



NCUA
National Credit Union Administration

**OFFICE OF INSPECTOR
GENERAL**

**Audit of the NCUA's Compliance
with its Examiner-in-Charge
Rotation Policy and Procedures**

**Report #OIG-25-01
February 6, 2025**





National Credit Union Administration

Office of Inspector General

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A handwritten signature in black ink, appearing to read "Jim Hagen", is placed to the right of the "FROM:" field.

SUBJ: Audit of the NCUA's Compliance with its EIC Rotation Policy and Procedures

DATE: February 6, 2025

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) conducted this self-initiated audit to assess the NCUA's compliance with its examiner-in-charge rotation policy and procedures. The objectives of our audit were to determine whether the NCUA: (1) rotated examiners-in-charge in the regions and the Office of National Examinations and Supervision (ONES) in accordance with established requirements, (2) adequately maintained all written approved exceptions to the rotation policy, and (3) assigned examiners-in-charge to perform examinations of federal credit unions or federally insured state-chartered credit unions in accordance with established grade level requirements. The scope of our audit covered the period from January 1, 2015, through December 31, 2022. However, due to timing, we expanded our scope for some examinations to determine whether rotation of examiners-in-charge occurred as prescribed by the National Supervision Policy Manual (NSPM) or the ONES' office practices, when applicable.

Our audit determined NCUA's supervisory examiners generally rotated examiners-in-charge. However, we identified instances where the agency was not in compliance with its NSPM rotation limits policy. In addition, we determined supervisory examiners did not create any written approved exceptions to the rotation policy during our audit scope period, therefore, we had none to review. Finally, we determined the NCUA adequately assigned examiners-in-charge in accordance with grade level requirements. We are making one recommendation to ensure managers involved in the examination scheduling program adhere to examiner-in-charge rotation limits requirements to ensure timely examiner-in-charge rotation in accordance with the NSPM.

We appreciate the cooperation and courtesies NCUA management and staff provided to us during the audit. If you have any questions on the report and its recommendations, please contact me at 703-518-6350.

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EXECUTIVE SUMMARY

The NCUA OIG conducted this self-initiated audit to assess the NCUA's compliance with its examiner-in-charge rotation policy and procedures. Our audit objectives included whether the NCUA: (1) rotated examiners-in-charge in the regions and the Office of the National Examinations and Supervision in accordance with established requirements, (2) adequately maintained all written approved exceptions to the rotation policy, and (3) assigned examiners-in-charge to perform examinations of federal credit unions or federally insured state-chartered credit unions in accordance with established grade level requirements.

Our audit determined the NCUA supervisory examiners generally rotated examiners-in-charge. However, we identified instances where the agency was not in compliance with its National Supervision Policy Manual rotation limits policy. In addition, we determined supervisory examiners did not create any written approved exceptions to the rotation policy during our audit scope period, therefore, we had none to review. Finally, we determined the NCUA adequately assigned examiners-in-charge in accordance with grade level requirements. However, we are making one recommendation to ensure managers involved in the examination scheduling program adhere to examiner-in-charge rotation limits requirements to ensure timely examiner-in-charge rotation in accordance with the National Supervision Policy Manual.

We appreciate the cooperation and courtesies NCUA management and staff provided to us during this audit.



BACKGROUND

The NCUA is an independent federal agency that regulates, charters, and supervises federally insured credit unions. The NCUA's organizational structure consists of a Headquarters, Asset Management and Assistance Center (AMAC), and three regional offices.¹ The Office of Examination and Insurance (E&I) is responsible for the NCUA's supervision programs to ensure the safety and soundness of federally insured credit unions. E&I's Policy Division maintains the National Supervision Policy Manual (NSPM), which establishes national examination policies, procedures, and guidelines for effective district management, supervision of credit unions, and quality assurance. The Office of National Examinations and Supervision (ONES)² examiners³ follows the NSPM to the "fullest extent possible" when conducting natural person⁴ and corporate credit union⁵ examinations. ONES examiners also use the ONES Supervision Manual in conducting examinations. A working group⁶ in ONES maintains the ONES Supervision Manual. Both manuals require rotation of examiners-in-charge.

Each year, E&I issues workload budgeting instructions and guidance for the subsequent year to regional management, which is then provided to examination staff⁷ to plan for the upcoming year. During the redistricting⁸ process, the supervisory credit union examiners (SE) determine whether any examiners they supervise must be rotated off for the upcoming year by reviewing the agency's Management Automated Resource System (MARS) redistricting rotation report.⁹ Once identified, the SE either informs the EIC verbally or through email of their new

¹ The three regional offices are the Eastern, Southern, and Western regions.

