports. I greatly appreciated the open lines of communication that the Chairman maintained with our office and her consistent support of our mission over the last six years. I wish her well in any future endeavors.

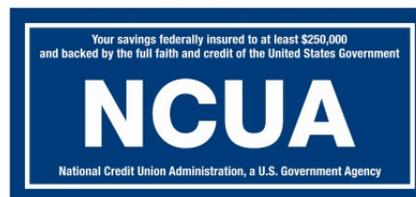
A handwritten signature in black ink, appearing to read "James W. Hagen".

James W. Hagen
Inspector General



THE NATIONAL CREDIT UNION ADMINISTRATION MISSION

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



THE OFFICE OF INSPECTOR GENERAL MISSION

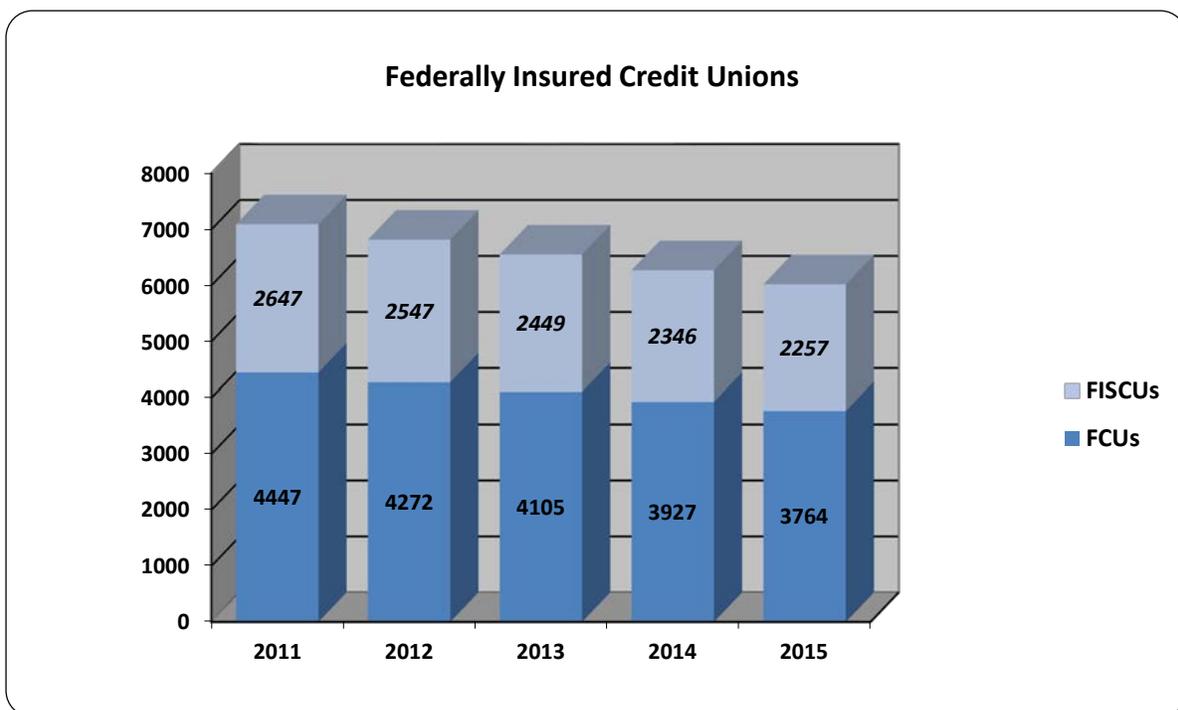
The Office of Inspector General (OIG) promotes the economy, efficiency, and effectiveness of NCUA programs and operations, and detects and deters fraud, waste, and abuse, thereby supporting the NCUA's mission of monitoring and promoting safe and sound federally insured credit unions.

