



**NCUA**  
National Credit Union Administration

OFFICE OF  
INSPECTOR GENERAL



# Semiannual Report to the Congress

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October 1, 2019–March 31, 2020

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October 1, 2019–March 31, 2020

## A Message from the Inspector General

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On behalf of the Office of Inspector General (OIG) of the National Credit Union Administration (NCUA), I am pleased to present our Semiannual Report to the NCUA Board and the Congress highlighting our accomplishments and ongoing work for the 6-month period ending March 31, 2020. Even in these trying times of the COVID-19 pandemic, the NCUA and NCUA OIG have continued our important work. Our office has transitioned to working remotely with relatively few issues. Our dedicated staff continues to work diligently to ensure the agency works efficiently and effectively. Our work reflects the legislative mandate of the Inspector General Act of 1978, as amended, to promote the economy, efficiency, and effectiveness of NCUA programs and operations, and protect against fraud, waste, and abuse. The audits and investigations highlighted in this report demonstrate our commitment to that cause as well as our goal of enhancing public confidence in the NCUA's regulatory process.

During this reporting period, the audit division issued nine reports, including the required annual report on the NCUA's compliance with FISMA, the annual Financial Statement Audit of the NCUA's four funds, and a material loss review (MLR) report on C B S Employees Federal Credit Union. Given the economic impact of the COVID-19 pandemic, we anticipate an increase in required MLRs in the coming year.

In addition to fulfilling statutory audit requirements, we also issued a report during this period on the NCUA's Joint Exam Process with State Supervisory Authorities. Our audit determined the NCUA provided shared oversight of federally insured state chartered credit unions (FISCUs) and effectively monitored FISCUs' use of off-site monitoring tools. Although we determined that the NCUA met the objectives of our audit, we also determined there are aspects of the joint examination process with the state supervisory authorities that needed improvement. We provide more details later in this Semiannual Report.

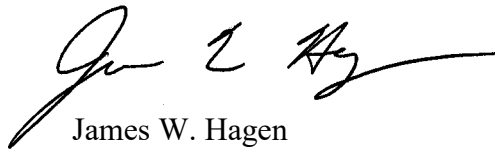
On the investigative side, the Office of Investigations opened one case and closed three cases during the reporting period. We also continued to work on two investigations that we opened during prior reporting periods. Of the closed cases, one involved allegations regarding a contract, one involved a whistleblower reprisal complaint, and the last involved misconduct of the former NCUA General Counsel and former Deputy General Counsel. You will find details about these cases later in this report.

I wish Executive Director Treichel well in his pending retirement. Our office has had an excellent working relationship with the Executive Director's office during his time at the NCUA on many challenging issues and he always made it a priority to take corrective action on IG recommendations to improve NCUA operations. I look forward to establishing a similar relationship with newly appointed Executive Director Larry Fazio. Finally, I would like to thank Chairman Hood and Board Members McWatters and Harper for their continued support of the

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OIG office and look forward to working with them in our ongoing efforts to promote economy and efficiency in agency programs and operations.



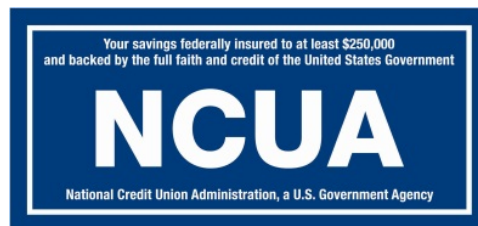
James W. Hagen  
Inspector General



## The National Credit Union Administration Mission

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



## The Office of Inspector General Mission

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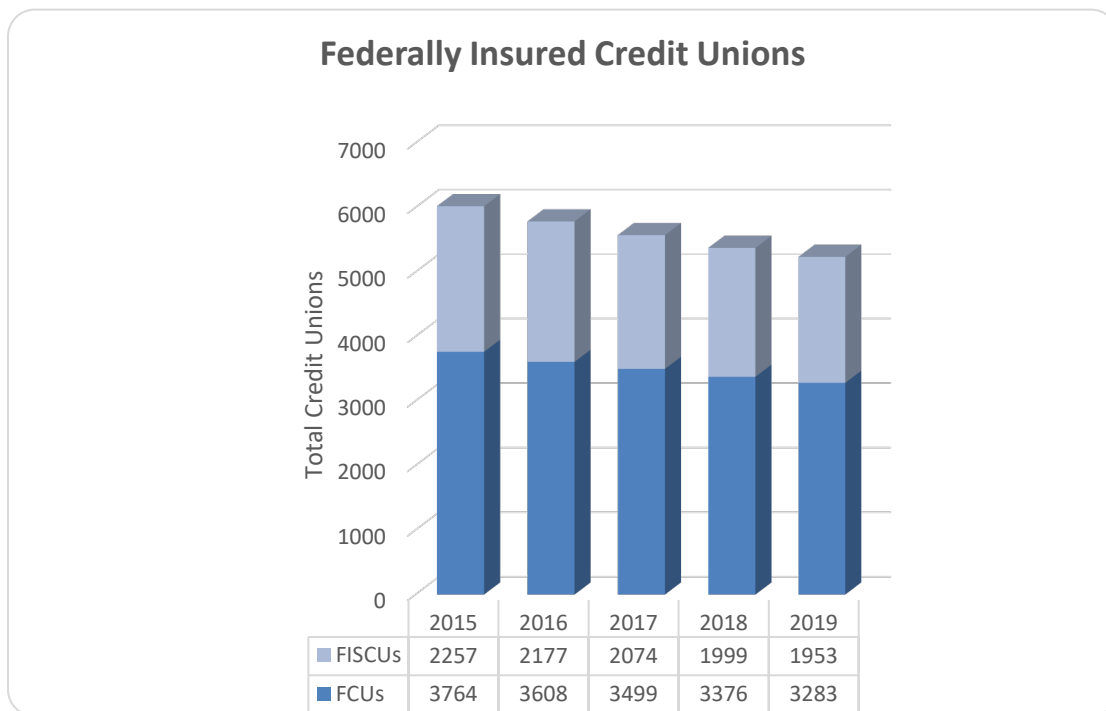
The Office of Inspector General (OIG) promotes the economy, efficiency, and effectiveness of NCUA programs and operations, and detects and deters fraud, waste, and abuse, thereby supporting the NCUA's mission of monitoring and promoting safe and sound federally insured credit unions.

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



## Introduction

The NCUA was established as an independent, federal regulatory agency on March 10, 1970. The agency is responsible for chartering, examining, supervising, and insuring federal credit unions. It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. The NCUA is funded by the credit unions it supervises and insures. As of December 31, 2019, the NCUA supervised and insured 3,283 federal credit unions and insured 1,953 state-chartered credit unions, a total of 5,236 institutions. This represented a decline of 93 federal and 46 state-chartered institutions since December 31, 2018, for a total decrease of 139 credit unions nationwide, primarily as a result of consolidation, which is consistent with long-running industry trends.