² During our audit scope period, ONES was responsible for overseeing and examining credit unions with \$10 billion or more in assets and supervising corporate credit unions. However, effective January 1, 2023, the asset threshold for assigning supervision of covered consumer credit unions to ONES increased from \$10 billion to \$15 billion. At that time, all credit unions supervised by ONES continued to be supervised by ONES.

³ Throughout this report the term "EIC" (examiner-in-charge) or "examiners" includes ONES national credit union examiners.

⁴ A natural person credit union is a federal or state-chartered credit union primarily serving natural persons (individuals). A credit union is primarily serving natural persons if it is not a corporate credit union.

⁵ A corporate credit union is a federal or state-chartered credit union that is member-owned, member-controlled, not-for-profit cooperative financial institution formed primarily to serve other credit unions (also referred to as natural person credit unions).

⁶ The working group is comprised of a ONES' national field supervisor (SE) as chair, ONES examiners, specialists, an analyst, and state supervisory authority representatives. Throughout this report the term "SE" includes the ONES national field supervisor.

⁷ Examination staff includes district examiners, principal examiners, problem case officers, national credit union examiners, and specialized examiners.

⁸ Redistricting occurs when the SE enters the MARS redistricting report of their responsible district(s) to make changes for their assigned examiners, district examiners and EICs. During this process, the SE can move the EIC and/or credit union between their responsible district to ensure coverage based on an examiner's experiences, and to ensure development needs are met.

⁹ The report provides the charter number, the credit union name, complete date of examination, Capital Adequacy, Asset Quality, Management, Earnings, Liquidity Risk and Sensitivity to Market Risk (CAMELS) composite rating, asset size, examiner name, and examination history link for examiners who are required to rotate per the NSPM for work classification code (WCC) – 10 (federally chartered credit union examinations), WCC – 11 (federally insured state-chartered credit unions examinations), or WCC – 26 (review of state examinations).



assignment(s) and meets with them individually and/or with the SE's assigned group of examiners collectively to discuss assignments.

Conversely, ONES supervision activities are conducted routinely as part of their annual supervision cycle. The annual supervision cycle consists of the period between the completion dates of each examination. At the completion date of each annual credit union examination, the SEs use the MARS rotation report to determine whether rotation is needed for examiners. In addition, all the ONES SEs¹⁰ meet to determine the EICs that need to be rotated and the skills and experiences of the examiners needed for the credit union. Once identified, the SE informs the EIC verbally of the credit unions they will examine and hold meetings with the EIC, and the specialist assigned to the credit union.

Policies

National Supervision Policy Manual – EIC Rotation Limits

In 2005, the NCUA issued Instruction 5000.19,¹¹ which provided the policy that an EIC may be the same examiner for consecutive examinations completed within a four calendar-year period. In addition, the Instruction states an EIC will be rotated¹² at the conclusion of the fourth calendar-year and will not serve in that role until another examination is completed by a different examiner. However, in June 2020, when the NCUA increased the rotation period to five calendar-years the NCUA cancelled the Instruction¹³ and updated the NSPM. The revised NSPM¹⁴ rotation limits policy provided that an examiner may serve as EIC for consecutive examinations completed within five calendar-years. In addition, the NSPM states the EIC will rotate at the end of the fifth calendar-year and will not serve as EIC until another examination is completed by a different examiner. Even though, the Instruction was cancelled, both the Instruction and the NSPM continued to state EICs would be rotated at the end of the specified calendar-year¹⁵ and would not serve in that role until another examination or review was completed by a different examiner.

In addition, the NSPM states SEs will ensure EICs are adequately rotated and that associate regional directors (ARDs)¹⁶ will monitor compliance with the requirement. The NSPM also states that assigned ARDs may approve not rotating an EIC for extraordinary circumstances such as a pending merger, liquidation, charter conversion, or resolution of an emerging material problem. The NSPM requires ARDs to document such approvals in writing and for EICs to

¹⁰ ONES has three SEs.

¹¹ NCUA Instruction 5000.19, Examiner-In-Charge Rotation, dated November 23, 2005. This policy was included in the NSPMs during our audit scope period.

¹² The rotation period starts with the calendar year in which an examiner first serves as EIC.

¹³ The NCUA Instruction 5000.19, was cancelled on July 24, 2020.

¹⁴ NSPM version 11.1, EIC Rotation Limits dated June 23, 2020, used the terminology “field staff,” which was later changed to “examiners” NSPM 15.0, dated September 20, 2021.