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



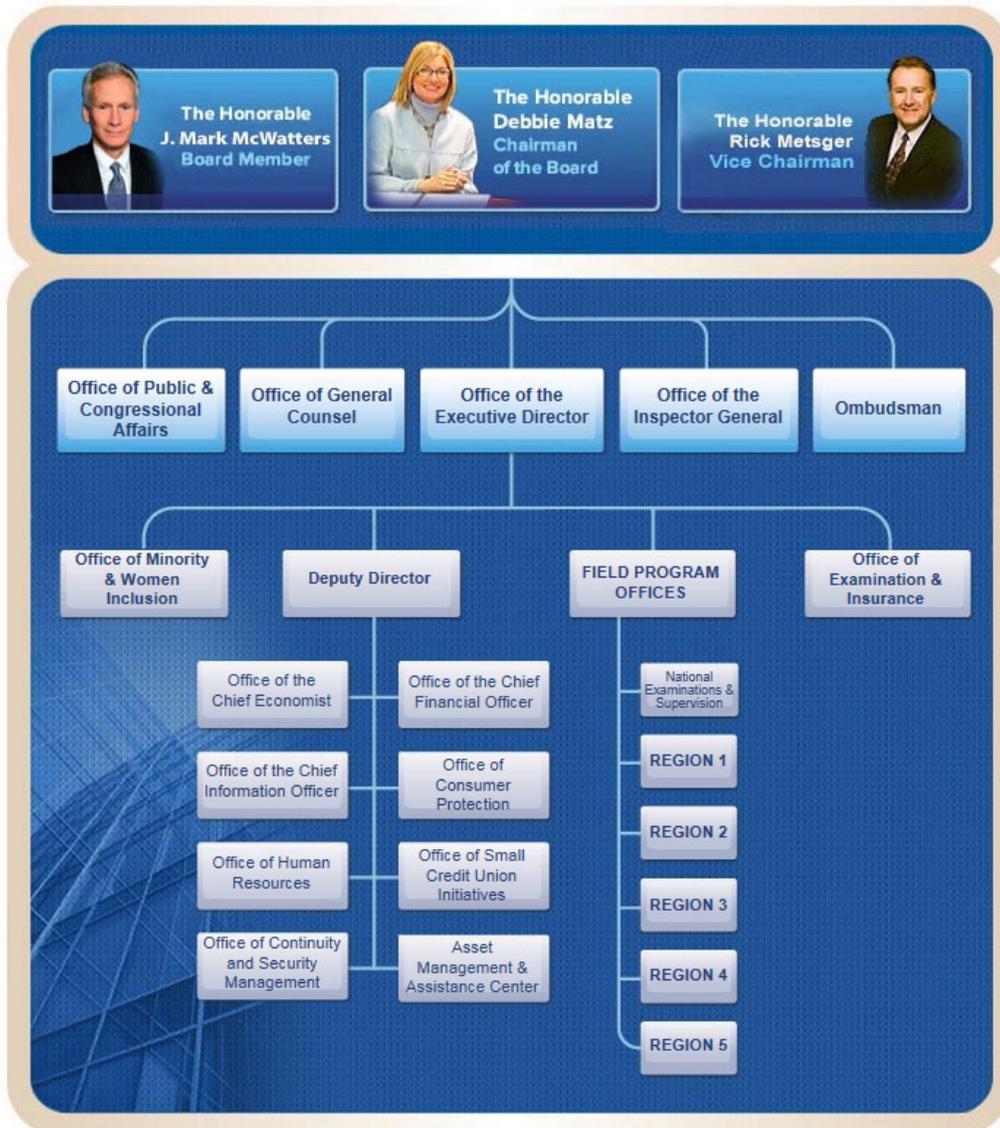
INTRODUCTION

The NCUA was established as an independent, federal regulatory agency on March 10, 1970. The agency is responsible for chartering, examining, supervising, and insuring federal credit unions. It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. The NCUA is funded by the credit unions it supervises and insures. As of December 31, 2015, the NCUA was supervising and insuring 3,764 federal credit unions and insuring 2,257 state-chartered credit unions, a total of 6,021 institutions. This represents a decline of 163 federal and 89 state-chartered institutions since December 31, 2014, for a total decline of 252 credit unions nationwide, primarily as a result of mergers and liquidations.

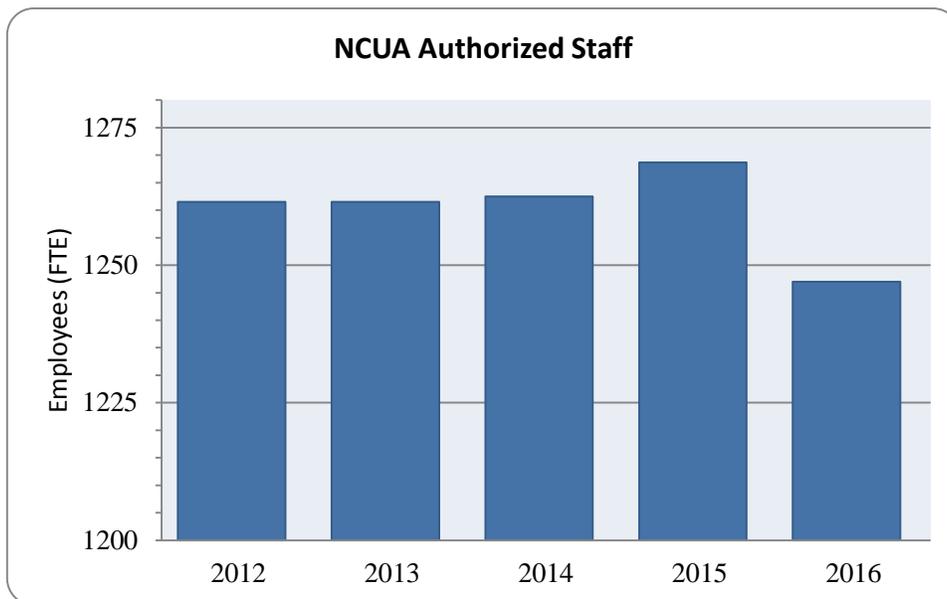
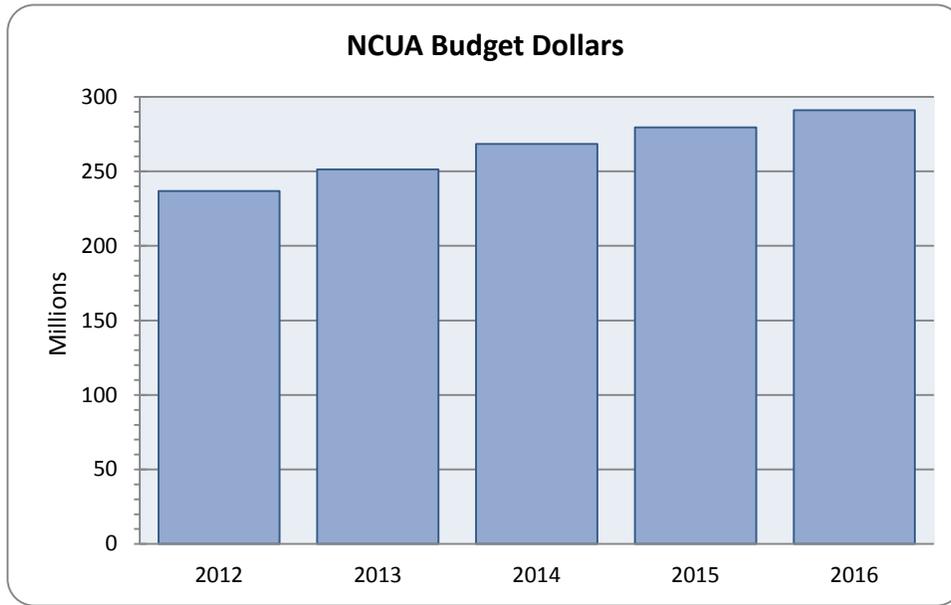


The NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one term expires every two years. The Board is responsible for the management of the NCUA, including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

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



The NCUA Board adopted its 2016 budget of \$290,915,928 on November 19, 2015. The Full-Time Equivalent (FTE) staffing authorization for 2016 is 1,247.0 representing a decrease of 21.7 FTE from 2015.



NCUA HIGHLIGHTS

Wachovia Agrees to Pay \$53 Million to Resolve NCUA's Claims; Barclay's Agrees to Pay \$325 Million to Settle RMBS Lawsuits

On October 19, 2015, NCUA announced the completion of an agreement with Wachovia, whereby Wachovia agreed to pay \$53 million to resolve the agency's claims arising from losses related to purchases of the securities by corporate credit unions. On this same day, NCUA announced an agreement with Barclay's Capital for \$325 million to resolve claims arising from losses related to purchases of faulty RMBS by corporate credit unions. NCUA uses the net proceeds from such settlements to reduce Temporary Corporate Credit Union Stabilization Fund assessments charged to federally insured credit unions to pay for the losses caused by the failure of five corporate credit unions. The agency has a statutory obligation to protect credit unions from these costs.

Upon completion of the settlement, NCUA dismissed pending claims against the firm in federal district courts in California, Kansas, and New York. Wachovia did not admit fault in the settlement.

NCUA filed suit against Barclay's, the U.S. subsidiary of the British financial services firm, in 2012. Once that settlement is completed, NCUA will dismiss pending suits against the firm in federal district courts in New York and Kansas. Barclay's also did not admit fault in the settlement.

Morgan Stanley Agrees to Pay \$225 Million to Settle NCUA's Claims

On December 10, 2015, NCUA announced a settlement with Morgan Stanley for \$225 million to resolve claims arising from losses related to corporate credit unions' purchases of faulty RMBS. The settlement covers claims asserted in 2013 by the NCUA Board on behalf of U.S. Central Federal Credit Union, Western Corporate Federal Credit Union, Members United Corporate Federal Credit Union, and Southwest Corporate Federal Credit Union.

