



NCUA
National Credit Union Administration

**OFFICE OF INSPECTOR
GENERAL**

**AUDIT OF THE NCUA'S
FEDERAL CHARTERING PROCESS**

**Report #OIG-24-09
November 06, 2024**





National Credit Union Administration

SENT BY EMAIL

TO: Distribution List

FROM: Inspector General James W. Hagen

SUBJ: Audit of the NCUA's Federal Chartering Process

DATE: November 06, 2024

The NCUA OIG conducted this audit based on OIG's 2023 Annual Work Plan to assess the NCUA's revised process to charter new federal credit unions. The objectives of our audit were to determine whether: (1) the NCUA's efforts to streamline its chartering process made it more efficient and effective for potential organizers interested in applying for a new federal credit union charter; and (2) the NCUA adequately communicated its revised chartering process to potential organizers. The scope of our audit covered the NCUA's chartering activities from January 2019 through June 2024.

Results of our audit determined that the NCUA's chartering process operates in accordance with applicable laws, regulations, policies, and procedures and the NCUA is adequately communicating its revised chartering process to potential and current organizers. However, based on our audit work, we believe the NCUA should implement automated systems for the chartering process, including a phone logging system, to streamline and enhance the efficiency of the chartering process. In addition, we determined that the deferral process for charter applications needed to be described on the NCUA website, including the number of times the NCUA may defer an application before denying it for insufficient information. Finally, we determined that the NCUA Board and senior management and the Office of Credit Union Resources and Expansion (CURE) need an established internal process to set expectations when handling charter applicants inquiries.

We are making four recommendations to NCUA management that we believe will help the agency improve its Federal Chartering Process.

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 recommendation, please contact me at 703-518-6350.

Distribution List:

Board Chairman Todd M. Harper
Board Vice Chairman Kyle S. Hauptman
Board Member Tanya F. Otsuka
Executive Director Larry Fazio
General Counsel Frank Kressman
Deputy Executive Director Rendell Jones

Page 2

Chief of Staff Catherine D. Galicia
OEAC Director Elizabeth A. Eurgubian
Credit Union Resources and Expansion, Director Martha Ninichuk

Attachment



TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
EXECUTIVE SUMMARY	1
BACKGROUND	2
RESULTS IN DETAIL.....	6
CURE Needs Automated Systems.....	6
Deferral Process Needs to be Transparent and Quantified.....	8
Structured Communication Needed.....	11
APPENDICES:	
A. Objective, Scope, and Methodology.....	14
B. NCUA Management Response	16
C. Acronyms and Abbreviations.....	18



EXECUTIVE SUMMARY

The NCUA OIG conducted this audit based on OIG's 2023 Annual Work Plan to assess the NCUA's revised process to charter new federal credit unions. The objectives of our audit were to determine whether: (1) the NCUA's efforts to streamline its chartering process made it more efficient and effective for potential organizers interested in applying for a new federal credit union charter; and (2) the NCUA adequately communicated its revised chartering process to potential organizers. The scope of our audit covered the NCUA's chartering activities from January 2019 through June 2024.

Our audit determined the NCUA's chartering process operates in accordance with applicable laws, regulations, policies, and procedures and the NCUA is adequately communicating its revised chartering process to potential and current organizers. However, based on our audit work, we believe the NCUA should implement automated systems for the chartering process, including a phone logging system, to streamline and enhance the efficiency of the chartering process. In addition, we determined that the deferral process for charter applications needed to be described on the NCUA website, including the number of times the NCUA may defer an application before denying it for insufficient information. Finally, we determined that the NCUA Board and senior management and the Office of Credit Union Resources and Expansion (CURE) need an established internal process to set expectations when handling charter applicants' inquiries. We are making four recommendations in our report to address the issues we identified.