¹⁵ The four calendar-year rotation policy was from 2005 through 2020 (15 years), which changed to a five calendar-year rotation policy from 2020 to the present.

¹⁶ Throughout this report the term “ARD” includes the ONES deputy director.



document approvals in the closed information questionnaire¹⁷ within the NCUA's Modern Examination and Risk Identification Tool (MERIT).¹⁸

National Supervision Policy Manual – Examiner Work Allocation

The NSPM states that only CU-09 examiners¹⁹ or higher may be an EIC for large, complex, difficult, or sensitive credit union work. The NSPM defines these types of credit unions as follows:

- CAMELS composite rating of 4 or 5 with assets over \$25 million.
- CAMELS composite rating of 3 with assets over \$50 million, or
- \$100 million or more in assets.²⁰

Although the NSPM does not allow examiners below grade level CU-08²¹ to be the EIC on large, complex, difficult, or sensitive credit union work, it does allow them to be an EIC and perform examinations of other credit unions. However, if a credit union is classified as large, complex, difficult, or sensitive credit union work after being assigned to an examiner at the CU-08 grade or lower, the supervisor must reassign the credit union to an examiner at the CU-09 grade or higher. If the change in classification is due to an examination or contact in process, the district reassignment may occur after the examination or contact is completed.

ONES Supervision Manual – EIC Rotation Policy

Prior to 2023, the ONES Supervision Manual did not incorporate an EIC rotation policy, although ONES' practice had been to rotate examiners after the third calendar-year. In 2023, ONES updated their Supervision Manual to include a rotation policy.²² The revised policy states that ONES examiners²³ may serve as EIC for examinations and contacts for no more than three consecutive credit union examinations completed within five calendar-years.²⁴ The ONES Supervision Manual also states at the conclusion of the third examination, the national field supervisor has some discretion on how best to time and coordinate the EIC rotation before the calendar-year end (when re-districting is traditionally completed). In addition, the ONES Supervision Manual states that unless extenuating circumstances exist, EICs should not serve as

¹⁷ The closed information questionnaire is equivalent to the confidential section used in NCUA's prior examination platform, the Automated Integrated Regulatory Examination System (AIRES).

¹⁸ In 2022, the NCUA implemented MERIT a web-based examination platform that replaced AIRES, which was decommissioned on October 1, 2022.

¹⁹ CU means credit union. Examiners at the CU-07/09 grade level are considered entry level.

²⁰ NSPM versions 12.0 through 20.1, Examiner Work Allocation, last updated August 21, 2020.

²¹ During our fieldwork, E&I updated the NSPM by revising the grade level from CU-09 to CU-08. NSPM 21.0, Examiner Work Allocation dated October 30, 2023.

²² ONES updated their ONES Supervision Manual to include the EIC rotation policy, effective August 17, 2023.

²³ Throughout this report the term "EIC" includes the ONES national examiners.

²⁴ This revision follows the NSPM rotation policy regarding the completion of examinations within five calendar-years.



EIC of an examination until another examination is completed by a different examiner. The ONES Supervision Manual does not specify which grade level can perform certain examinations like the NSPM does because ONES' examiners are at the CU-13 and CU-14 grade levels.

The ONES Supervision Manual states, that national field supervisors will ensure that adequate rotation of EICs occurs, and that the ONES deputy director will monitor compliance with the requirement. Similar to the NSPM, the ONES Supervision Manual states the deputy director may approve exceptions to rotation for extraordinary circumstances such as a pending merger, liquidation, charter conversion, or resolution of an emerging material problem, and requires the deputy director to document all approved exceptions in writing and EICs to document that approval in the closed information questionnaire in MERIT.

EIC Rotation Processes and Responsibilities

Associate Regional Director

ARDs are responsible for:

- Managing the regional resources budget and keeping the regional director (RD)²⁵ informed of the status of regional examination/supervision programs.
- Reallocating regional resources and coordinating with the other ARDs and the RD to secure assistance when group resources are not sufficient.
- Monitoring compliance with the rotation of EICs as prescribed in the NSPM.²⁶

Supervisory Examiner

SEs are responsible for:

- Managing resources on an ongoing basis throughout the year to ensure the proper development of examiners and completion of program including the resolution of identified problems.
- Managing resources to effectively supervise credit unions in their group.
- Using sound judgment to approve reasonable examiner requests for additional time to complete examination and supervision-related activities.

²⁵ Throughout this report the term "RD" includes the ONES director.

²⁶ If the region is unable to meet examination or supervision requirements, the RD is required to notify E&I.