As a result of the settlement, NCUA dismissed pending suits against Morgan Stanley in Federal district courts in New York and Kansas. Morgan Stanley did not admit fault in the settlement.

McWatters Will Continue to Serve Throughout Confirmation Process

On January 7, 2016, President Obama nominated J. Mark McWatters, NCUA Board member, to the board of directors of the Export-Import Bank. Following confirmation by the Senate on June 19, 2014, McWatters took office as an NCUA Board member on August 26, 2014. Shortly after the President's nomination of him to the Export-Import Bank board, McWatters stated his intention to remain fully engaged on matters coming before the NCUA Board during the confirmation process for his nomination.

A Senate Banking Committee hearing on April 7, 2016, effectively postponed a vote on a bundle of five executive banking nominations, including McWatters', as a result of opposition that came mostly from Democrats. Committee Chairman Richard Shelby (R-Ala.) stated that he expects the nominees will be approved at the committee's next mark-up. If McWatters' nomination is approved at the next hearing, then in the wake of NCUA Chairman Matz' departure on April 30, the NCUA Board will have only one remaining Board member, Rick Metsger.

NCUA's Four Permanent Funds Earn Clean Audit Opinions for 2015

On February 16, 2016, the NCUA Office of Inspector General released audited financial reports indicating that NCUA's four permanent funds again received clean, unmodified audit opinions for 2015. The audited financial reports, prepared by the independent auditor KPMG LLP, cover the National Credit Union Share Insurance Fund, the agency's Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund. The Share Insurance Fund held up more than \$12.3 billion in total assets as of December 31, 2015. The Share Insurance Fund protects member deposits up to \$250,000 for more than 102 million consumers at more than 6,000 federally insured credit unions. KPMG LLP completed the audits of all four permanent funds. The complete financial reports are available online [here](#).

NCUA Stabilization Fund Earns Clean 2015 Audit

On March 1, 2016, the Office of Inspector General released its report on the Temporary Corporate Credit Union Stabilization Fund's 2015 audited financial statements. The Stabilization Fund received a seventh consecutive clean audit opinion. During 2015, the Stabilization Fund's financial condition remained stable, maintaining sufficient available liquidity to meet its obligations. This was the second consecutive year in which the Stabilization Fund had a positive net position. KPMG LLP, the independent firm that audits the Stabilization Fund's financial statements, issued an unmodified opinion with no reportable findings. The Inspector General's report and the Stabilization Fund's financial statements are available online [here](#).

Managed by the NCUA Board, the Stabilization Fund is a revolving fund in the U.S. Treasury. The Stabilization Fund gives NCUA the necessary flexibility to manage costs to the credit union system resulting from losses on faulty mortgage-backed securities purchased by five failed corporate credit unions that NCUA liquidated during the financial crisis. The Stabilization Fund is currently scheduled to close in 2021. With the 2015 Stabilization Fund audit complete, NCUA will soon update its two public website sections detailing Corporate System Resolution Costs and NCUA Guaranteed Notes Program information through the final quarter of 2015. NCUA will produce updated questions and answers covering final 2015 data on the total actual losses and implied write-downs on the failed corporates' legacy assets and the most recent estimated loss projection ranges.

NCUA Agrees to \$29 Million Offer of Judgment from Credit Suisse

On March 24, 2016, NCUA announced acceptance of a \$29 million offer of judgment from Credit Suisse to resolve claims arising from losses related to purchases of residential mortgage-backed securities by Members United and Southwest corporate credit unions. The NCUA Board initiated litigation as liquidating agency for the failed corporate credit unions. The NCUA Office of Inspector General conducted material loss reviews for both credit unions, and issued reports on May 4, 2011, and September 22, 2011, respectively.

The NCUA Board initiated litigation as liquidating agency for the failed corporate credit unions. The offer of judgment includes \$29 million in damages plus prejudgment interest in an amount to be determined by the Court as well as reasonable attorneys' fees to be determined by agreement between the parties or by the Court.

NCUA has now obtained more than \$2.5 billion in legal recoveries in securities cases. Net proceeds are used to pay claims against five failed corporate credit unions, including those of the Temporary Corporate Credit Union Stabilization Fund. Recoveries by the Stabilization Fund reduce the likelihood of assessments charged to federally insured credit unions to pay for the losses caused by corporate credit union failures.

NCUA still has litigation pending in federal court in Kansas against Credit Suisse for sales of faulty residential mortgage-backed securities to U.S. Central and Southwest corporate credit unions. It also has lawsuits pending against several other firms based on the sale of faulty securities. NCUA further has pending litigation against various Residential Mortgage-Backed Securities (RMBS) trustees and London Interbank Offer Rate (LIBOR) banks related to corporate credit union losses.

Chairman Matz to Step Down on April 30

NCUA Chairman Debbie Matz will step down from her position as Chairman effective April 30, 2016. Matz has led the agency, which supervises over 6,000 credit unions with \$1.2 trillion in assets, since August 2009. When Matz became Chairman, the credit union system was on the brink of collapse. The survival of the system was threatened by corporate credit unions holding \$50 billion in toxic assets and consumer credit unions facing billions of dollars in potential losses. Such catastrophic losses would have wiped out the National Credit Union Share Insurance Fund, which at that time had only \$8 billion in assets. Matz made it the agency's top priority to save as many credit unions as possible, minimize total losses, rebuild the Insurance Fund and stabilize the credit union system. Her next priority was to shore up gaps in supervision, regulations, policies, and procedures that threatened safety and soundness, and put new safeguards in place to stop the hemorrhaging and prevent the system from failing. Under Matz's leadership, NCUA became the first federal financial institutions regulator to recover losses from the Wall Street firms that contributed to the Great Recession. NCUA's net proceeds from those recoveries have reduced the total amount and need for assessments paid by consumer credit unions, and increased the likelihood of a future rebate. To date, the agency has recovered



\$2.4 billion in settlements with firms that sold faulty mortgage-backed securities to corporate credit unions.

Matz also implemented a Regulatory Modernization Initiative that began in 2011. Over the last five years, the initiative yielded 21 areas of regulatory relief, consistent with President Obama’s Executive Order 13579. These initiatives include permitting full-service video tellers in the definition of federal credit union service facilities to finalizing a rule facilitating member business lending; implementing an opt-in notification process for low-income designation; creating an expedited exam process for small credit unions; expanding the definition of small credit union; and eliminating the cap on fixed assets.

During Matz’s term as Chairman, NCUA received annual recognition for being one of the “Best Places to Work in the Federal Government.”

Serving a total of 11 years at NCUA, Matz is the eighth NCUA Board Chairman and the only NCUA Board Member ever confirmed by the U.S. Senate for a second term. Her term ended on April 10, 2015. She represents the NCUA on the Federal Financial Institutions Examination Council, which she chaired from 2011-2013, and on the Financial Stability Oversight Council, on which she has served since its inception in 2010. Beginning in May, Matz plans to take time off before pursuing new professional opportunities. Matz’s letter to President Obama is available [here](#).