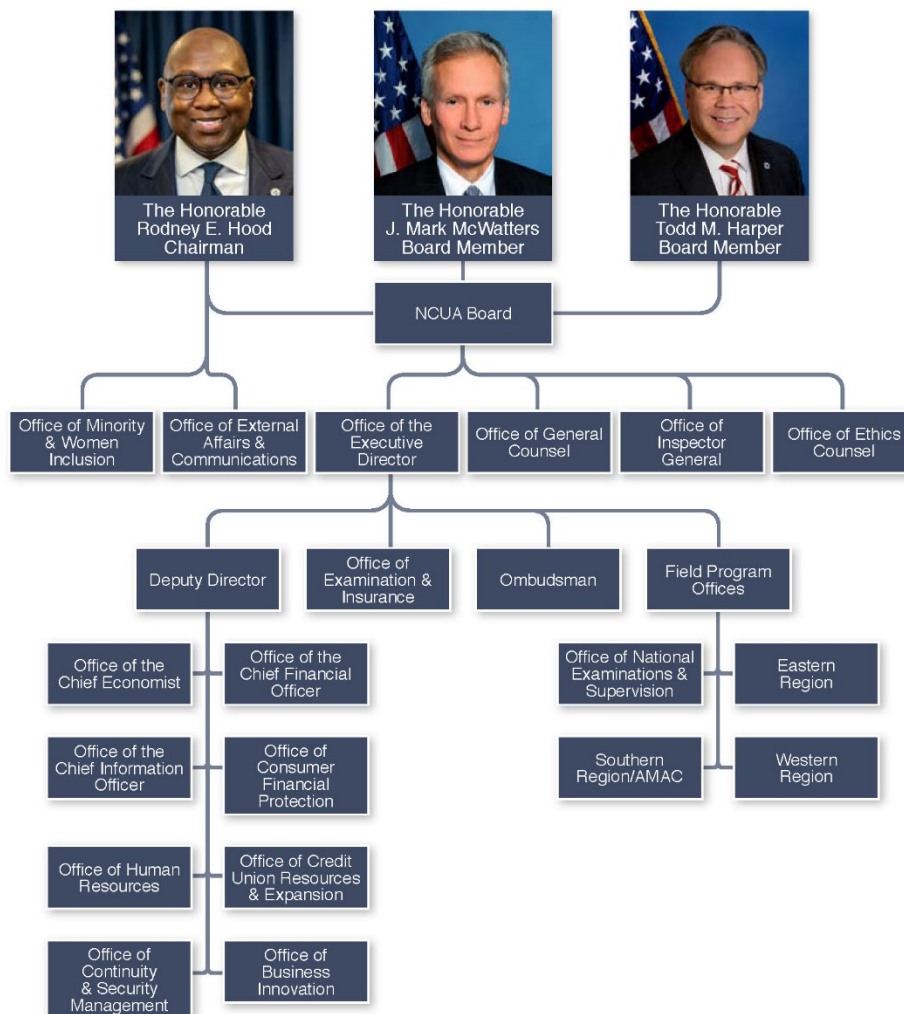
NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve 6-year terms. Terms are staggered, so that one term expires every 2 years. The Board is responsible for the management of the NCUA, including the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





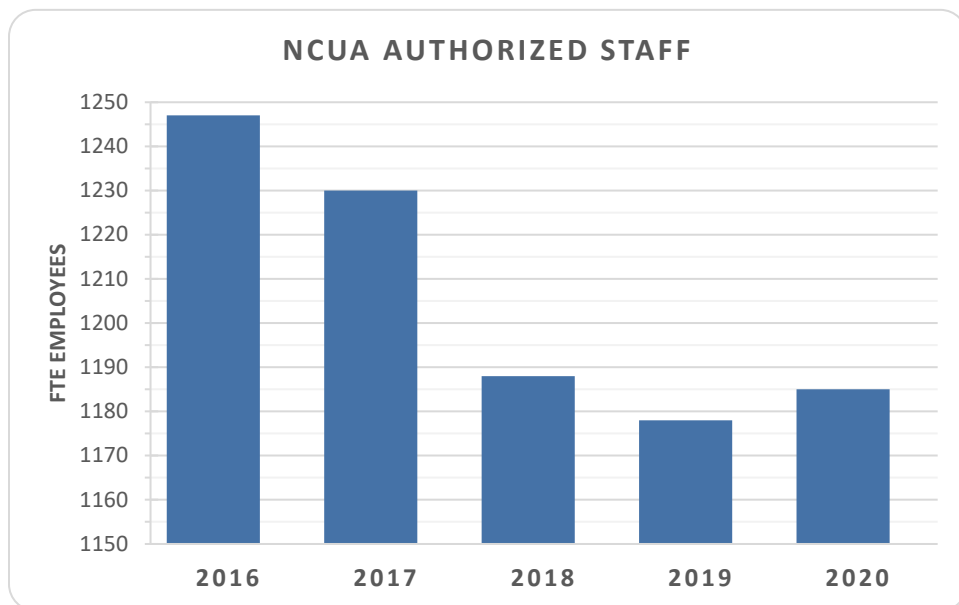
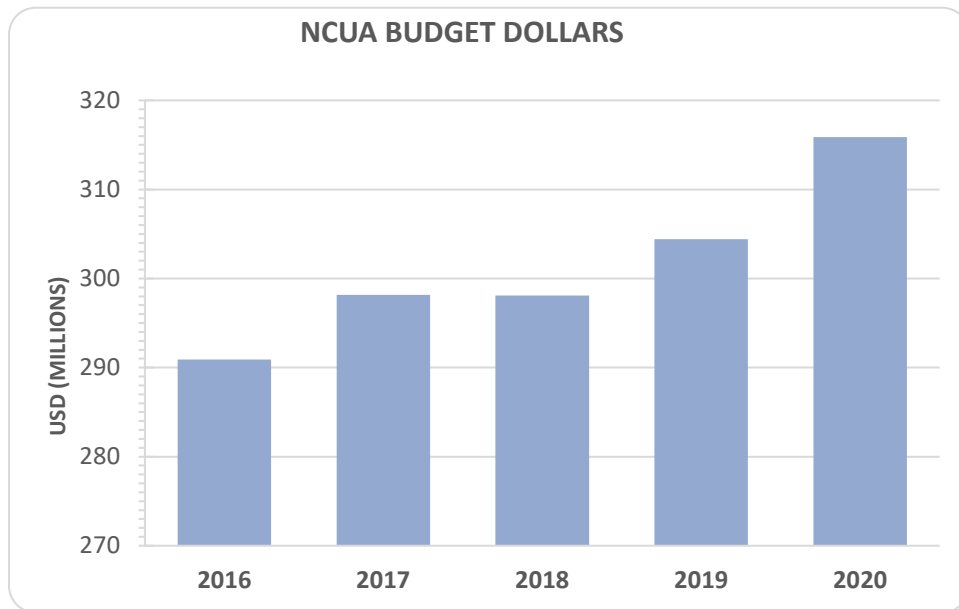
The NCUA executes its program through its Alexandria, Virginia central office, and regional offices in Alexandria, Virginia (Eastern); Austin, Texas (Southern); and Tempe, Arizona (Western). The NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer to the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

## National Credit Union Administration Organizational Chart





The NCUA’s Board adopted its 2020 operating budget of \$315,883,000 on December 12, 2019. The full time equivalent (FTE) staffing authorization for 2020 is 1,185, representing an increase of 7 FTE from 2019.





## NCUA Highlights

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### NCUA and Other Financial Regulators Respond to COVID-19 Pandemic

NCUA has issued directions and guidance to agency employees and to credit unions to address the COVID-19 pandemic, including mandating that most employees telework, that examinations be offsite, permitting annual meeting flexibilities for federal credit unions, and providing relief for filing call reports. On March 31, 2020, the NCUA also announced that federally insured, low-income-designated credit unions can request grants and loans from the NCUA to assist members, businesses, and communities experiencing economic hardships due to the COVID-19 pandemic. In addition, the Federal Financial Institutions Examination Council (FFIEC), of which NCUA is a member, is coordinating financial regulators' guidance.

### Proposed Change in NCUA Chartering and Field-of-Membership Regulations

In its October 24, 2019, open meeting, the NCUA Board unanimously approved a proposed rule to re-adopt, after an August 2019 appellate court decision, a 2016 amendment of the agency's chartering and field-of-membership regulations to allow an applicant for a community charter approval, expansion, or conversion to designate a combined statistical area (CSA), or an individual, contiguous portion thereof, as a well-defined local community provided that the area has a population of 2.5 million or less, or a rural district with a population of up to 1 million. In accordance with the appellate court decision, the proposed rule provided further explanation for the elimination of the requirement to serve the CSA's urban core area and added provisions in the proposed rule to address concerns about potential discrimination.