The SEs are also responsible for performing redistricting. Redistricting occurs near the end of the year when SEs review the MARS EIC rotation report²⁷ to determine which EICs need to rotate off a particular credit union. Once SEs complete the redistricting, they meet with the affected EICs to discuss their new assignments so they can plan for the upcoming year. SEs may also maintain a group calendar/spreadsheet on a voluntary basis of staff assignments for the various credit unions within their responsible district, which details the days the EIC will work on an examination.

Examiner-in-Charge

EICs are responsible for conducting examinations on their own, or if an examination team²⁸ is needed, delegating, and coordinating the work of the team members and ensuring the quality of the examination. This includes, ensuring:

- Risk areas are adequately identified and assessed,
- The examination report is cohesive,
- Credit union management understands and agrees with the areas of concern,
- An administrative record is well documented in MERIT, and
- Expectations for the frequency and timeliness of syncing offline MERIT data.

EICs must continually evaluate the appropriateness of the scope throughout the course of an examination or supervision contact and document procedures commensurate with the size and complexity of the credit union.

In addition, EICs are responsible for communicating individual responsibilities and any additional expectations for documentation to all team members for an examination or supervision contact. At a minimum, EICs must provide team members:

- The location of the credit union, hours of operation, dress code, travel considerations (rental cars needed, lodging, etc.),
- Summary of existing and emerging concerns,
- Individual responsibilities and time budgeted,

²⁷ The MARS Credit Union Redistricting Rotation report provides the following: region number, the district number, charter number, credit union name, examination completion date, CAMELS composite rating, asset size, examiner name, and an examination history link.

²⁸ The team can consist of two or more staff to include specialized examiners, such as regional/national lending specialist, regional/national capital market specialist, regional/national information systems officer, national payment systems officer or regional electronic payment systems specialist.



- Additional documentation team members are expected to provide the EIC beyond the items required in the team member responsibilities section of the NSPM, and
- The due date for completing applicable sections of MERIT and providing request information back to the EIC.

Team Members

Team members are responsible for:

- Providing EICs with the documentation and completed MERIT forms to support areas reviewed, any corrective actions recommended, and proposed CAMELS and risk ratings in accordance with the instructions provided by the EICs at the beginning of the examination or contact, and
- Discussing any problems identified and recommended corrective actions with credit union management and addressing any questions management has while team members are onsite.



RESULTS IN DETAIL

The objective of our audit was to determine whether the NCUA complied with its EIC rotation policy and procedures. Specifically, we reviewed whether the NCUA: (1) rotated EICs in the regions and ONES in accordance with established requirements, (2) adequately maintained all written approved exceptions to the rotation policy, and (3) assigned EICs to perform examinations of federal credit unions or federally insured state-chartered credit unions in accordance with established grade level requirements. Overall, we determined:

- Supervisory examiners generally rotated EICs. However, we identified instances where the agency was not in compliance with its NSPM rotation limits policy.
- Supervisory examiners did not create any written approved exceptions to the rotation policy during our audit scope period, therefore we had none to review, and
- The NCUA adequately assigned EICs in accordance with grade level requirements.

The details of our audit follow.

Improved EIC Rotation Monitoring Needed

We determined NCUA management could improve monitoring EIC rotations. Specifically, we identified several instances where EICs worked longer than the four or five calendar-year NSPM rotation limits policy allows. The NSPM requires supervisors charged with scheduling examinations to ensure adequate rotation of EICs and associated regional directors to monitor compliance with this requirement. This may have occurred because managers involved in examination scheduling primarily used MARS to monitor EIC examination schedules. As a result, we determined some EICs remained assigned to credit unions for longer than they should have before being rotated off.

Details

Prior to 2016, the NCUA examined all federal credit unions once each calendar year and federally insured, state-chartered credit unions were examined based on asset size and CAMEL composite rating.²⁹ During this same period the NCUA's rotation policy required all EICs to be rotated off their assigned credit union after serving as the EIC within a four calendar-year period.³⁰ However, in 2017, the NCUA adopted its revised examination cycle, which allowed certain eligible federal credit unions to be examined between 14 and 20 months. Based on this

²⁹ The frequency of examination was either: annually; at the regional director's discretion; every other year; every five years in states where the state supervisory authorities' examination cycle was shorter than 24 months, or every three years where the state supervisory authorities' examination cycle was 24 months or greater. (NSPM 4.0)

³⁰ The rotation changed on June 23, 2020, for examinations completed within five calendar-years. (NSPM 11.1)



policy revision, credit unions would either remain on an 8 to 12-month examination cycle or be assigned to an extended examination cycle.