FEDERALLY INSURED CREDIT UNION HIGHLIGHTS

Credit unions submit quarterly call reports (financial and operational data) to the NCUA. An NCUA staff assessment of the December 31, 2015, quarterly call reports submitted by all federally insured credit unions found that key financial indicators are positive.

Key Financial Indicators Favorable

Looking at the December 31, 2015, quarterly statistics for major balance sheet items and key ratios shows the following for the nation's 6,021 federally insured credit unions: assets grew 7.3 percent; net worth to assets ratio decreased from 10.96 to 10.92 percent; and the loan to share ratio increased from 74.9 percent to 77.5 percent. The delinquency ratio decreased from .85 to .81 percent. Credit union return on average assets decreased from .80 to .75 percent.

Savings Shifting to Regular Shares

Total share accounts increased 6.86 percent. Regular shares increased 9.64 percent. Regular shares comprise 34.66 percent of total share accounts; share certificates comprise 18.71 percent; money market shares comprise 22.81 percent; share draft accounts comprise 14.78 percent; IRA/KEOGH accounts comprise 7.55 percent; nonmember deposits comprise .65 percent; and all other share accounts comprise .84 percent.

Loan Volume Increasing

Loans increased 10.49 percent resulting in an increase in total loans by \$74.71 billion. Total net loans of \$779.71 billion comprise 64.74 percent of credit union assets. First mortgage real estate loans are the largest single asset category with \$322.31 billion accounting for 40.95 percent of all loans. Other real estate loans of \$74.45 billion account for 9.46 percent of all loans. Used car loans of \$161.92 billion were 20.57 percent of all loans, while new car loans amounted to \$100.14 billion or 12.72 percent of total loans. Unsecured credit card loans totaled \$48.80 billion or 6.20 percent of total loans, while all other unsecured loans totaled \$34.98 billion or 4.45 percent. Leases receivable and all other loans were \$44.42 billion or 5.64 percent of total loans.

LEGISLATIVE HIGHLIGHTS

Obtaining Vendor Authority Remains NCUA's Top Legislative Priority

For the past several Congresses and during hearings, NCUA has stressed the need for examination and enforcement authority over third-party vendors, particularly technology service providers. In the current legislative session, obtaining vendor authority remains NCUA's top legislative priority.

NCUA has emphasized that this lack of direct oversight of third-party vendors presents an ever-increasing regulatory blind spot for the agency, especially as it relates to cybersecurity. Last year, both Government Accountability Office (GAO) and Financial Stability Oversight Council (FSOC) recommended that Congress adopt legislation to provide NCUA with examination and enforcement authority over third-party technology providers. In its 2015 annual report, FSOC recommended granting examination and enforcement powers to NCUA and Federal Housing Finance Agency to oversee third-party service providers engaged respectively with credit unions and the government-sponsored enterprises. In its report issued last summer, GAO came to the same conclusion, noting “[c]yber risks affecting a depository institution can arise from weaknesses in the security practices of third parties that process information or provide other IT services to the institution. Bank regulators routinely conduct examinations of service providers’ information security. Authorizing NCUA to routinely conduct such examinations and could help it better ensure that the service providers for credit unions also follow sound information security practices.”

In a letter dated September 10, 2015, NCUA Chairman Matz informed the U.S. Senate Committee on Banking, Housing, and Urban Affairs (Committee) that credit unions use third-party vendors to provide many important services, such as internet banking, transaction processing, mortgage and member business loan underwriting, and fund transfer services. Chairman Matz noted further that, while providing important services and helping credit unions to remain competitive, there are inherent risks in third-party vendors, including credit union services organizations (CUSOs). Since 2008, NCUA estimates that nine CUSOs have caused more than \$300 million in direct losses to the Share Insurance Fund and led to the failures of credit unions with more than \$2 billion in assets.

In a 2012 OIG report, [OIG-12-14 Material Loss Review of Eastern New York Federal Credit Union](#), auditors recommended that the agency review current examination procedures over CUSOs to not only ensure regulatory compliance, but most importantly, to determine whether current procedures are adequate to identify the degree of risk the CUSO poses to the affiliated credit union. NCUA management agreed with the OIG's recommendation and developed an online registry for CUSOs to improve transparency and address safety and soundness concerns. This transparency initiative streamlines reporting by eliminating duplicate reporting by credit unions. It also better informs credit unions and regulators about CUSO activities. The CUSO Registry is the final component of NCUA's enhanced CUSO rule, which was approved in 2013

and became effective in 2014. During the CUSO Registry's development, 25 CUSOs provided feedback on the system's design and functionality through a collaborative design effort. CUSOs began submitting financial information to NCUA on February 1, 2016.

The enhanced CUSO rule notwithstanding, NCUA maintains that the challenge remaining is that third-party vendors, including CUSOs, are still not within the agency's regulatory authority. This, the agency emphasizes, limits NCUA's ability to assess risk to credit unions and, ultimately the Share Insurance Fund, and respond to any problems. NCUA has submitted a legislative proposal to the Committee that would effectuate the necessary changes so that all credit unions can responsibly and effectively use the services of third-party vendors.

NCUA Requests Targeted Statutory Changes on Emergency Liquidity and Contingency Funding for Credit Unions

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

NCUA's contingent borrowing capacity was greatly diminished by the exigent circumstances of the financial crisis. The expiration of the agency's temporary increase in emergency borrowing authority from the U.S. Treasury, coupled with the contraction in the CLF's borrowing authority, greatly reduced the contingency funding capability of NCUA and the Share Insurance Fund to meet a systemic liquidity event. In October 2013, the NCUA Board took action on these matters by issuing a final rule on emergency liquidity and contingency funding for credit unions. In addition, NCUA has requested from the Committee targeted statutory changes to the CLF and expanded access to the U.S. Treasury to ensure that credit unions have sufficient access to emergency liquidity, especially in the event of another systemic financial crisis in the future. This issue remains one of NCUA's top legislative priorities.

NCUA Seeks Authority to Charge Risk-Based Premiums for the Share Insurance Fund

NCUA has requested from the Committee the authority to charge risk-based premiums for the Share Insurance Fund much like the FDIC charges for the Deposit Insurance Fund. The proposed legislation would also provide NCUA with greater flexibility in managing the Share Insurance Fund's equity ratio.

Currently, NCUA must charge premiums based on the percentage of insured shares the credit union holds instead of the risks the institution undertakes. While NCUA and FDIC offer nearly identical insurance coverage for deposits, the FDIC received the authority to charge risk-based premiums in 1991.



NCUA maintains that it needs parallel authority to properly oversee credit unions. According to the agency, the lack of this authority negatively impacts the smaller urban and rural credit unions with fundamentally simpler operations. In other words, risk-based premiums would lessen the funding burden on small credit unions, which generally pose less risk to the Share Insurance Fund.