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



BACKGROUND

The NCUA is an independent federal agency created by the U.S. Congress. It insures deposits of federally insured credit unions, protects credit union members, and charters and regulates federal credit unions. The NCUA's organizational structure consists of a Headquarters, the Asset Management and Assistance Center, and three regional offices.¹

Office of Credit Union Resources and Expansion (CURE)

NCUA's CURE is responsible for chartering and field-of-membership matters, low-income designations, charter conversions, and bylaw amendments for credit unions. The office also provides online training to credit union board members, management, and staff, as well as technical assistance through grants and loans funded by the Community Development Revolving Loan Fund. Additionally, the office is responsible for the agency's minority depository institutions preservation program.

Credit unions are cooperatives, meaning they are member-owned and operated. Federally chartered credit unions must have an NCUA-approved field of membership, which is the legal description of the persons, organizations, and other entities the credit union will serve. To operate, credit unions need a charter granted from either the NCUA or a state credit union regulator. CURE provides prospective organizers with information on obtaining a federal credit union charter, including the field of membership, or expanding on an existing field of membership.

In April 2022, CURE updated and streamlined its chartering process. Some of the significant changes included:

- **Combined Proof of Concept and Field of Membership Request:** CURE combined the Proof of Concept and Field of Membership Request, previously two separate actions, into one process. This change halved the number of documents applicants needed to submit and reduced total processing time.
- **Updated CyberGrants² Portal:** CURE updated the CyberGrants portal to allow applicants to upload supporting documents for the capital planning and field of membership sections. Previously, applicants mailed or emailed these documents separately.
- **Streamlined Submission Process:** CURE revised several questions in CyberGrants to make the submission process easier and more efficient for applicants. CURE also revamped internal review documents to eliminate unnecessary review elements and streamline the process. The Proof of Concept is no longer scored; decisions are now

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

² CyberGrants is the automated management system utilized by NCUA where credit unions can apply electronically for grants and/or loans. CyberGrants was used during the audit period but is no longer used as of July 1, 2024.



made based on more objective criteria, and denials at this stage are rare. Instead, applicants receive clear instructions on how to achieve approval, if deferred.

- **Phase 2 Process Changes:** Phase 2 no longer includes processing the NCUA form 4012 applications for individuals seeking to serve as officials or senior management staff. This step, previously processed early in the application process, is now deferred until Phase 3, unless CURE staff requests them sooner. This change saves significant time for CURE staff and reduces the need for resubmissions due to outdated approvals.
- **Form Review in Phase 3:** Remaining NCUA forms are now submitted during Phase 3, allowing coordinators to review the forms for completeness during the 30-day regional concurrence review period, creating time efficiencies.

Chartering Application Guidance

In addition to the changes above, CURE also updated its Chartering Application Guide (Guide) in April 2022 to instruct organizers when submitting applications. CURE officials advised us they expect this update to reduce the number of applications requiring deferral and minimize pre-submission questions, thereby streamlining the process. Following are details of each of the three phases in the updated Guide:

Phase 1 – Proof of Concept

During this phase, organizing groups:

- Research chartering a federal credit union
- Define the credit union's purpose
- Define the field of membership
- Describe capital funding plans
- Identify subscribers
- Select a credit union name
- Research low-income and minority depository institution designations and Community Development Financial Institution certification
- Complete the proof-of-concept submission

CURE Review Goal: 60 Days

Phase 2 – Charter Application

During this phase, organizing groups:

- Complete pre-planning; which includes:



- Conducting potential member surveys and analyzing the results
- Analyzing market conditions
- Securing donated capital
- Obtaining evidence of critical sponsor commitments, and
- Securing mentor relationships
- Develop a business plan, which includes:
 - Submitting NCUA form 4001 (Federal Credit Union Investigation Report)³
 - Creating a mission statement
 - Determining products and services
 - Establishing organizational and management plans
 - Identifying the credit union's physical location
 - Creating pro forma financial statements and plans for operating independently, and
 - Describing marketing plans
- Create proposed bylaws, and
- Prepare all required policies, including those for major operational areas or advanced services.