To determine whether an examiner served as EIC in accordance with the NCUA's rotation limits policy,³¹ we judgmentally selected credit unions that had completed at least four examinations. For those credit unions, we used MARS to review their examination history to identify any credit unions where the EIC may have exceeded the NSPM rotation limit based on the examination completion date. Using AIREs,³² we then obtained the examiner time detail report for when the associated EIC first charged time to the first examination in the rotation cycle or MARS milestone section for the credit unions to obtain a rotation start date. The details of our testing follows.

Results of our testing identified 33 credit unions where we found the SEs did not rotate the EICs in compliance with either the four or five calendar-year rotation policy.³³

For these 33 credit unions and the associated EICs, we determined:

Credit Unions Under the NCUA's Four Calendar-Year Rotation Policy

- SEs did not rotate 15 of 33 examiners serving as EIC under the NCUA's four calendar-year rotation policy, which allowed them to serve as EICs for up to six calendar-years.³⁴ For these EICs, 13 of 15 completed their last examination in five calendar-years, which occurred sometime between January 2018 and May 2020, before the agency implemented the current 5 calendar-year rotation policy. For the remaining two EICs, we determined they completed their last examinations sometime in 2019 after working at the credit union for six calendar-years. In both instances, the 15 examiners served as EIC beyond the required rotation limits policy.

Credit Unions Under the NCUA's Five Calendar-Year Rotation Policy

- SEs did not rotate 18 of 33 examiners serving as EICs under the NCUA's five calendar-year rotation policy. We determined these SEs did not timely rotate 16 of the 18 EICs until after they had served over six calendar-years. These EICs completed their last examinations between November 2021 and February 2024 at each of their respective assigned credit unions. For the remaining two EICs, we determined their SEs did not rotate them until after they had completed examinations over an eight calendar-year period.

³¹ Depending on the applicable NSPM version at the time the examiner served as the EIC, EICs could be assigned for four or five calendar-years.

³² The NSPM states the start date for an examination is the first time an examiner charges time to WCC - 10 or WCC - 11.

³³ For this testing effort, we extended the scope period to capture any EICs that may have started in 2014 or possible were still working at the credit union in 2024.

³⁴ Based on the examination completion date.



Despite SEs not rotating these 33 EICs in a timely manner, by expanding the scope period of our test work, we confirmed that for 29 of the 33 EICs, their SEs rotated them off based on the credit union's examination cycle. However, for the remaining four EICs, we could not determine whether their SEs rotated them off because these EICs completed their last examinations in either 2023 or 2024, which was too soon for them to have completed another examination (depending on the credit union's examination cycle), which could occur in 2024 or 2025.

For the 33 EICs discussed above, we believe this occurred because management relied solely on MARS to track when EIC rotation should have occurred. MARS only tracks the completion date and not the start date. As a result, management must monitor EIC rotations using both MARS and AIRES to track examination start and end dates. As noted in the NSPM, examination start dates in AIRES must align with the first time an examiner charges time to WCC 10 or WCC 11.

We caution management there could be more exceptions than the 33 we identified because we limited our testing. We also determined no SEs or ARDs created written approved exceptions for the 33 EICs that exceeded the NSPM's rotation policy limits. As a result, we had none to review. However, we believe managers involved in examination scheduling should more effectively monitor EIC rotation limits so that examiners serving as EICs at those credit unions are rotated off on a regular basis to ensure objective and unbiased examinations. Therefore, we are making the following recommendation to management to update the NSPM.

Recommendation:

We recommend NCUA management:

1. Ensure managers involved in the examination scheduling program adhere to examiner-in-charge rotation limits requirements to ensure timely examiner-in-charge rotation in accordance with the National Supervision Policy Manual.

Management Response:

Management agreed with our recommendation and will evaluate and enhance processes to improve compliance with examiner-in-charge rotation policies.

OIG Response:

We concur with management's planned actions.

Examinations Completed at Appropriate Grade Levels

We determined examiners completed examinations at the appropriate grade levels. Specifically, examiners below grade level CU-09, did not serve as EIC on examinations for credit unions classified as large, complex, difficult, or sensitive credit union work during our audit scope period. The NSPM was not well-defined on the appropriate grade level for examiners to serve as EIC for these classifications



of credit unions. Therefore, we brought it to the attention of management, and they updated the NSPM during our fieldwork. As a result, we determined whether the examiner served as EIC at the appropriate grade level for those classifications of credit unions.