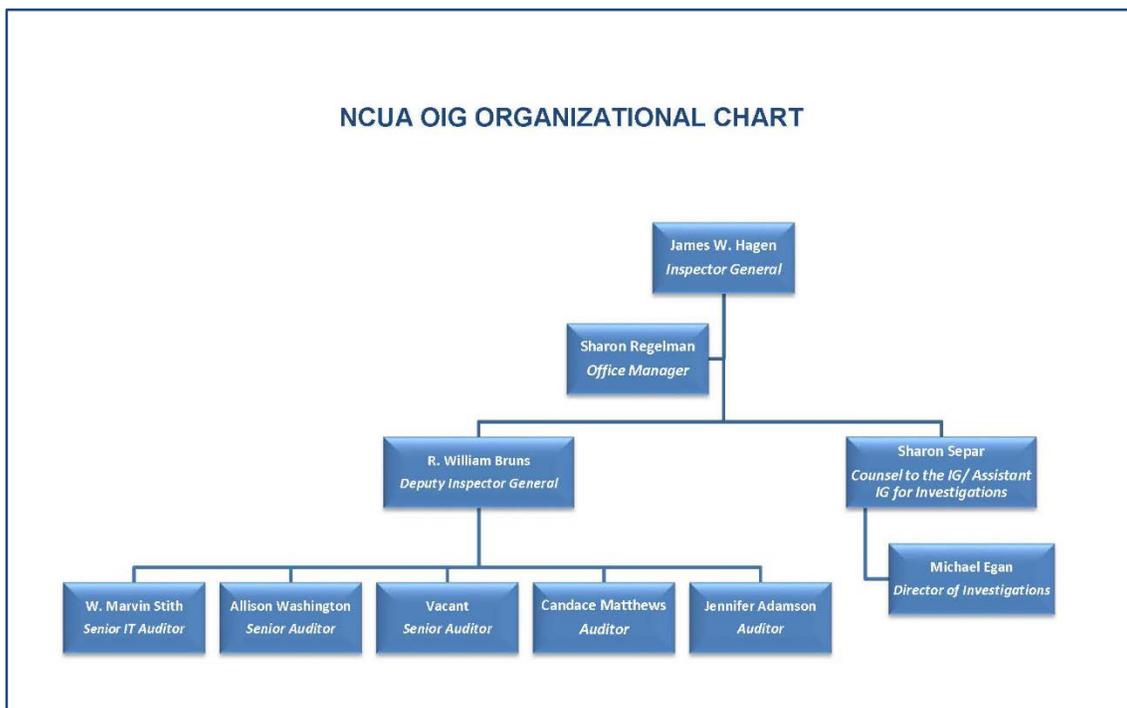
As with the two items reported above, NCUA has emphasized to Congress that enactment of this legislative priority would go a long way toward protecting the Share Insurance Fund from losses.

OFFICE OF THE INSPECTOR GENERAL

The Office of the Inspector General was established at the NCUA in 1989 under the authority of the Inspector General Act of 1978, as amended. The staff consists of the Inspector General, Deputy Inspector General, Counsel to the Inspector General/Assistant Inspector General for Investigations, Director of Investigations, 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-15-10 – November 13, 2015

[FY 2015 Independent Evaluation of the Effectiveness of NCUA’s Information Security Program Under the Federal Information Security Modernization Act of 2014](#)

NCUA OIG contracted with the independent public accounting firm, CliftonLarsonAllen, LLP (CLA) to independently evaluate NCUA’s information systems and security program and controls for compliance with the Federal Information Security Management Act (FISMA), Title III of the E-Government Act of 2002.

In resolving prior year issues and recommendations, CLA determined that NCUA continued to strengthen its information security program during FY 2015 and made progress in documenting its privacy program. NCUA did not have any repeat findings from prior years.

CLA also identified three information security program areas in which NCUA needs to make improvements. Specifically, CLA determined that NCUA needs to improve its risk management and configuration management programs, as well as its authentication controls. As a result of CLA’s review, we made six recommendations that will help NCUA continue to improve the effectiveness of its information security and privacy management programs.

OIG-15-11 – November 13, 2015

[Review of NCUA’s Interest Rate Risk Program](#)

NCUA OIG conducted this self-initiated audit to determine whether NCUA’s interest rate risk (IRR) policy and procedures helped to effectively reduce IRR, and what action NCUA had taken or planned to take to identify and address credit unions with IRR concerns.

The results of our audit determined that NCUA had taken steps to identify and address credit unions with interest rate risk concerns through such means as relying on Regional Capital Market Specialists to identify credit unions with elevated IRR, the use of multiple methods to assess and monitor IRR concerns, and the establishment of an IRR working group to develop examination-based IRR assessment tools and IRR supervisory guidance. However, we were unable to evaluate the effect of these efforts because NCUA was refining their overall IRR process. We concluded we would revisit this objective at a later date.

We also determined that NCUA may not be effectively capturing IRR when assigning a composite CAMEL rating to a credit union. We noted that NCUA currently assesses sensitivity to market risk under the "L" or Liquidity rating in its CAMEL rating system. However, with the addition of an "S" rating to its CAMEL rating system to capture and separately assess a credit union’s sensitivity to market risk, we concluded NCUA would improve its ability to accurately measure and monitor interest rate risk.

We made two recommendations in this report. We recommended NCUA management modify its current CAMEL Rating System by adding an “S” for market risk [S]ensitivity and to revise the “L” rating to reflect only liquidity factors. NCUA management agreed with our recommendations.

OIG-16-01 – February 9, 2016

Audit of NCUA’s Restitution Order Process at the Asset Management and Assistance Center

NCUA OIG conducted this self-initiated audit to determine whether NCUA’s Asset Management and Assistance Center (AMAC) had effective policies, procedures, and resources in place to recover money owed from restitution orders, as well as assess the internal control environment over AMAC’s restitution order process.

The results of our audit concluded that although AMAC adequately documented restitution orders and receipt of restitution payment, there were several areas where AMAC management could improve the restitution orders process. Specifically, areas of improvement included assisting the Department of Justice to potentially improve collections and confirm accuracy when accounting for restitution orders owed to liquidation estates, taking advantage of an available federal resource for assistance with the collection of restitution orders, developing write down policies and procedures for expired and uncollectible restitution orders, and updating all policies and or procedures over the restitution process.

We made eight recommendations to NCUA management that we concluded would help AMAC improve its restitution orders process. NCUA management agreed with all eight recommendations.

OIG-16-02/03/04/05 – February 12, 2016

NCUA 2015 Financial Statement Audits for Share Insurance Fund, Operating Fund, Central Liquidity Facility, Community Development Revolving Loan Fund

NCUA OIG contracted with the independent accounting firm, KPMG LLP (KPMG), to conduct the 2015 NCUA financial statement audits of the National Credit Union Share Insurance Fund, Operating Fund, the Central Liquidity Facility, the Community Development Revolving Loan Fund, and the Temporary Corporate Credit Union Stabilization Fund.