Phase 3 – Final NCUA Approval

During this phase, organizing groups:

- Submit all remaining required NCUA forms, which includes:
 - NCUA 4008 (Organization Certificate)
 - NCUA 9500 (Application and Agreements for Insurance of Accounts)
 - NCUA 9501 (Certificate of Resolution)
 - NCUA 4012 (form for identifying all credit union officials and senior management)
- Signing the Letter of Understanding and Agreement with the NCUA

³ NCUA Form 4001 identifies specific elements that organizers must incorporate into the credit union's business plan.



- Receiving the charter and share insurance coverage

CURE Review Goal: 180 days from receipt of a complete application in Phase 2 to charter issuance.

Provisional Charter Pilot

CURE briefed the NCUA Board on a new provisional charter pilot program on June 22, 2023 and approved the first two applications in May and June 2024. A provisional charter allows the credit union organizing group to become a legal entity before being authorized to commence full operations to obtain required capital. The requirements for a provisional charter include the submission of a full application and meeting all other requirements except for the start-up capital. The provisional charter process involves:

- Submitting a capital funding plan.
- Agreeing to a 12-month period to secure funding.



RESULTS IN DETAIL

The objectives of our audit were to determine whether: (1) the NCUA's efforts to streamline its chartering process made it more efficient and effective for potential organizers interested in applying for a new federal credit union charter; and (2) the NCUA adequately communicated its revised chartering process to potential organizers.

Based on our audit work, we determined the NCUA's chartering process operated in accordance with applicable laws, regulations, policies, and procedures and that the NCUA adequately communicated its revised chartering process to potential and current organizers. However, we identified several areas for improvement:

1. **Automated Systems:** The NCUA should implement automated systems, including a phone logging system, to streamline and enhance the efficiency of the chartering process.
2. **Deferral Process Transparency:** The deferral process needs to be more transparent. Information about the deferral process should be posted on the NCUA's website, including specifying the number of times an application may be deferred before being denied for insufficient information.
3. **Established Process for Handling Inquiries:** The NCUA Board, senior management and the Office of Credit Union Resources and Expansion (CURE) need an established internal process to set expectations when handling applicants' inquiries.

The detailed results of our audit follow.

CURE Needs Automated Systems

We determined the NCUA's credit union chartering process needs automated systems to operate efficiently. Specifically, we identified several key processes within CURE, such as phone logs and database management for dashboard creation, necessitated excessive manual input by coordinators to fulfill their responsibilities. The General Accountability Office's (GAO's) Standards for Internal Control in the Federal Government (Green Book) requires federal agencies to implement control activities by establishing policies and procedures to achieve objectives and respond to risks in the internal control system. Our audit determined the NCUA did not comply with GAO's Green Book, particularly Principles 5 and 10 – Enforce Accountability and Design Control Activities, respectively.

Principle 5: This principle requires management to evaluate pressure on personnel to help them fulfill their assigned responsibilities using various tools, such as increasing resource levels.

Principle 10: This principle mandates that management can use automated control activities, which tend to be more reliable due to their reduced susceptibility to human error and increased efficiency.



The lack of adherence to these principles occurred because the NCUA does not have an automated and centralized system for CURE's use throughout the entire credit union chartering process. This includes initial applications, phone calls and written inquiries, recordkeeping and detailed information management for each chartering application. As a result, the chartering process is not modern and streamlined, requires manual processes prone to human error, and makes obtaining information on the status of any charter application by the NCUA Board or outside organizing groups cumbersome and inefficient.