### NCUA Cybersecurity Plan

The NCUA has developed a long-term plan designed to better prepare the agency and credit unions to address cybersecurity threats, including ensuring the NCUA's systems and collected, controlled, unclassified information are secure; implementing a new examination program focused on cybersecurity; and encouraging credit unions to develop their own cybersecurity plans that include strong security controls and actions to take in the event of a cyber attack and to ensure due diligence for their supply chains and third-party service providers.

### Chairman Hood Appoints Gisele Roget and Evann Berry to Senior Roles

On November 5, 2019, NCUA Chairman Hood appointed Gisele Roget as Deputy Chief of Staff and Director of the Office of External Affairs and Communications. Roget joined the NCUA from the Federal Housing Administration, where she had served as Deputy Assistant Secretary for Single Family Housing.



Also on November 5, Chairman Hood appointed Evann Berry as Senior Advisor to the Chairman for Communications and Engagement, serving as the Chairman’s media spokesperson and liaison with the credit union industry and other related stakeholders. Berry joined the NCUA from the office of Senator Cindy Hyde-Smith (R-Miss.), where she served as deputy communications director and policy advisor.

## **Kressman Named Acting General Counsel after McKenna Retires**

General Counsel Michael McKenna retired on November 19, 2020, and on November 20, the NCUA Board appointed Frank Kressman to serve as Acting General Counsel. Kressman previously served as a Deputy General Counsel to the NCUA.

## **Board Approves 2020–2021 Budgets**

The NCUA held an open meeting on December 12, 2019, and approved, by a 2-1 vote, the Operating, Capital, and National Credit Union Share Insurance Fund budgets for 2020 and 2021 and a 2-year delay for the effective date of the agency’s risk-based capital rule. The combined budgets are \$347.4 million for 2020 and \$360.1 million for 2021. Operating budgets for both years assume 1,185 employees. The Board also determined that the normal operating level of the Share Insurance Fund will remain at 1.38 percent. The agency reviews this annually.

## **NCUA’s 2020 Supervisory Priorities and Modernization Programs**

The NCUA issued its annual letter to credit unions on January 7, 2020, listing its 2020 supervisory priorities as well as updates on regulations and the agency’s modernization programs:

- Bank Secrecy Act and anti-money-laundering compliance;
- Consumer financial protection;
- Cybersecurity;
- Credit risk and liquidity risk;
- Continue monitoring the implementation of the new standard for current expected credit losses;
- Planning for the transition from the London Interbank Offered Rate as the benchmark for setting interest rates;
- Release of NCUA Connect, the agency’s new user portal; and
- Roll-Out of Modern Examination and Risk Identification Tool or MERIT, the new examination platform.



## **Fazio Named Executive Director, Others Named to Key Positions**

On January 23, 2020, the NCUA Board approved several changes to the agency’s senior leadership:

Examination and Insurance Director Larry Fazio was appointed Executive Director, succeeding Mark Treichel, who will retire on June 30. Treichel is assisting Fazio in the transition.

Chief Financial Officer Rendell Jones was named Deputy Executive Director and Chief Operating Officer.

Deputy Executive Director John Kutchev was named Regional Director for the Eastern Region.

Human Resources Director Towanda Brooks was named Chief Human Capital Officer.

Associate General Counsel for Information and Access Law Linda Dent was named Acting Deputy General Counsel.

Two days earlier, on January 21, 2020, Julie Cayse was selected as Associate Regional Director of Operations for the Western Region. Cayse previously was Director of Risk Management in the Office of Examination and Insurance.

## **NCUA Sells Taxi Medallion Loans**

On February 19, 2020, NCUA announced that it had sold the majority of its taxi-medallion loan portfolio to Marblegate Asset Management. NCUA determined this sale was the most appropriate action to meet its obligation under the Federal Credit Union Act to achieve the least long-term cost to the National Credit Union Share Insurance Fund. The sale was criticized by some congressional members, the New York Taxi Cab Alliance, the Credit Union National Association, and others. The NCUA’s holdings included medallion loans from Melrose Credit Union and LOMTO Federal Credit Union, which supported the New York City taxi industry for nearly a century until their liquidations in 2018. To date, the Share Insurance Fund has lost more than \$750 million because of these and other credit union failures related to taxi medallion loans.

## **Chairman Hood’s Statement on Inspector General Investigation**

On March 5, 2020, NCUA Chairman Hood issued the following statement in response to an Office of Inspector General investigation, which is further described on page 30 of this Semiannual Report:

“In November 2019, the NCUA learned about allegations of misconduct, including allegations of behaviors that may have constituted harassment, which were immediately reported to the Office of Inspector General. Because the accusations involved possible abuse



of work time, the Inspector General opened an investigation. The resulting investigative report was issued to the NCUA Board in February 2020.

I was surprised and disappointed to learn of the activities described in the report. They are unacceptable and do not represent the values of this agency.

Ensuring a professional work environment for all employees is a top priority. The NCUA is evaluating the organization's policies and processes for reporting allegations and is taking additional actions. These actions include requesting the NCUA Board create an Office of Ethics Counsel, supplementing our existing anti-harassment training programs, and offering additional third-party counseling services to employees.

Harassment and misconduct have no place at the NCUA. These types of behaviors are unacceptable and will not be tolerated. The agency is committed to creating a culture where we treat every employee with the utmost respect and dignity.”



## Federally Insured Credit Union Highlights

Credit unions complete and submit quarterly call reports that contain financial and statistical data to the NCUA. Based on data compiled from the federally insured credit union call reports, the NCUA produces a quarterly credit union data summary report and a quarterly financial trend report. The quarterly data summary report provides an overview of credit union financial performance and includes listings of summarized accounts, selected performance indicators, performance by asset category, as well as balance sheet and income statement details. The financial trends report presents year-to-date financial trends in various chart formats. An NCUA OIG staff assessment of the December 31, 2019 quarterly data summary and financial trend reports found that key financial indicators were positive.

### Key Financial Indicators Favorable

The December 31, 2019 quarterly data summary report provided a comparison of the fourth quarter 2019 data to the same quarter in the previous year. For major balance sheet items and key ratios, the report presented the following four-quarter percentage changes for the nation's 5,236 federally insured credit unions: assets increased by 7.8 percent; net worth ratio increased from 11.30 to 11.37 percent; and the loan to share ratio decreased from 85.6 percent to 84.0 percent. The delinquency ratio remained at .71 percent. Credit union return on average assets increased from .92 percent to .94 percent.

### Savings Trend to Regular Shares

Total shares and deposits grew 8.2 percent, or \$100.02 billion, increasing the balance to \$1,319.75 billion. Regular shares accounted for 33.69 percent of total shares and deposits or \$444.65 billion. Money market shares comprised 20.82 percent or \$274.82 billion. Share certificates represented 21.75 percent or \$287.09 billion. Share drafts accounted for 15.75 percent or \$207.87 billion. IRA/KEOGH accounts comprised 6.14 percent or \$81.03 billion; non-member deposits comprised .97% or \$12.85 billion; and all other shares comprised .87% or \$11.45 billion of total shares and deposits.

### Loan Volume Increasing

Total loans increased 6.17 percent, or \$64.44 billion, bringing the balance to \$1,077.99 billion. Total net loans of \$1,098.42 billion comprised 70.11 percent of credit union assets. First mortgage real estate loans accounted for the largest single asset category with \$466.66 billion or 42.12 percent of total loans. Used vehicle loans of \$227.52 billion represented 20.53 percent, while new vehicle loans amounted to \$147.58 billion or 13.32 percent. Other real estate loans of \$91.32 billion accounted for 8.24 percent. Unsecured credit cards totaled \$66.02 billion or 5.96 percent, while all other unsecured loans totaled \$46.70 billion or 4.22 percent. Leases receivable and all other loans represented \$62.18 billion or 5.61 percent of total loans.