The National Credit Union Share Insurance Fund (*OIG-16-02*) is a revolving fund managed by the NCUA Board to insure member share deposits in all Federal credit unions and qualifying state credit unions. The fund’s total assets for 2015 were \$12.3 billion; up from just over \$11.9 billion in 2014. KPMG issued an unmodified audit opinion on the Share Insurance Fund’s financial statements.

The NCUA Operating Fund (*OIG-16-03*) was established as a revolving fund managed by the NCUA Board for the purpose of providing administration and service to the federal credit union system. The fund’s total assets for 2015 were \$80.4 million; down from \$80.8 million in

2014. KPMG issued an unmodified audit opinion on the Operating Fund's financial statements.

The Central Liquidity Facility (*OIG-16-04*) 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 Central Liquidity Facility's (CLF) total assets for 2015 were \$250 million; up from \$230 million in 2014. KPMG issued an unmodified audit opinion on the CLF's financial statements.

The Community Development Revolving Loan Fund (*OIG-16-05*) was established to stimulate economic activities in the communities served by low-income credit unions. This in turn results in increased income, ownership, and employment opportunities for low-wealth residents and other economic growth. The fund's total assets for 2015 were \$17.6 million, up from \$16.9 million in 2014. KPMG issued an unmodified audit opinion on the Fund's financial statements.

[OIG-16-06 – February 29, 2016](#)

[NCUA 2015 Financial Statement Audit for Temporary Corporate Credit Union Stabilization Fund](#)

The Temporary Corporate Credit Union Stabilization Fund (TCCUSF) is a revolving fund in the U.S. Treasury established in 2009 under the management of the NCUA Board. The purposes of the TCCUSF are to accrue the losses of the corporate credit union system and, over time, assess the credit union system for the recovery of such losses. During 2015, the financial condition of the TCCUSF improved, as seen by the increase in Net Position from \$238.5 million to \$540.4 million. In 2015, the TCCUSF maintained sufficient liquidity to meet its obligations as well as to pay down \$900.0 million in borrowing from the U.S. Treasury. The Fund's total assets for 2015 were \$2.2 million, down from \$2.8 million in 2014. KPMG issued an unmodified audit opinion with no reportable findings.

AUDITS IN PROGRESS

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

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

We are participating in this review to assess the extent to which FSOC's efforts promote market discipline by eliminating expectations on the part of shareholders, creditors, and counterparties of large bank holding companies or nonbank financial companies that the Government will shield them from losses in the event of failure. The Treasury OIG is leading the working group with participation from other CIGFO members, including NCUA OIG. The working group's

results will be incorporated into a consolidated report to FSOC. The audit could result in recommendations for FSOC to improve its efforts to promote market discipline.

FY2015 Review of NCUA's Purchase and Travel Card Programs

NCUA OIG is currently conducting a review of NCUA's Purchase and Travel Card Programs in compliance with the *Government Charge Card Abuse Prevention Act of 2012*. We plan to assess, identify, and analyze risks of illegal, improper, or erroneous purchases and payments made through NCUA's purchase and travel card programs and determine whether the results of our risk assessments justify performing an audit in compliance with Government Auditing Standards. In addition, because NCUA exceeded the Act's \$10 million threshold for Travel expenses for FY 2015, we are conducting an audit of NCUA's IBA travel card program focused on the agency's efforts to cancel travel cards for terminated employees.

Review of NCUA's Supervisory Oversight of Credit Union Cybersecurity Programs

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

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

Data Act Readiness Review

The Digital Accountability and Transparency Act of 2014 (DATA Act) requires Federal agencies to report financial and payment data in accordance with data standards established by the Department of Treasury and the Office of Management and Budget. In addition, the DATA Act requires agency Inspectors General (IG) review statistical samples of the data submitted by the agency and report on the completeness, timeliness, quality, and accuracy of the data sampled, and the use of the data standards by the agency. The IG community plans to undertake DATA Act "readiness reviews" at their respective agencies, in advance of the first agency report to help ensure the success of the DATA Act implementation efforts. The NCUA OIG is a participant in this IG community effort.



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

Material Loss Reviews

The Federal Credit Union Act requires 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 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, 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 seven 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 21.

Significant Audit Recommendations on Which Corrective Action Has Not Been Completed

Following is a list of OIG reports with significant unimplemented recommendations as of March 31, 2016. NCUA management has agreed to implement corrective action, but has yet to complete those actions. This information was supplied by NCUA Office of the Executive Director and is monitored within the OIG’s report recommendation tracking system.

Report Number, Title, and Date

- OIG-12-14* Material Loss Review of Eastern New York FCU, November 19, 2012
- 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

Significant Recommendations Open and Brief Summary

1. Recommendation: *OIG-12-14, recommendation #2*. Review current examination procedures over Credit Union Service Organizations (CUSO) to not only ensure regulatory compliance, but most importantly, to determine whether current procedures are adequate to identify the degree of risk the CUSO poses to the affiliated credit union.

Status: Open. NCUA has updated its examination questionnaire to address the financial relationship between CUSO and CU operations on affiliated credit unions and plans to release its updated CUSO

chapter in its Examiner's Guide in July 2016. NCUA developed a stand-alone CUSO scoping workbook, which has been field-tested and distributed. NCUA also deployed a CUSO registry. The registry requires all FICUs to establish agreements and all CUSOs to register with the NCUA. NCUA also continues to seek vendor authority over CUSOs comparable to the other FFIEC agencies.

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

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

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

Status: Open. NCUA has committed to presenting a proposal on changing the regulation to the NCUA Board by the end of Q3 2016. If the Board approves the regulatory change, it will target final implementation by the end of 2018. While progress has been made in assessing changes required in NCUA's systems, procedures, and examination guidance to add an "S" component, the change process will be complex. It involves regulatory changes followed by reprogramming multiple IT systems, data storage and retrieval, and revising examination policies and procedures. Several initiatives will be implemented during 2016 that will help to improve interest rate risk rating clarity, including revised supervision guidance to examiners on reviewing interest rate risk and

liquidity risk. Additionally, AIREs enhancements needed to facilitate future regulatory and procedural changes will continue to be mapped out in 2016, with full development anticipated in 2018. Both of these steps are foundational in isolating "Sensitivity to Market Risk", "S".

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

The Dodd-Frank Act requires the NCUA OIG to perform a limited review where the NCUSIF incurred a loss below the \$25 million threshold with respect to an insured credit union. The OIG must report to the NCUA Board and the Congress every 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 October 1, 2015 to March 31, 2016. For all losses to the NCUSIF under the MLR threshold, we determined (1) why NCUA initiated assistance, and (2) whether any unusual circumstances existed that might warrant an in-depth review of the loss.