Details

In October 2020, the NCUA launched the Advancing Communities through Credit, Education, Stability, and Support (ACCESS) initiative.⁴ As part of this initiative, the NCUA engaged contractor support to assess the new charter application process between November 2021 and April 2022. Two key activities of this benchmarking analysis were: (1) reviewing CURE's process for reviewing and approving new charter applications (referred to as the new charter processing task); and (2) providing written recommendations to improve and modernize the NCUA's new charter application process and supervision and support activities for newly chartered credit unions. The assessment identified several findings specific to systems:

- **Too many systems used:** The new charter application process uses multiple systems causing inefficiencies and complicating key process management functions.
- **Need for consolidation:** There is a need to consolidate existing systems where appropriate.
- **Need for a centralized system:** Developing a centralized tool to support all new charter application activities would:
 - Improve communication between applicants and the NCUA.
 - Enhance project management functions.
 - Streamline and modernize application activities for both applicants and organizing groups; and
 - Establish a system of record for new charter applications, reducing the need to store documents on shared folders.

During the benchmarking analysis, it was found that other agencies have or are developing centralized systems to conduct most or all application activities, unlike the NCUA.

⁴ The ACCESS initiative brings together resources from across the NCUA to develop or refresh programs, regulations, policies, and procedures that expand the effort to address the financial services and financial literacy needs of underbanked, underserved, and diverse communities.



The CURE team has created a dashboard that provides the NCUA Board and the CURE team with visibility into the chartering process and measures its progress. This dashboard identifies potential friction points and clarifies issues with additional resources, templates, and training. However, the dashboard is built by pulling information from multiple systems, including a new charter database that requires manual input by the coordinators. Additionally, CURE coordinators keep call logs in Excel spreadsheets due to the lack of a system that logs calls. This logging is not a requirement and is often done at the coordinator's discretion. Given a significant part of a coordinator's job involves communicating with organizing groups and applicants, it would be more efficient to have software or a system to help track these calls.

When we asked CURE personnel about their concerns with the chartering process, the most common issue raised was the arduous nature of the process due to its manual components. Those individuals told us that every program is manual, and they are trying to retrofit systems that do not fit perfectly, which can quickly become overwhelming without the ability to automate or expand the staff.

Based on the identified issues related to the manual inputting of information during the chartering process, we make the following recommendation.

Recommendation:

We recommend NCUA management:

1. Develop a centralized system and institute a phone log system to modernize and streamline the chartering application process.

Management Response

Management agreed with this recommendation. Management stated that the 2025-2026 Staff Draft Budget includes an initial \$1 million capital investment for the development of requirements for a multi-year process automation project for field of membership and new charter requests.

OIG Response

We concur with management's planned action.

**Deferral Process
needs to be
Transparent and
Quantified**

We determined the NCUA needs to enhance its deferral process when reviewing charter applications. Specifically, the deferral process should be made more transparent and quantified to provide organizing groups with clearer guidance on navigating the application process, thereby enabling them to gauge their progress towards obtaining a new credit union charter or understanding when a denial may occur. GAO's Green Book requires management to



define objectives in measurable, quantitative terms to assess performance consistently (Principle 6). Additionally, transparency is a core value outlined in the NCUA's Strategic Plan. The use of deferrals repeatedly, occurred because the current charter application review practices used by CURE staff rely too heavily on deferrals as a method to give prospective applicants additional chances to provide missing or incomplete information to finalize their charter application. As a result, organizing groups often are left in an endless cycle of deferrals, providing information sporadically to CURE officials only to find that the information does not help finalize their application. This, in turn, causes additional requests for information from the organizing groups and more deferrals by CURE officials when the correct additional information is not provided. Additionally, we determined the deferral process has not been clearly explained to prospective organizing groups, which ultimately leaves them and their charter application without a yes or no decision – often for many years, as the charter process is never quite completed.

Details

We determined the NCUA often defers during the charter application process. This occurred several times throughout our testing of the new applications:

- We judgmentally selected 30 percent (10 of 33) of the new applications the NCUA received that were applications or chartered under the new policy from April 2022 to June 2023.
- We found that all 10 applications were deferred at least once during the process.
- We found that 70 percent (7 of 10) of the applications were deferred multiple times⁵ during the process.