Details

Examiners at Lower Grades Conducting Examinations

During our audit scope period, the NSPM³⁵ stated:

Only examiners at the CU-09 grade level or higher may be a district examiner or EIC of a credit union that would result in the assignment of large, complex, difficult, or sensitive credit union work.³⁶ Examiners at the CU-09 grade or lower may participate on examinations and supervision contacts for credit unions that meet any of the above classifications but may not be EIC or assigned district responsibility.

In addition, the NSPM stated that:

If a credit union is classified as large, complex, difficult, or sensitive credit union work after being assigned to an examiner at the CU-09 grade or lower, the supervisor must reassign the credit union to an examiner at the CU-09 grade or higher.

Because the CU-09 level is repeated in this provision, we brought it to the attention of E&I management to obtain clarification. E&I management informed us that this was a typographical error and updated the NSPM 21.0,³⁷ as follows:

Examiners at the CU-08 grade or lower may participate on examinations and supervision contacts for a credit union that is large, complex, difficult, or sensitive credit union work, but may not be EIC or assigned district responsibility. If a credit union is classified as large, complex, difficult, or sensitive credit union work after being assigned to an examiner at the CU-08 grade or lower, the supervisor must reassign the credit union to an examiner at the CU-09 grade or higher.

Due to the error, we questioned whether SEs had been following incorrect criteria and selected a sample of examiners below the CU-09 grade level serving as EICs to determine whether these EICs completed examinations for credit unions that were classified as large, complex, difficult, or sensitive credit union work. We selected examiners serving as EICs for the period of August 21, 2020 (NSPM 12.0), the date when the policy was first introduced in the NSPM through December 31, 2022, the end date of our audit scope period, and determined there were 571 examiners that completed examinations in 6,350 credit unions. We sampled approximately 40

³⁵ NSPM 12.0 through 20.1.

³⁶ For this report, the term “classification” is for credit unions that are considered large, complex, difficult, or sensitive credit union work.

³⁷ Effective date of October 30, 2023.



percent (230 of 571) of the examiners and obtained their grade levels during this period from the NCUA's Office of Human Resources (OHR). We reviewed the examiners' grade levels and determined approximately 6 percent (14 of 230) of the examiners had performed 108 examinations while working below grade level CU-08 in 2020, 2021, and 2022. For these 14 EICs, we requested that OHR provide us promotion dates from 2020 through 2022 to determine whether any of these EICs may have been promoted to the CU-09 level during this timeframe.

The results of our testing determined approximately 86 percent (12 of 14) of these EICs completed 39 of the 108 examinations at the CU-07 grade level for credit unions not classified as large, complex, difficult, or sensitive credit union work. We determined this by obtaining the credit union asset size, CAMELS composite rating, and the date the examiner was promoted to the CU-09 grade level. In addition, we determined the remaining two EICs did not complete any credit union examinations that were classified as large, complex, difficult, or sensitive credit union work until they were working at the CU-09 grade level. We learned through interviews with SEs and EICs that new examiners generally serve as an EIC for small credit unions as part of their on-the-job training. A temporary exception to this policy may be allowed in the event of a systemic, non-recurring agency need or an unexpected change in circumstances for an individual.³⁸ However, we determined that no EICs uploaded any temporary exceptions to the policy into AIRES or MERIT because the examiners served as EIC in accordance with the NSPM.

**ONES Complied with
EIC Rotation Practices**

We determined ONES supervisors complied with office practices and the NSPM by successfully rotating EICs after the third year examination within five calendar-years in which they were assigned as EIC. Further, despite ONES not having a

written rotation policy incorporated into its ONES Supervision Manual until August 2023, we determined ONES supervisors had been consistently rotating EICs after three examination years since 2015. They followed the NSPM's rotation policy requirements rotating EICs at the end of their third examination year and not allowing EICs to serve as the EIC until another examination was completed by a different examiner. As a result, ONES supervisors complied with requirements related to EIC rotations.

Details

ONES does not conduct point-in-time examinations but conducts supervision activities routinely as part of an annual supervisory cycle.³⁹ In addition, ONES staff evaluates risk on an ongoing

³⁸ Examples of non-recurring agency needs are natural disaster or widespread economic disruption. Examples of an unexpected change in circumstances for an individual includes a change in the assets or CAMELS composite rating that occurred after the examination or contact was initiated, causing the individual to exceed the limit. Exceptions must be authorized by the Executive Director.