For each limited review, we performed procedures that included, but were not limited to (1) obtaining and analyzing the regulator's supervisory memoranda and other pertinent documents; (2) preparing a schedule of CAMEL ratings assigned to the institution through full scope or other examinations during the five years preceding the failure; (3) conducting interviews as needed; (4) inquiring about any investigative actions that were taken, planned, or considered involving credit union officials or others; and (5) analyzing supervisory history and other review methods.

We conducted limited scope reviews of seven credit unions that incurred losses to the NCUSIF under \$25 million between October 1, 2015 and March 31, 2016. Based on those limited reviews, we determined that none of the losses warranted conducting additional work because we found no unusual circumstances, or we had already addressed the reasons identified for the losses in recommendations to the agency in previous MLR reports.

The chart below provides details on the seven credit union losses to the NCUSIF below the \$25 million threshold. It provides details on the credit union, such as the date of failure, the estimated loss to the 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	Estimated Loss to NCUSIF	Grounds for Liquidation or Appointment
Terminate	Northwest Baptist Federal Credit Union	V	10/1/15	\$649,792	Merged with assistance due to inadequate management, weak internal controls leading to alleged fraud, and negative earnings because of high operating costs.
Terminate	Helping Other People Excel Federal Credit Union	II	11/20/15	\$165,194	Insolvent because the Board failed to operate the credit union in a safe and sound manner. The Board allowed excessive and alleged fraudulent Automated Clearing House (ACH) transactions without adequate reserves, oversight, policies and procedures, or an independent ACH audit.
Terminate	Greater Abyssinia Federal Credit Union	II	12/1/15	\$220,490	Insolvent due to unreconciled deficit, ongoing recordkeeping issues, potential fraudulent activity, and underfunded allowance for loan and lease losses (ALLL).
Terminate	First Hawaiian Homes Federal Credit Union	IV	12/29/15	\$2,100,000	Liquidated due to admitted fraud by a former manager and credit union employee involving large-scale manipulation of the loan portfolio and negative share accounts rendering the credit union insolvent.
Terminate	Community Trust Federal Credit Union	III	1/1/16	\$1,970,000	Emergency merger due to losses from high-risk loan portfolio, an underfunded ALLL account, insufficient management, and inadequate oversight from the Board of Directors.
Terminate	Mildred Mitchell-Bateman Hospital Federal Credit Union	II	2/24/16	\$27,523	Insolvent due to potential fraudulent activity. Management overstated the assets and net worth, and understated liabilities, which concealed the out of balance condition.
Terminate	Education Associations Federal Credit Union	II	3/4/16	\$1,151,100	Liquidated due to management's unsafe and unsound record keeping practices, and manipulation of loan records to mask delinquency. Management is currently under an ongoing FBI investigation for alleged criminal and fraudulent activities. Additionally, EAFCU lacked the qualified staff and



					resources to maintain adequate records, produce reliable financial condition and loan reports, and generate positive earnings.
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***Criteria for each decision included: (1) dollar value and/or percentage of loss; (2) the institution’s background, such as charter type and history, geographic location, affiliations, business strategy; (3) uncommon cause of failure based on prior MLR findings; (4) unusual supervisory history, including the nature and timing of supervisory action taken, noncompliance with statutory examination requirements, and/or indications of rating disagreements between the state regulator and NCUA; and (5) other, such as apparent fraud, request by NCUA Board or management, Congressional interest, or IG request.*

Peer Reviews – October 1, 2015 through March 31, 2016

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

External Peer Review of NCUA OIG, Office of Audit

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

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

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

INVESTIGATIVE ACTIVITY

In accordance with professional standards and guidelines established by the United States Department of Justice, the NCUA OIG, Office of Investigations (OI) conducts investigations of criminal, civil, and administrative wrongdoing involving the agency's programs, operations, and personnel. Our investigative mission is to fight fraud, waste, and abuse while promoting efficiency and economy within the NCUA and its programs and operations. In this regard, we investigate referrals and allegations of misconduct on the part of NCUA employees, former employees, and contractors. Investigations may involve possible violations of regulations involving Federal employee responsibilities and conduct, agency policies, Federal criminal law, and other statutes and regulations.

The OI also maintains a robust training program within the agency that encompasses integrity awareness briefings and orientation presentations regarding the role of the OIG within the agency and how to report wrongdoing to the OI. The instructional guidance the OI provides to new NCUA employees and newly appointed supervisors about the respective roles and responsibilities of the OIG and NCUA employees facilitates more open communication between both. The final product is a stronger agency. Additionally, we routinely receive complaints from credit union officials and their members involving NCUA programs. We examine these complaints and determine if there is any indication of misconduct or wrongdoing by an NCUA employee. If not, we refer the complaint to the NCUA Office of Consumer Protection (OCP) or appropriate regional office for response, or close the matter if contact with OCP or the regional office indicates that the matter has already been appropriately handled.

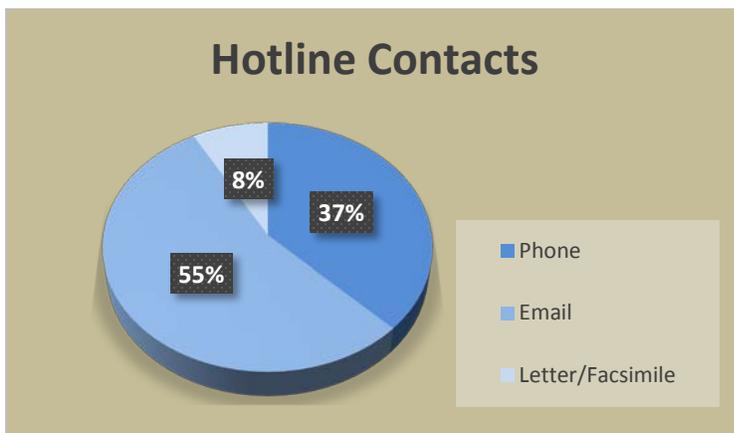
OIG Hotline Contacts

The OIG maintains a 24-hour toll free hotline to enable employees and citizens to call in and provide information about suspected fraud, waste, and abuse, or mismanagement involving agency programs or operations. Additionally, the OIG receives complaints from an off-site post office box, electronic mail, and facsimile messages. The OI has also developed an electronic version of a hotline complaint form, located on the NCUA intranet. The electronic form offers an additional venue for confidential employee and contractor communication with the OIG. All information received from any of these sources is referred to as a hotline contact. Our Office Manager, under the direction of the Director of Investigations, administers the OIG hotline program.

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

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

During this six-month period, we processed approximately 123 hotline contacts, the majority of which were from consumers seeking assistance with problems encountered within their respective credit unions. As discussed above, these contacts were generally referred to OCP and regional offices for action. A relatively small number of these contacts required additional action by OI to determine whether the matter warranted investigation.