## Legislative Highlights

### Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

On March 27, 2020, the President signed into law the CARES Act, H.R. 748. The CARES Act provides over \$2 trillion in emergency federal spending to address the economic impacts of the COVID-19 pandemic, and establishes a Pandemic Response Accountability Committee (PRAC) within the Council of the Inspectors General on Integrity and Efficiency (CIGIE), and several other oversight mechanisms to prevent waste, including establishing a Special Inspector General for Pandemic Recovery within the Department of the Treasury and a Congressional Oversight Commission to oversee economic stabilization efforts by Treasury and the Federal Reserve Board. PRAC is tasked to ensure coordinated, efficient, and effective comprehensive oversight by PRAC and inspectors general over all aspects of COVID-19 response funds. PRAC also may conduct its own independent investigations, audits, and reviews relating to the COVID-19 response funds, collaborate on audits and reviews with an inspector general, and provide support to inspectors general conducting investigations, audits, and reviews, including transferring funds to an OIG. The independent authority of an inspector general to determine whether to conduct an audit or investigation of COVID-19 response funds is preserved. The statute requires PRAC to establish and maintain a website that includes detailed data on any federal government awards that expend COVID-19 response funds, leveraging existing information technology such as Oversight.gov.

The CARES Act also impacts the NCUA, credit unions, and credit union members. Among other provisions, it allows credit unions to provide guaranteed loans to businesses and self-employed individuals through the United States Small Business Administration pay check protection program; provides the NCUA Board the ability to increase share insurance coverage for noninterest-bearing transaction accounts; and provides the Board the authority to expand access to and increase borrowing authority for the Central Liquidity Facility.

### Payment Integrity Information Act of 2019

On March 2, 2020, the President signed into law the Payment Integrity Information Act (PIIA) of 2019, S. 375. The PIIA repealed and replaced the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Act of 2012, and the Fraud Reduction and Data Analytics Act of 2015. PIIA consolidated these statutes and also Office of Management and Budget requirements, with some modifications, and also introduced new requirements. PIIA amended improper payment reporting requirements, including adding new factors that agencies must take into account in their risk assessment reviews. The new statute requires inspectors general to determine whether agencies are complying with improper payment assessment and reporting requirements each fiscal year and to report this compliance status to the head of the Agency, the Senate Committee on Homeland Security and Government Affairs, the House Committee on





Oversight and Reform, and the Comptroller General. Inspectors general must also review agency assessments of high-risk improper payment programs and submit to Congress any recommendation to improve improper payment determinations or estimation methodologies.

### **Prudential Regulator Oversight Act**

On January 13, 2020, the House passed the Prudential Regulator Oversight Act, H.R. 4841. This bill would require the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the National Credit Union Administration to report semiannually and testify annually on their supervisory and regulatory responsibilities and activities.

### **National Defense Authorization Act for Fiscal Year 2020**

On December 20, 2019, the President signed into law the National Defense Authorization Act for Fiscal Year 2020, S. 1790. Provisions that impact OIGs include: OIGs must disclose names of senior Government employees (CU-15 and above in the case of NCUA) when reporting on substantiated misconduct investigations in the semiannual report (including this current report), if the OIG already made them public, such as by responding to a Freedom of Information Act request; OIGs will conduct a “review” instead of the currently required “audit” of agency security clearance review practices under 5 U.S.C. § 11001; and an external review panel must be established for claims of whistleblower reprisals affecting security clearances, which generally codified section C of Presidential Policy Directive 19, Protecting Whistleblowers with Access to Classified Information.



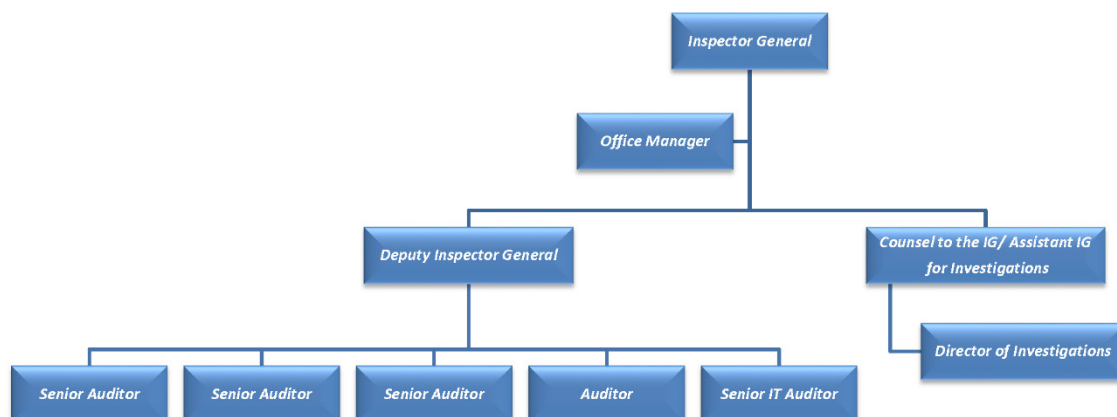
## Office of Inspector General

The Office of Inspector General was established at the NCUA in 1989 pursuant to an amendment of the Inspector General Act of 1978. The staff consists of the Inspector General, Deputy Inspector General, Counsel to the Inspector General/Assistant Inspector General for Investigations, Director of Investigations, Senior Information Technology Auditor, three Senior Auditors, one staff Auditor, and an Office Manager.

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

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

### NCUA OIG ORGANIZATIONAL CHART





## Audit Activity

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### Audit Reports Issued

[OIG-19-08](#) *Audit of the NCUA's Compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act)*, issued November 8, 2019

The DATA Act requires federal agencies to report financial and payment data in accordance with data standards established by the Department of Treasury and the OMB. In addition, the DATA Act requires agency Inspectors General to review statistical samples of the data submitted by agencies and issue 3 reports on a 2-year cycle beginning in November 2017. The reports must address an agency's compliance with completeness, timeliness, quality, accuracy, and use of the data standards by the agency. The NCUA OIG is a participant in this IG community effort and issued its second DATA Act report on November 8, 2019.

Results of our audit determined that NCUA's submission to Treasury's DATA Act Broker was timely submitted and complete. We also determined that the NCUA fully implemented and used the government-wide financial data standards for spending information as defined by OMB and Treasury. We assessed internal controls over source systems and the summary-level DATA Act submission and determined internal controls effectively managed and reported financial data in accordance with the DATA Act. However, we determined that for the first quarter of fiscal year 2019, the NCUA submitted lower quality financial and award data for publication on USASpending.gov, primarily as a result of its award-level submission. Specifically, we identified errors related to data elements in the award-level data and determined that the NCUA did not timely submit this information in accordance with required DATA Act reporting schedules.

[OIG-19-09](#) *Audit of the NCUA's Schedule of Other Assets and Contributed Capital as of September 30, 2019*, issued November 15, 2019

We contracted with and supervised the independent accounting firm KPMG to conduct the audit of the NCUA's schedule of other assets and contributed capital as of September 30, 2019, and the related notes. KPMG conducted this audit for the FY 2019 Consolidated Financial Statements of the U. S. Government, which included: 1) an opinion on the schedule, 2) an assessment of internal controls over financial reporting specific to the schedule, and 3) an assessment of compliance and other matters specific to the schedule. KPMG issued an unmodified audit opinion with no reportable findings.



[OIG-19-10](#) *FY 2019 Independent Audit of the NCUA's Compliance with FISMA 2014*, issued December 12, 2019

We contracted with and supervised the independent public accounting firm CliftonLarsonAllen LLP (CLA) to independently evaluate the NCUA's information systems and security program and controls for compliance with the Federal Information Security Modernization Act of 2014 (FISMA).