³⁹ For credit unions that transferred into ONES, the annual supervisory cycle is determined by the region's prior examination close date as a guide to determine the annual examination for the following year. In addition, ONES will develop a supervision plan.



basis, in order to arrive at informed, supportable, and consistent conclusions about the health and safety of ONES' assigned credit unions.

To determine whether ONES supervisors rotated EICs in accordance with ONES' office practices and the NSPM, we obtained a universe of examinations completed by ONES' EICs for the scope period of our audit, January 1, 2015, through December 31, 2022. We determined ONES examiners conducted a total of 87 examinations of 11 natural person credit unions⁴⁰ during that period. We reviewed the examination information⁴¹ for these completed examinations at the 11 natural person credit unions to determine whether ONES supervisors rotated EICs after the third consecutive examination year. In addition, we identified several EICs who completed their third year of examinations in 2021 or 2022 and thus expanded our audit scope period for these particular examinations through October 2024 to determine whether ONES supervisors rotated the EICs.

We determined ONES' supervisors rotated all of their EICs who completed examinations according to their office practices for its 11 natural persons credit unions. However, we also determined 5 of the 11 credit unions had 6⁴² EICs that either rotated after the fourth year or did not rotate during our audit scope period. Therefore, we expanded our audit scope period through October 2024, to determine whether rotation occurred.

We determined 2 of the 6 EICs rotation did not occur until after the fourth year, therefore we asked a ONES supervisor why this occurred. The ONES supervisor told us that the two were EICs in the Western and Southern regions and the two credit unions for which they were EICs were not transferred to ONES until 2019 and 2021, respectively. Thus, the two EICs were not ONES EICs.

For the remaning four EICs who completed examinations in December 2021, April, June and August of 2022, with no additional examinations completed during our audit scope period. We reviewed the MARS examination history for completed examinations dates and determined ONES rotated all four EICs with examinations completed in 2023 and 2024. In addition, we determined the remaining four EICs rotated in accordance with the three year rotation policy and confirmed they did not return as EICs for the credit unions until after the next examinations were completed by other EICs.

Because ONES rotated EICs in accordance with its office policy and the NSPM, we are not making any recommendations at this time.

⁴⁰ ONES also has supervision responsibilities of 11 corporate credit unions.

⁴¹ The information consists of the credit union number, credit union name, current region, current SE, current district, completion date, examiner number and name, and examination contact type. In addition, we reviewed AIRES examiner time detail report and MERIT milestone section for the actual start date of the examination.

⁴² One of the credit unions had two EICs with rotation issues. Those issues were (1) the EIC had more than four years of examinations and (2) the EIC completed three examinations and the audit scope needed to be expanded to determine whether rotation occurred.



Appendix A

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether the NCUA adhered to its policy on the rotation of its EICs. Specifically, we reviewed whether the NCUA: (1) rotated EICs in the regions and ONES in accordance with established requirements, (2) adequately maintained all written approved exceptions to the rotation policy, and (3) assigned EICs performed examinations of federal credit unions or federally insured state-chartered credit unions in accordance with established grade level requirements.

To achieve our objectives, we conducted this audit from August 2023 to December 2024. The scope of the audit covered the period from January 1, 2015, through December 31, 2017, to cover examiners who first served as an EIC during those calendar-years. EICs serving during this timeframe would then begin rotations in calendar years 2020 through 2022 (five calendar-years). In addition, the audit covered ONES examiners who served as an EIC during calendar-years 2015 through 2019, which corresponded to their rotations beginning in years 2018 through 2022 (three years). We expanded our scope through 2024 for a few examinations to determine whether the rotation of EICs occurred as prescribed by the NSPM or ONES' office practices, when applicable.

To achieve our objectives, we:

- Reviewed the NSPM versions (versions 4.0 through 21.0) to determine the rotation limits policy and the examiner grade levels that can serve as an EIC for an examination.
- Reviewed the ONES Supervision Manual dated March 2019 last edited August 30, 2022, and August 17, 2023, regarding ONES rotation policy.
- Reviewed NCUA Instruction 5000.19, Examiner-in-Charge Rotation, dated November 23, 2005, which the NCUA canceled under NCUA Cancellation 1810.41, Cancellation of Various Instructions, dated July 24, 2020.
- Obtained and analyzed data of completed federal credit union and federally insured state-chartered credit union examinations from January 1, 2015, through December 31, 2022.
- Obtain examiner's grades from OHR to determine the examiners CU-09 and above who could serve as an EIC and examiners CU-08 and below who served as an EIC.
- Reviewed MERIT for the closed information questionnaire and AIRES for the confidential section for any approve rotation exceptions. In addition, reviewed MARS for examination history of the credit unions and AIRES for the examiner detail time report for the first date the EIC charged time at the credit union and MERIT milestone section to obtain the actual examination start date.