Phone	46
Email	67
Letter/Facsimile	10
Total:	123

Investigations

Employee Misconduct (False Claims/False Statements)

During the previous reporting period, the OIG received an allegation that an NCUA senior examiner had been engaging in possible travel claim fraud. The investigation did not establish travel claim fraud. However, during the investigation it was determined the employee did provide false information with respect to time and attendance data (18 U.S.C §§ 287 and 1001). Further, the employee’s actions affected accurate accounting of hours attributed to work assignments, in violation of the NCUA-NTEU Collective Bargaining Agreement. Additionally, the investigation revealed that the employee had relocated to another state for primary residence without prior notification or approval from the agency. This resulted in an overpayment of approximately \$1,256.00 due to change in locality pay. The unauthorized move also raised potential logistic issues for the regional office with regard to current/future work assignments. The employee also provided false information as to their whereabouts during



several work related assignments (18 U.S.C. § 1001). The OIG issued a Report of Investigation (ROI). The employee resigned his/her position concurrent with the issuance of the ROI and prior to the agency taking any disciplinary action. This investigation is closed.



LEGISLATIVE AND REGULATORY REVIEWS

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

During the reporting period, the OIG reviewed 01 items, including final and proposed legislation, final and proposed regulations, Interpretive Rulings and Policy Statements (IRPS), and NCUA Letters to Credit Unions (LICU). The OIG also responded to six (4) Freedom of Information Act (FOIA) requests and referred two (2) requests to the agency’s FOIA Officer for response.

SUMMARY OF STATUTES AND REGULATIONS REVIEWED	
Legislation	Title
S. 614	Federal Improper Payments Coordination Act of 2015
H.R. 2029	Consolidated Appropriations Act, 2016
H.R. 2029 Div. N	Cybersecurity Act of 2015 Review of “Covered Systems”
H.R. 4360	Official Personnel File Enhancement Act
H.R. 4359	The Administrative Leave Reform Act
H.R. 653	FOIA Oversight and Implementation Act
H.R. 4639	The Thoroughly Investigating Retaliation Against Whistleblowers Act
H.R. 2076	The Marijuana Businesses Access to Banking Act
Regulations/Rulings	Title
12 CFR Part 703	Final Action: Investment and Deposit Activities - Bank Notes
12 CFR Part 723	Final Action: Member Business Loans; Commercial Lending
12 CFR Part 790	Final Action: Technical Amendments
12 CFR Part 745	Final Action: Pass-Through Share Insurance for Interest on Lawyers’ Trust Accounts
12 CFR Parts 700, 701, 702, 703, 713, 723, and 747	Final Action: Risk-Based Capital



12 CFR Part 701	Proposed Rule: Chartering and Field of Membership Manual
12 CFR Part 703	Proposed Rule: Investment and Deposit Activities—Bank Notes
IRPS 15-1 (12 CFR Part 791)	Regulatory Flexibility Act Threshold
Letter to Credit Unions (LICU) 15-CU-06	Fixed Assets Limit Removed (October 2015)
LICU 16-CU-01	Supervisory Priorities for 2016 (January 2016)
LICU 16-CU-02	Online CUSO Registry to Open for Registrations in February (January 2016)
LICU 16-CU-03	Regulatory Relief on Annual Privacy Notices (January 2016)



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

October 1, 2015 through March 31, 2016

Part I – Audit Reports Issued

Report Number	Title	Date Issued
<i>OIG-15-10</i>	Independent Evaluation of NCUA’s Compliance with FISMA 2015	11/13/2015
<i>OIG-15-11</i>	Review of NCUA's Interest Rate Risk Program	11/13/2015
<i>OIG-16-01</i>	Audit of NCUA’s Restitution Orders Process at the Asset Management and Assistance Center	2/9/2016
<i>OIG-16-02/03/04/05</i>	FY2015 Financial Statement Audits (SIF, OF, CLF, CDRLF)	2/12/2016
<i>OIG-16-06</i>	Financial Statement Audit (TCCUSF)	2/29/2016

Part II – Audits in Progress (*as of March 31, 2016*)

Audit of the Financial Stability Oversight Council’s Efforts to Promote Market Discipline
FY2015 Review of NCUA's Purchase and Travel Card Programs
Review of NCUA’s Supervisory Oversight of Credit Union Cybersecurity Programs
Data Act Readiness Review



INDEX OF REPORTING REQUIREMENTS		
Section	Data Required	Page Ref
4(a)(2)	Review of legislation and regulations	26
5(a)(1)	Significant problems, abuses, or deficiencies relating to the administration of programs and operations disclosed during the reporting period.	14
5(a)(3)	Recommendations with respect to significant problems, abuses or deficiencies	14
5(a)(3)	Significant recommendations described in previous semiannual reports on which corrective action has not been completed.	18
5(a)(4)	Summary of matters referred to prosecution authorities and prosecutions which have resulted.	None
5(a)(5)	Summary of each report to the Board detailing cases where access to all records was not provided or where information was refused.	None
5(a)(6)	List of audit reports issued during the reporting period.	30
5(a)(7)	Summary of particularly significant reports.	14
5(a)(8)	Statistical tables on audit reports with questioned costs.	28
5(a)(9)	Statistical tables on audit reports with recommendations that funds be put to better use.	29
5(a)(10)	Summary of each audit report issued before the start of the reporting period for which no management decision has been made by the end of the reporting period.	None
5(a)(11)	Description and explanation of reasons for any significant revised management decision made during the reporting period.	None
5(a)(12)	Information concerning significant management decisions with which the Inspector General is in disagreement.	None
5(a)(14)	An appendix containing the results of any peer review conducted by another OIG during the reporting period or, if no peer review was conducted within that reporting period, a statement identifying the date of the last peer review conducted by another OIG.	32
5(a)(15)	List of outstanding recommendations from any peer review conducted by another OIG that have not been fully implemented.	None
5(a)(16)	A list of any peer reviews conducted by the IG of another OIG during the reporting period, including a list of any outstanding recommendations made that remain outstanding or have not been fully implemented.	22

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



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

**ISSUED:
March 30, 2016**



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

Christopher W. Dentel
Inspector General

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

System Review Report

March 30, 2016

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

Dear Mr. Hagen:

We have reviewed the system of quality control for the audit organization of the National Credit Union Administration (NCUA), Office of Inspector General (OIG) in effect for the year ended September 30, 2015. A system of quality control encompasses NCUA OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*.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.

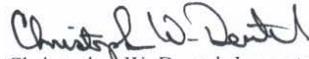
In our opinion, the system of quality control for the audit organization of the NCUA OIG in effect for the year ended September 30, 2015, has been suitably designed and complied with to provide the NCUA OIG with reasonable assurance of performing and reporting in conformity with applicable professional 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



National Credit Union Administration

Office of Inspector General

March 22, 2016

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

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

Dear Mr. Dentel:

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

Sincerely,

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

James W. Hagen
Inspector General

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