CLA concluded that the NCUA has, for the most part, formalized and documented its policies, procedures, and strategies; however, the NCUA faces certain challenges in the consistent implementation of its information security program and practices. CLA identified weaknesses in five of the eight domains of the FY 2019 IG FISMA Reporting Metrics related to risk management, configuration management, identity and access management, data protection and privacy, and information security continuous monitoring. CLA made 15 recommendations to assist the NCUA in strengthening its information security program. In addition, CLA closed 5 of 11 prior year FISMA recommendations related to the NCUA's security program and practices.

[OIG-19-11](#) *Audit of the NCUA's Joint Exam Process with State Supervisory Authorities*, issued December 18, 2019

We conducted this self-initiated audit to assess the NCUA's joint examination process with state supervisory authorities. The objectives of our audit were to determine: 1) whether the NCUA provided shared oversight of federally insured state-chartered credit unions (FISCUs) to assess their condition and address material risks that could negatively affect the Share Insurance Fund, and 2) whether the NCUA effectively monitored FISCUs using off-site monitoring tools and joint oversight processes with state supervisory authorities (SSAs).

Results of our audit determined that the NCUA provides shared oversight of FISCUs and that the NCUA effectively monitors FISCUs using off-site monitoring tools. Although we determined the NCUA met the objectives of our audit, we also determined there were aspects of the joint examination process with the SSAs in need of improvement. We made one recommendation to correct identified weakness and noted in our report that during our audit, NCUA management had already taken, or plans to take, corrective action to address several other weaknesses we identified in the joint examination process.

[OIG-20-02/03/04/05](#) *NCUA FY 2019 Financial Statement Audits (SIF, OF, CLF, CDRLF)*, issued 2/14/2020

We contracted with and supervised the independent accounting firm KPMG to conduct the NCUA 2019 financial statement audits of the Share Insurance Fund, the Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund.



The Share Insurance Fund is a revolving fund managed by the NCUA Board to insure member share deposits in all federal credit unions and state credit unions that are federally insured. The fund's total assets for 2019 were \$16.7 billion, an increase of \$874.9 million (5.5%) from 2018. The increase was largely attributable to investments. KPMG issued an unmodified audit opinion on the Share Insurance Fund's financial statements (OIG-20-02).

The Operating Fund was established as a revolving fund managed by the NCUA Board for the purpose of providing administration and service to the federal credit union system. The fund's total assets for 2019 were \$155.6 million, up from \$136.5 million in 2018. KPMG issued an unmodified audit opinion on the Operating Fund's financial statements (OIG-20-03).

The CLF was established as a mixed ownership government corporation managed by the NCUA Board to improve general financial stability by meeting the liquidity needs of credit unions. The CLF's total assets for 2019 were \$333.9 million, up from \$314.2 million in 2018. KPMG issued an unmodified audit opinion on the CLF's financial statements (OIG-20-04).

The CDRLF was established to stimulate economic activities in the communities served by low-income credit unions. The CDRLF's total assets for 2019 were \$19.7 million, up from \$18.6 million in 2018. KPMG issued an unmodified audit opinion on the CDRLF's financial statements (OIG-20-05).

## Audits in Progress

### Audit of the NCUA's Consumer Complaint Program

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

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



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

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

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

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

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

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

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



## Audit of the NCUA's Governance of Information Technology Initiatives

The NCUA's Office of the Chief Information Officer is responsible for establishing the organization's enterprise information technology vision, strategy, roadmap and related policies and management controls. Within the OCIO, a governance committee defines, facilitates, and implements an effective System Development Life Cycle and Enterprise Systems Governance. It is the committee's goal to make the most effective governing decisions in the best interests of all NCUA stakeholders.

Our objective of this audit is to determine whether the NCUA has an effective process for identifying, controlling, prioritizing, and implementing IT initiatives across the agency.

## Material Loss Reviews

The Federal Credit Union Act requires the NCUA OIG to conduct an MLR of an insured credit union if the loss to the Share Insurance Fund exceeds \$25 million and an amount equal to ten percent of the total assets of the credit union at the time in which the NCUA Board initiated assistance or was appointed liquidating agent pursuant to the Act. When losses exceed this materiality threshold, we review the loss to: 1) determine the cause(s) of the credit union's failure and the resulting loss to the Share Insurance Fund, and 2) assess the NCUA's supervision of the credit union. During this reporting period, the Share Insurance Fund sustained losses exceeding the statutory threshold. Accordingly, we conducted the following MLR.

[OIG-20-01](#) *Material Loss Review of C B S Employees Federal Credit Union*, issued February 11, 2020,

The OIG contracted with Moss Adams LLP to conduct an MLR of C B S Employees Federal Credit Union ("C B S" or "the Credit Union"). Moss Adams reviewed the Credit Union to: 1) determine the cause(s) of the Credit Union's failure and the resulting estimated \$39.5 million loss to the Share Insurance Fund, 2) assess NCUA's supervision of the Credit Union, and 3) provide appropriate suggestions and/or recommendations to mitigate future losses.

Moss Adams determined the Credit Union failed due to the former Chief Executive Officer's fraudulent activities, primarily related to misappropriation of funds. The report made two recommendations to NCUA management to correct identified findings. Management agreed with both recommendations and plans to take corrective action to address each.

The Dodd-Frank Act further requires the OIG to assess all losses to the Share Insurance Fund *under* the material loss threshold to determine whether unusual circumstances exist to warrant conducting a full-scope MLR. During the reporting period, the Share Insurance Fund sustained no additional losses beyond those related to the failure of C B S Employees Federal Credit Union; therefore, we did not conduct any limited scope reviews. We discuss this further on page 26.





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

Following is a list of OIG reports with significant unimplemented recommendations as of March 31, 2020. NCUA management has agreed to implement corrective action, but has yet to complete those actions. This information was supplied by the NCUA Office of the Executive Director and is monitored within the OIG's report recommendation tracking system.

### Significant Recommendations Open and Brief Summary

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

Status: Open. Management indicated that adopting the "S" (Market Sensitivity) for the CAMEL rating system involves public notice and comment, NCUA Board approval, and cohering regulation, examination procedures, and system changes. As part of the Enterprise Solutions Modernization (ESM) program, NCUA is updating the examination platform to incorporate the ability to assign and capture the "S" component as an optional part of the CAMEL rating. Management indicated they expect to have this system change in place by December 2021. Management also noted that this will provide the agency the flexibility to adopt the "S" rating if the Board so chooses, and to capture the "S" rating for federally insured state-chartered credit unions in the states where the state regulators adopted the "S" rating.

2. **OIG-15-11** *Review of NCUA's Interest Rate Risk Program*, issued November 13, 2015, recommendation #2. Revise the current "L" in NCUA's CAMEL Rating System to reflect only liquidity factors.

Status: Open. Management indicated that Adopting the "S" (Market Sensitivity) for the CAMEL rating systems involves public notice and comment, NCUA Board approval, and cohering regulation, examination procedures, and system changes. As part of the Enterprise Solutions Modernization (ESM) program, NCUA is updating the examination platform to incorporate the ability to assign and capture the "S" component as an optional part of the CAMEL rating. This functionality provides a state of readiness should the Board choose to adopt "S" and for federally insured state-chartered credit unions in the states where the state regulators have adopted the "S." Management also noted that if the NCUA Board adopts "S," the "L" (Liquidity) component of the existing CAMEL would require revision to include only liquidity content and criteria. Management also clarified that Liquidity risk and interest rate risk are two separate risks of the seven risk categories that NCUA evaluates to assign each an individual final rating of low, moderate, or high that is disclosed to the credit union. Thus, the agency provides clarity and transparency for the assessment of liquidity and interest rate risk.