Currently there is no mention of the deferral process on the NCUA's website for organizing groups to understand that deferrals can be a part of the process depending on the state of their application when it is submitted for review. Externally, organizing groups are informed:

- “For each phase, the NCUA will review all deliverables submitted and will let the organizing group know when to proceed to the next phase.”
- “The NCUA will notify you in writing if the proof-of-concept is approved and you can proceed to Phase 2.”
- “CURE will review your submission and reach a preliminary determination on advancing the package for final approval.”

However, the NCUA's internal policies reveal:

⁵ For these seven applications, CURE deferred four of the applications twice and the remaining three applications more than three times each throughout the charter application process.



- “If an application is not substantially complete, discuss a deferral option with the Consumer Access Director. A letter of incompleteness or deferral letter will likely be required. In this case, the log will be closed. A new log will be opened when CURE receives a revised application.”
- “The Phase 2 Summary will summarize the coordinator’s review of the new charter application and will be the primary document in support of the coordinator’s recommendation to approve, defer, or deny the charter.”

During our audit, we received feedback from organizing groups that indicated they were sometimes confused and frustrated during the charter application process, particularly as it related to deferrals. For example, we heard from several organizing groups that felt the NCUA continually changed expectations (“moving the goal post”) and the agency was unclear about the frequency and implications of deferrals. Although the organizing groups we spoke with provided positive feedback about CURE’s coordinators and the recent changes made to the chartering process, we believe these groups did not seem to fully understand deferrals and how often they can occur.

We also determined from interviews with CURE officials that delays occur when organizing groups take extended periods to resubmit requested information, often leading to additional deferrals. During our audit, we determined that once CURE sends an application back to the organizing group for changes, it is up to the organizing group as to how timely they provide the information back to CURE for review. We learned many organizing groups take months (or longer) to resubmit requested information, or they only submit some of the information, leading to an additional deferral of the application. We believe this explains why many applications have taken so long to go through the charter application process.

The back-and-forth exchange of information between CURE and organizing groups is just one aspect displayed on the dashboard – how long an application is with CURE and in what phase, and how long it has been with an applicant before resubmitting for review. A CURE staff member told us that deferrals create boundaries and that they defer applications if information is missing or is taking too long for the organizing group to get the information resubmitted. This same staff person also explained that they typically defer an application instead of denying it, which we believe is not always the best solution because it does not allow applicants the opportunity to go through the charter appeal process if continually deferred. If an application were to be denied, the applicant would have the right to seek an appeal of the decision to the NCUA Board. Because CURE coordinators tend to err on the side of using deferrals rather than deny applications after a reasonable period has passed, we believe that is why there has been only one appeal to the NCUA Board.

Based on the issues we identified above related to deferrals and their lack of transparency and frequent use, we are making the following recommendations.



Recommendations

We recommend NCUA management:

2. Quantify and clarify the deferral process for organizing groups by establishing clear guidelines and milestones to ensure enhanced transparency and understanding.

Management Response

Management agreed with this recommendation. Management stated they will conduct this evaluation and implement corresponding changes by December 31, 2025.

OIG Response

We concur with management's planned action.

3. Post detailed information about the NCUA's charter deferral process on the agency's website to clearly communicate expectations and provide organizing groups with a transparent and comprehensive understanding of deferrals within the charter application process.

Management Response

Management agreed with this recommendation. Management stated they will publish information about the new charter deferral process upon implementation of changes that result from the evaluation to be completed by December 31, 2025.

OIG Response

We concur with management's planned action.