- Interviewed E&I management to determine their role in developing the NCUA's EIC rotation policy and procedures, including the change from a consecutive four calendar-year rotation (in 2005) to a five calendar-year rotation (in 2020), as well as their role in revising the NSPM.
- Interviewed a judgmental sample of ONES management to include the deputy director and the national field supervisor on ONES EIC rotation practices.
- Interviewed a judgmental sample of ARDs and SEs in the Eastern, Southern and Western regions to regarding their roles and responsibilities for the rotation of examiners.
- Interviewed a random sample of examiners in the Eastern, Southern, and Western regions and the national field examiners in ONES to determine their roles and responsibilities and their views on the rotation and whether any improvements are needed.
- Prepared a sample plan to meet the audit objectives.

Auditing Standards

We conducted this performance audit from August 2023 through December 2024 in accordance with generally accepted government auditing standards (the Yellow Book). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



Internal Control Assessment

We assessed the effectiveness of internal controls we determined were significant to the audit objectives. Specifically, we assessed all of the internal control components and 12 of the 17 associated underlying principles defined in the U.S. General Accountability Office's Standards for Internal Control in the Federal Government (the Green Book) (Sept. 2014). The table below summarizes the components and principles we assessed.

Table 1. Internal Control Assessment

Component: Control Environment
Principle #1 – Demonstrate Commitment to Integrity and Ethical Values
Principle #2 – Exercise Oversight Responsibility
Principle #3 – Establish Structure, Responsibility and Authority
Principle #4 – Demonstrate Commitment to Competence
Component: Risk Assessment
Principle #7 – Identify, Analyze, and Respond to Risks
Principle #9 – Identify, Analyze, and Respond to Change
Component: Control Activities
Principle #10 – Design Control Activities
Principle #11 – Design Activities for the Information System
Principle #12 – Implement Control Activities
Component: Information & Communication
Principle #13 – Use Quality Information
Principle #14 – Communicate Internally
Component: Monitoring
Principle #16 – Performing Monitoring Activities

The report presents within the findings the internal control deficiencies we identified. However, because our audit was focused on these significant internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

Data Reliability

We used computer-processed data from NCUA's systems (MERIT, AIRES, and MARS). We did not test controls over these systems, but we relied on our analysis of information from management reports, correspondence files, and interviews with management to corroborate data obtained from these systems to support our audit conclusions.




Appendix B

NCUA MANAGEMENT RESPONSE



National Credit Union Administration
(Office of the Executive Director)

SENT BY EMAIL

TO: Inspector General Jim Hagen
FROM: Executive Director Larry Fazio 
SUBJ: Management Response – Examiner-in-Charge Rotation Policy and Procedures Audit
DATE: February 5, 2025

Thank you for the opportunity to review the Office of Inspector General's draft report *Audit of the NCUA's Compliance with its Examiner-in-Charge Rotation Policy and Procedures*. The report includes one recommendation for potential improvement.

Recommendation 1: Ensure managers involved in the examination scheduling program adhere to examiner-in-charge rotation limit requirements to ensure timely examiner-in-charge rotation in accordance with the National Supervision Policy Manual.

Management Response: Management concurs. The NCUA will evaluate and enhance processes to improve compliance with examiner-in-charge rotation policies.

Thank you for the opportunity to comment. If you have any questions regarding this response, please contact Shameka Sutton at (703) 548-2485 or ssutton@ncua.gov.

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Appendix C

ACRONYMS AND ABBREVIATIONS

Acronym	Term
AIRES	Automated Integrated Regulatory Examination System
AMAC	Asset Management and Assistance Center
ARD	Associate Regional Director
CAMELS	<u>C</u> apital Adequacy, <u>A</u> sset Quality, <u>M</u> anagement, <u>E</u> arnings, <u>L</u> iquidity Risk and <u>S</u> ensitivity to Market Risk
CU	Credit Union
E&I	Office of Examination and Insurance
EIC	Examiner-in-Charge
GAO	General Accountability Office
Green Book	Standards for Internal Control in the Federal Government
MARS	Management Automated Resource System
MERIT	Modern Examinations Risk Identification Tool
NCUA	National Credit Union Administration
NSPM	National Supervision Policy Manual
OHR	Office of Human Resources
OIG	Office of Inspector General
ONES	Office of National Examinations and Supervision
RD	Regional Director
SE	Supervisory Credit Union Examiner
WCC	Work Classification Code