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3. **OIG-18-05** *Audit of the NCUA's Comprehensive Records Management Process*, issued March 14, 2018, Recommendation #5. Fully utilize NARA's Capstone approach, or a comparably developed approach, by storing email in an easily searchable, retrievable, and retainable format to ensure usability by the NCUA, and to ensure NARA can receive and access the records.

Status: Open. Management indicated that they plan to roll out Microsoft 365 to a test group in 2020 and depending on test results and organizational capabilities, it will be implemented agency wide; therefore, full implementation may be delayed. Management indicated that despite any potential delays, the agency's current email storage and retention practices and retrieval capabilities are sufficient to meet NARA requirements, and they continue to implement the Capstone approach for capturing designated officials' emails, reviewing and updating officials as necessary.

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

Following are summaries of 4 OIG audit reports over 6 months old having 8 unimplemented recommendations, including any associated cost savings as of March 31, 2020. For each of these reports, NCUA management has agreed to implement corrective action, but has yet to complete those actions. The OIG monitors this information within its audit report open recommendation tracking system.

### Brief Report Summary and Unimplemented Recommendations

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

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



### Unimplemented Recommendations

Recommendation #1—Modify the NCUA’s CAMEL Rating System by developing an “S” rating to better capture a credit union’s sensitivity to market risk and to improve interest rate risk clarity and transparency.

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

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

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

### Unimplemented Recommendation

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

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

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

### Unimplemented Recommendations

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



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

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

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

4. **OIG-19-05** *Audit of the NCUA's Information Technology Equipment Inventory*, issued March 28, 2019, Number of Open Recommendations: 1, Potential Cost Savings: \$440,000

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

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

Unimplemented Recommendations

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



## Recommendations for Corrective Action Made During the Reporting Period

During the reporting period, the OIG issued 4 reports with 22 recommendations to improve NCUA's programs and operations.

1. **OIG-19-08** *Audit of the NCUA's Compliance under the DATA Act*, issued November 8, 2019, Number of -Recommendations: 4, Potential Cost Savings: \$0

The NCUA OIG made the following recommendations that will assist the agency in improving the effectiveness of its data collection practices.

Recommendation #1—(CLOSED) Timely publish financial assistance award data in accordance with applicable DATA Act reporting schedules.

Recommendation #2—Link the File D2 Action Date element to the appropriate authoritative source, which provides the date the action being reported was issued/signed by the NCUA or a binding agreement was reached.

Recommendation #3—(CLOSED) Implement internal controls to ensure that File D2 reflects the legal business name and the physical address identical to SAM at the time of the financial assistance award and this information is not changed in the NCUA system or SAM at any other point in the awarding process.

Recommendation #4—Ensure the appropriate authoritative source links to the File D2 data elements.

2. **OIG-19-10** *NCUA Federal Information Security Modernization Act of 2014 Audit—Fiscal Year 2019*, issued December 12, 2019, Number of -Recommendations: 15, Potential Cost Savings: \$0

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

Recommendation #1—Ensure the Agency addresses all control weaknesses documented in the system security plans and security assessment reports in their Plan of Action and Milestones.

Recommendation #2—Ensure the Agency timely and adequately manages and maintains the completion dates within the Plan of Action and Milestones.



Recommendation #3—Ensure the Agency performs likelihood analysis on all known vulnerabilities from all sources as part of its information system risk assessment.

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

Recommendation #5—Ensure the Agency maintains and reviews test results in ServiceNow for all system changes.

Recommendation #6—Ensure the Agency completes and documents a security impact analysis for emergency changes in accordance with the OCIO Operational Change Control Board Charter.

Recommendation #7—Ensure the CUSO Registry system owner obtains a risk acceptance from the Authorizing Official for the deviation from NCUA policy for inactive accounts.

Recommendation #8—Ensure the CU Online and CUSO Registry system owner restricts access to non-public data to only those users who require it, in accordance with the concept of least privilege.

Recommendation #9—Ensure the Chief Information Officer develops and implements a process to document and maintain evidence that users sign access agreements prior to accessing the agency's network.

Recommendation #10—Ensure the Senior Agency Official for Privacy develops and implements a formal Privacy Continuous Monitoring Strategy that includes a formal process for assessing agency privacy controls on at least an annual basis as required by OMB.

Recommendation #11—Ensure the Senior Agency Official for Privacy develops and implements a process to identify and review metrics to measure the effectiveness of privacy activities and compliance with privacy requirements as specified by OMB.

Recommendation #12—Ensure the Senior Agency Official for Privacy develops and implement a process to review and update privacy-related policies and procedures on at least a biennial basis in accordance with NIST SP 800-53, Revision 4.

Recommendation #13—Appoint an authorizing official that is in line with NIST 800-37, Risk Management Framework for Information Systems and Organizations, Revision 2.



Recommendation #14—Ensure the new authorizing official completes the process of reauthorizing all of the NCUA’s information systems by signing new authorization decision documents.

Recommendation #15—Ensure that annual independent security control assessments are conducted for all agency information systems.

3. **OIG-19-11** *Audit of the NCUA’s Joint Examination Process With State Supervisory Authorities*, issued December 18, 2019, Number of Open Recommendations: 1, Potential Cost Savings: \$0

The NCUA OIG made the following recommendation that will assist the agency in improving the effectiveness of its joint examination process with state supervisory authorities.

Recommendation #1—Create a formal process to capture supervisory examiner decisions regarding recommended follow-up actions taken or not taken from work classification code 26 reviews to ensure concerns identified by examiners are properly documented.

4. **OIG-20-01** *Material Loss Review of C B S Employees Federal Credit Union*, issued February 11, 2020, Number of Open Recommendations: 2, Potential Cost Savings: \$0

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

Recommendation #1—We recommend NCUA management revise examination procedures to prioritize assessing and developing a risk response for credit unions that do not segregate certain key duties and that require dual controls. These revisions should include a framework that examiners can complete an assessment of those characteristics that indicate lack of segregation of duties at a credit union and additional procedures that examiners should perform when a lack of segregation of duties is apparent.

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

## Report on Credit Union Non-Material Losses

As previously mentioned, the Dodd-Frank Act requires the OIG to perform a limited review when the Share Insurance Fund incurs a loss under the material loss threshold (\$25 million or 10 percent of the credit union’s assets) in the preceding six months due to the failure of an insured credit union. The OIG must report on the results of the limited reviews and the timeframe for performing any subsequent in-depth reviews that we determine are necessary.

*October 1, 2019–March 31, 2020*



We received no reports of credit unions that incurred losses to the Share Insurance Fund under \$25 million between between October 1, 2019 and March 31, 2020. Therefore, we did not conduct any limited scope reviews for the current reporting period.





## Peer Reviews

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*Government Auditing Standards* require audit organizations that perform audits and attestation engagements of federal government programs and operations undergo an external peer review every 3 years. The objectives of an external peer review include a review of an audit organization's system of quality control to determine not only the suitability of the design, but also whether the audit organization is in compliance with its quality control system so as to provide reasonable assurance the audit organization conforms to applicable professional standards.

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

The Farm Credit Administration (FCA) OIG completed our most recent peer review on January 24, 2019, for the 3-year period ending September 30, 2018. The FCA OIG issued its report entitled [\*System Review Report\*](#) and rendered the opinion that the system of quality control for the NCUA OIG, Office of Audit, was suitably designed and complied with, thus providing reasonable assurance the system of controls conformed with applicable professional standards in all material respects. As a result, we received a peer rating of *Pass*. In addition, we have no outstanding recommendations from this external peer review.

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

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



## Investigative Activity

In accordance with professional standards and guidelines established by the United States Department of Justice (DOJ) and CIGIE, OIG's Office of Investigations (OI) conducts investigations of criminal, civil, and administrative wrongdoing involving the agency's programs, operations, and personnel. Our investigative mission is to fight fraud, waste, and abuse while promoting efficiency and economy within the NCUA and its programs and operations. In this regard, we investigate allegations of misconduct on the part of NCUA employees, former employees, applicants, and contractors. Investigations examine possible violations of applicable federal laws and regulations as well as NCUA-specific policies.