Structured Communication Process Needed

Our audit identified a critical need for the NCUA to establish a structured communication process between the NCUA's CURE Office and other NCUA senior officials, including the NCUA Board. Currently, inquiries from organizing groups applying for credit union charters often result in a cumbersome process to gather and deliver information back to senior officials, impacting the efficiency and transparency of the charter application process. This occurred for several reasons: (1) There is no defined process for senior management to follow when they receive inquiries from organizing groups about the status of their charter applications; (2) CURE staff lack effective tools and methods to efficiently gather critical information about each charter application, hindering their ability to provide timely and thorough responses back to senior managers, and (3) expectations between senior managers and CURE staff regarding information requests are not consistently defined, leading to frustrations and delays in communication. As a result, since the fall of 2023,



senior management stated they have taken a “hands-off” approach and made very few requests for information to CURE staff regarding charter applications. The GAO’s Green Book Principle 14 – Communicate Internally, emphasizes the need for effective internal communication methods to ensure quality information is disseminated throughout the organization. Formal mechanisms to communicate within the organization can include written reports, intranet portals, or periodic formal meetings.

Details

As mentioned above, the NCUA does not currently have a process in place that spells out the expectations both from the NCUA Board and senior management to CURE and the response necessary from CURE back to Board or senior management when they receive an inquiry from an organizing group. Our audit determined the amount of involvement of the different offices (depending on the level of complexity) for charter applications is not defined, which can create a bottleneck if too many people are involved in an already complicated process. We believe the establishment of clear communication processes that outlines expectations, timeframes, and responsibilities for handling inquiries received from charter organizing groups by the NCUA Board and/or senior management is critical. This process should encompass both simple inquiries about starting a credit union to complex requests related to funding or other support.

Our audit also determined that CURE personnel believed requests for information from the Board and senior management can be cumbersome. For example, we were told by one CURE coordinator that all of the data to respond to a request is cobbled together with information from different systems as well as personal notes in the form of spreadsheets. The coordinator also noted that when NCUA executive management or the Board makes a request, for example, for CURE to provide all communications that have taken place between CURE and an organizing group, such requests take an inordinate amount of time to fulfill. CURE personnel also told us that senior agency management are actively involved in the application process and as a result, CURE coordinators feel they spend much of their time responding to questions from senior executives based on inquiries received by the NCUA Board from organizing groups, when the more efficient and effective response would be for senior management at all levels of the agency to send inquiries from outside parties to CURE to resolve. Although responding to the Board and senior management is imperative to accomplish the agency’s mission, we agree with CURE personnel that responding to Board and senior management requests for additional information can take significant time away from working on other charter applications.

Our audit determined that with a structured communication process, the NCUA would benefit in the following ways:

- **Enhanced Efficiency:** By establishing clear communication protocols, the NCUA can streamline the handling of inquiries, reducing the time spent by senior officials in gathering information and allowing CURE staff to focus more effectively on processing charter applications.



- **Improved Transparency:** A structured process will enhance transparency by ensuring that all stakeholders, including organizing groups, understand how inquiries are managed and what to expect in terms of responses and timelines.
- **Reduced Bottlenecks:** Clear expectations and defined processes will help mitigate potential bottlenecks caused by unclear roles or excessive involvement from multiple offices, thereby facilitating smoother and more efficient chartering efforts.

Implementing a structured communication process would align with the NCUA's goal of improving operational effectiveness and customer service. By setting clear expectations and responsibilities, the NCUA can enhance its support for charter organizing groups and ensure the Board and senior management receive timely and accurate information necessary for decision-making regarding charter applications. To address the challenges, we identified and improve communication, we are making the following recommendation.

Recommendation

We recommend NCUA management:

4. Establish a structured communication process within the NCUA's federal credit union chartering process that sets expectations, timeframes, and ownership of responses to inquiries initially directed to the NCUA Board and/or NCUA senior management from charter organizing groups to ensure improved operational effectiveness and customer service.

Management Response

Management agreed with this recommendation. Management plans to establish protocols that include expectations, timeframes, and ownership of responses to inquiries from charter organizing groups by June 30, 2025.

OIG Response

We concur with management's planned action.