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

We also receive complaints from credit union officials and their members regarding NCUA programs, employees, and contractors. We examine these complaints and determine if there is any indication of misconduct or wrongdoing by an NCUA employee or contractor. If not, we refer the complaint to the NCUA's Office of Consumer Financial Protection, the Office of General Counsel, or the appropriate regional office for response, or close the matter if contact with OCFP, OGC, or the regional office indicates that the matter has already been appropriately handled. Harassment allegations brought by an NCUA employee or job applicant are handled by NCUA's Office of Minority and Women Inclusion, and will also be addressed by the planned new Office of Ethics Counsel.

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

| <b>Investigative Activity/Reports Issued During the Reporting Period</b>                                                               | <b>Total Number</b> |
|----------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| (A) Investigative reports issued during the reporting period                                                                           | 2                   |
| (B) Persons referred to the Department of Justice for criminal prosecution during the reporting period                                 | 3                   |
| (C) Persons referred to State and local prosecuting authorities for criminal prosecution during the reporting period                   | 1                   |
| (D) Indictments and criminal informations during the reporting period that resulted from any prior referral to prosecuting authorities | 0                   |



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

## Investigations

During the reporting period, OI closed one investigation and issued one report of investigation involving senior government employees, as described below:

### Misuse of Official Time, Illegal Drug Use, Time and Attendance Fraud

OIG completed an investigation that substantiated that then-NCUA General Counsel Michael McKenna and then-Deputy General Counsel Lara Daly-Sims drank alcohol and went to strip clubs together during the work day. Both McKenna and Daly-Sims admitted to this during interviews, and Daly-Sims additionally said that she and McKenna had consumed marijuana together on one occasion during a work day, which McKenna denied. During the investigation, OI examined McKenna's and Daly-Sims' time and attendance, and did not find any issues with McKenna in this regard, but found that Daly-Sims routinely parked in the NCUA garage for fewer than 8 hours a day. Further analysis determined that Daly-Sims overstated her work hours for the period of April 3, 2017, through November 9, 2019, by 374 hours, which amounted to \$46,951.96 in salary. McKenna retired on November 19, 2019, and Daly-Sims resigned on January 10, 2020. The United States Attorney's Office for the Eastern District of Virginia declined to prosecute.

### Whistleblower Retaliation

We did not receive any complaints of whistleblower retaliation during the reporting period. We issued a report of investigation in the reporting period regarding a whistleblower reprisal complaint from a contractor employee received in the prior period, which our investigation did not substantiate.

### Attempts to Interfere with IG Independence

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

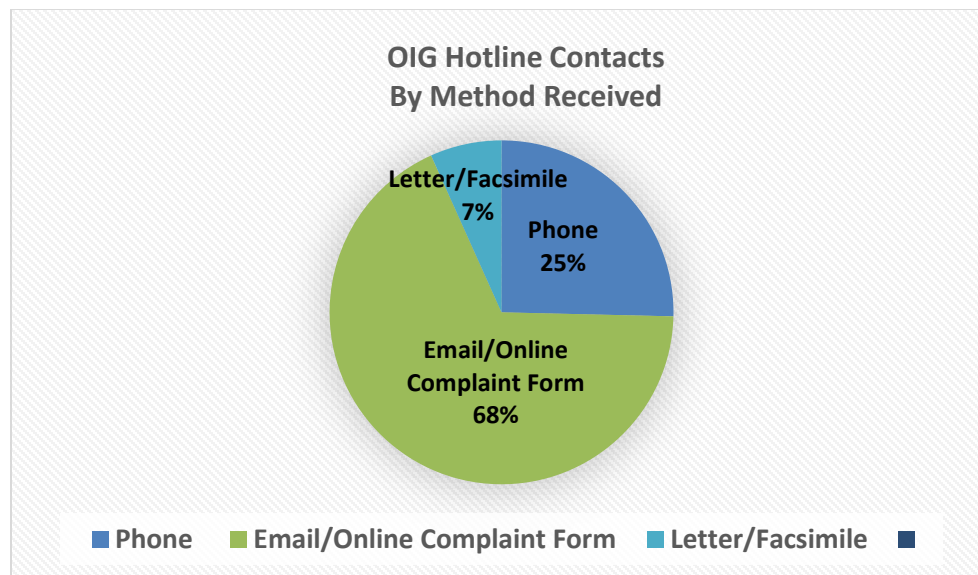
Moreover, there have been no incidents where the NCUA resisted or objected to OIG oversight activities. There have also been no restrictions or delays in our access to agency information.



## OIG Hotline and FOIA Requests

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

During this 6-month period, we processed approximately 130 hotline contacts, the majority of which were from consumers seeking assistance with problems encountered within their respective credit unions. We referred most of these contacts to the OCFP's Consumer Assistance Center for action. A small number of hotline contacts required additional action by OI to determine whether the matter warranted investigation by our office. OIG also responded to nine Freedom of Information Act requests during the reporting period.



| OIG Hotline Contacts        | Number     |
|-----------------------------|------------|
| Phone                       | 34         |
| Email/Online Complaint Form | 91         |
| Letter/Facsimile            | 5          |
| <b>Total:</b>               | <b>130</b> |



## Reviews of Legislation, Regulations, and Policies

Section 4(a) of the Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the NCUA and to make recommendations concerning their impact.

### **Instruction on Vetting and Approval of Change in Official or Senior Executive Officer for Newly Chartered or Troubled Credit Unions**

OIG recommended that NCUA require a background investigation when a state-chartered credit union is converted into a federal credit union and when a foreign national is to become a credit union official, to be consistent with other financial regulators' practices. We further recommended that NCUA participate in financial regulators' sharing with one another prohibition orders and information about applicants or changed officials.

### **Instruction on Ensuring the Quality of Information Posted on NCUA's Public Website and Compliance with Related Legal Requirements**

OIG provided comments that approval of OIG website content is exclusively within the OIG's authority.

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

| <b>List of Legislation and NCUA Regulations and Letters Reviewed</b> |                                                                                                |
|----------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| <b>Legislation</b>                                                   | <b>Title</b>                                                                                   |
| H.R. 748                                                             | CARES Act                                                                                      |
| H.R. 6201                                                            | Families First Coronavirus Response Act                                                        |
| S. 375                                                               | Payment Integrity Information Act of 2019                                                      |
| H.R. 4841                                                            | Prudential Regulator Oversight Act                                                             |
| S. 1790                                                              | National Defense Authorization Act for Fiscal Year 20                                          |
| <b>Regulations</b>                                                   | <b>Title</b>                                                                                   |
| 85 Fed. Reg. 17288                                                   | Proposed Rule: Corporate Credit Unions                                                         |
| 85 Fed. Reg. 5336                                                    | Proposed Rule: Combination Transactions with Non-Credit Unions; Credit Union Asset Acquisition |



| List of Legislation and NCUA Regulations and Letters Reviewed |                                                               |
|---------------------------------------------------------------|---------------------------------------------------------------|
| 85 Fed. Reg. 13982                                            | Proposed Rule: Subordinated Debt                              |
| 84 Fed. Reg. 65707                                            | Proposed Rule: Real Estate Appraisals                         |
| 84 Fed. Reg. 59989                                            | Proposed Rule: Chartering and Field of Membership             |
| Letters to Credit Unions                                      | Title                                                         |
| 20-RA-01                                                      | Other Supervisory Committee Audits                            |
| 20-FCU-01                                                     | Operating Fee Schedule Adjusted for 2020                      |
| 20-03                                                         | Submissions of 2019 Home Mortgage Disclosure Act Data         |
| 20-FCU-02                                                     | NCUA Actions Related to COVID-19 – Annual Meeting Flexibility |
| 20-CU-01                                                      | 2020 Supervisory Priorities                                   |
| 20-CU-02                                                      | NCUA Actions Related to COVID-19                              |
| 20-CU-03                                                      | Identification of Essential Critical Infrastructure Workers   |
| 20-CU-04                                                      | Responsible Small-Dollar Lending in Response to COVID-19      |
| 20-CU-05                                                      | Offsite Examination and Supervision Approach                  |



| <b>TABLE I: ISSUED REPORTS WITH QUESTIONED COSTS</b>                                     | <b>Number of Reports</b> | <b>Questioned Costs</b> | <b>Unsupported Costs</b> |
|------------------------------------------------------------------------------------------|--------------------------|-------------------------|--------------------------|
| (A) For which no management decision had been made by the start of the reporting period. | 0                        | \$0                     | \$0                      |
| (B) Which were issued during the reporting period.                                       | 0                        | \$0                     | \$0                      |
| Subtotals (A + B)                                                                        | 0                        | \$0                     | \$0                      |
| (C) For which management decision was made during the reporting period.                  | 0                        | \$0                     | \$0                      |
| (i) Dollar value of disallowed costs                                                     | 0                        | \$0                     | \$0                      |
| (ii) Dollar value of costs not allowed                                                   | 0                        | \$0                     | \$0                      |
| (D) For which no management decision has been made by the end of the reporting period.   | 0                        | \$0                     | \$0                      |
| (E) Reports for which no management decision was made within six months of issuance.     | 0                        | \$0                     | \$0                      |

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

Unsupported costs (included in "Questioned Costs") are those costs the OIG has questioned because of the lack of adequate documentation at the time of the audit.



| <b>TABLE II: ISSUED REPORTS WITH<br/>RECOMMENDATIONS THAT FUNDS BE PUT TO<br/>BETTER USE</b> | <b>Number of<br/>Reports</b> | <b>Dollar<br/>Value</b> |
|----------------------------------------------------------------------------------------------|------------------------------|-------------------------|
| (A) For which no management decision had been made by the start of the reporting period.     | 0                            | \$0                     |
| (B) Which were issued during the reporting period.                                           | 0                            | \$0                     |
| Subtotals (A + B)                                                                            | 0                            | \$0                     |
| (C) For which management decision was made during the reporting period.                      | 0                            | \$0                     |
| (i) Dollar value of recommendations agreed to by management.                                 | 0                            | \$0                     |
| (ii) Dollar value of recommendations not agreed to by management.                            | 0                            | \$0                     |
| (D) For which no management decision was made by the end of the reporting period.            | 0                            | \$0                     |
| (E) For which no management decision was made within six months of issuance.                 | 0                            | \$0                     |

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





**TABLE III: SUMMARY OF OIG ACTIVITY  
DURING THE REPORTING PERIOD**

| <b>Part I—Audit Reports Issued</b>                                                                                |                                                                                                         |             |
|-------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|-------------|
| Report Number                                                                                                     | Title                                                                                                   | Date Issued |
| OIG-19-08                                                                                                         | Audit of the NCUA's Compliance under the Digital Accountability and Transparency Act of 2014 (DATA Act) | 11/8/19     |
| OIG-19-09                                                                                                         | Audit of the NCUA's Schedule of Other Assets and Contributed Capital as of September 30, 2019           | 11/15/19    |
| OIG-19-10                                                                                                         | FY 2019 Independent Audit of the NCUA's Compliance with FISMA 2014                                      | 12/12/19    |
| OIG-19-11                                                                                                         | Audit of the NCUA's Joint Exam Process with State Supervisory Authorities                               | 12/18/19    |
| OIG-20-01                                                                                                         | Material Loss Review of C B S Employees Federal Credit Union                                            | 2/11/20     |
| OIG-20-02/03/04/05                                                                                                | FY 2019 Financial Statement Audits (SIF, OF, CLF, CDRLF)                                                | 2/14/20     |
| <b>Part II—Audits in Progress (<i>as of March 31, 2020</i>)</b>                                                   |                                                                                                         |             |
| Audit of the NCUA's Consumer Complaint Program                                                                    |                                                                                                         |             |
| Audit of the NCUA's Examination Process and Oversight Authority of CUSOs and other (non-CUSO) Third-party Vendors |                                                                                                         |             |
| Audit of the NCUA's Handling of Personally Identifiable Information at Liquidated Credit Unions                   |                                                                                                         |             |
| Audit of the NCUA's Governance of Information Technology Initiatives                                              |                                                                                                         |             |



| INDEX OF REPORTING REQUIREMENTS OF<br>THE INSPECTOR GENERAL ACT OF 1978, AS AMENDED |                                                                                                                                                            |      |
|-------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| Section                                                                             | Reporting Requirement                                                                                                                                      | Page |
| 4(a)(2)                                                                             | Review of legislation and regulations                                                                                                                      | 33   |
| 5(a)(1)                                                                             | Significant problems, abuses, and deficiencies                                                                                                             | 15   |
| 5(a)(2)                                                                             | Recommendations for corrective action made during the reporting period                                                                                     | 24   |
| 5(a)(3)                                                                             | Significant recommendations on which corrective action has not been completed                                                                              | 20   |
| 5(a)(4)                                                                             | Matters referred to prosecutive authorities                                                                                                                | 29   |
| 5(a)(5)                                                                             | Summary of instances where agency refused or failed to provide requested information                                                                       | 30   |
| 5(a)(6)                                                                             | List of audit reports issued during the reporting period                                                                                                   | 36   |
| 5(a)(7)                                                                             | Summary of significant reports issued during the reporting period                                                                                          | 15   |
| 5(a)(8)                                                                             | Statistical table on audit reports with questioned costs                                                                                                   | 34   |
| 5(a)(9)                                                                             | Statistical table on audit reports with recommendations that funds be put to better use                                                                    | 35   |
| 5(a)(10)(A)                                                                         | Summary of each audit report over six months old for which no management decision has been made                                                            | N/A  |
| 5(a)(10)(B)                                                                         | Summary of each audit report over six months old for which no management comment was returned within 60 days                                               | N/A  |
| 5(a)(10)(C)                                                                         | Summary of each audit report over six months old for which there are unimplemented recommendations                                                         | 21   |
| 5(a)(11)                                                                            | Significant revised management decisions                                                                                                                   | N/A  |
| 5(a)(12)                                                                            | Significant management decisions with which the OIG disagreed                                                                                              | N/A  |
| 5(a)(14)(A)(B)                                                                      | Results of any peer review conducted during the reporting period, or if no peer review was conducted, a statement identifying the date of last peer review | 28   |
| 5(a)(15)(16)                                                                        | Peer reviews conducted by another OIG during the reporting period, and any outstanding recommendations from any current or prior peer review               | 28   |



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| <b>Section</b>                                                                              | <b>Reporting Requirement</b>                                                                                                         | <b>Page</b> |
| 5(a)(17)                                                                                    | Statistical table on investigative reports issued during the reporting period                                                        | 29          |
| 5(a)(18)                                                                                    | Description of metrics used for developing the investigative report statistical table                                                | 30          |
| 5(a)(19)                                                                                    | Investigations conducted involving a senior Government employee                                                                      | 30          |
| 5(a)(20)                                                                                    | Detailed description of any instances of whistleblower retaliation                                                                   | 30          |
| 5(a)(21)                                                                                    | Detailed description of any attempt by the Agency to interfere with the independence of the Office                                   | 30          |
| 5(a)(22)(A)                                                                                 | Detailed description of any inspection, evaluation, and audit that was closed and was not disclosed to the public                    | N/A         |
| 5(a)(22)(B)                                                                                 | Detailed description of any investigation involving a senior Government employee that was closed and was not disclosed to the public | N/A         |