OBJECTIVE, SCOPE, AND METHODOLOGY

We developed our objectives for this engagement based on OIG's 2023 Annual Work Plan. Specifically, our objectives were to determine whether: (1) the NCUA's efforts to streamline its chartering process made it more efficient and effective for potential organizers interested in applying for a new federal credit union charter; and (2) the NCUA adequately communicated its revised chartering process to potential organizers.

To accomplish our audit, we performed fieldwork with information relevant to the NCUA's Federal Chartering process obtained from various NCUA sources. The scope of this audit covered the NCUA's Federal Chartering activities from January 2019, through June 2024. To achieve our objective, we:

- Reviewed the NCUA's Chartering Application Guides, the CURE New Charter Process Flowchart, CURE Chartering Application policies and procedures, and applicable laws and regulations.
- Interviewed CURE personnel, NCUA board staff, executive management, and organizing groups.
- Obtained an understanding of the new chartering process.
- Reviewed new chartering guidelines that were implemented in April 2022.
- Judgmentally selected 10 applications/charters, from among the 33 related to the revised policy the NCUA received during our scope period, to review for compliance with laws, regulations, policies, and procedures, which also included the number of times these applications were deferred or denied while going through the different phases of the application process.
- Evaluated internal controls related to the NCUA's Federal chartering activities.

We did not rely on computer-processed data from NCUA systems to answer the audit objective. To answer the objective, we used applications submitted by organizing groups that were reviewed and worked on by NCUA staff as part of the chartering process.

We conducted this audit from February 2023 through August 2024 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. 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. We assessed the effectiveness of internal controls we determined were significant to the audit objective.



Specifically, we assessed 4 of the 5 internal control Components and 5 of the 17 associated underlying Principles defined in the GAO's Standards for Internal Control in the Federal Government.⁶ We summarize in Table 1 below the Components and Principles we assessed.

Table 1: Internal Control Components and Underlying Principles Assessed

Component: Control Environment
Principle #3 – Establish Structure, Responsibility and Authority
Component: Risk Assessment
Principle #7 – Identify, Analyze, and Respond to Risks
Component: Control Activities
Principle #10 – Design Control Activities
Principle #12 – Implement Control Activities
Component: Information and Communication
Principle #15 – Communicate Internally

The report presents within the findings the internal control deficiency 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.

⁶ The Standards for Internal Control in the Federal Government organizes internal control through a hierarchical structure of 5 components and 17 principles. The five components, which represent the highest level of the hierarchy, consist of the Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. The 17 principles support the effective design, implementation, and operation of the components, and represent the requirements for establishing an effective internal control system.



NCUA MANAGEMENT RESPONSE



National Credit Union Administration
Office of the Executive Director

SENT BY EMAIL

TO: Inspector General James Hagen
FROM: Executive Director Larry Fazio **LARRY FAZIO**
SUBJ: Management Response: OIG Audit of the NCUA's Federal Chartering Process
DATE: November 5, 2024

Digitally signed by
LARRY FAZIO
Date: 2024.11.05
10:18:23 -05'00'

We reviewed the Office of Inspector General's draft audit report titled *Audit of the NCUA's Federal Chartering Process*. Below is our response to the draft report's four recommendations.

OIG Recommendation: Develop a centralized system and institute a phone log system to modernize and streamline the chartering application process.

Management Response: We agree the new charter process would benefit from a more centralized system. The 2025-2026 Staff Draft Budget includes an initial \$1 million capital investment for the development of requirements for a multi-year process automation project for field of membership and new charter requests. Please note the 2025-2026 budget is subject to NCUA Board approval. The project envisions a public-facing portal that organizing groups will use to submit their new charter applications. The portal is expected to include forms for submission of information and data, the ability to upload supporting files, and a status indicator timeline so that applicants can track the status of their submission. The project also envisions incorporating the NCUA's current tool for submitting field of membership expansion requests and the agency's document file and workflow system. Additional centralization and modernization of the processing of charter applications will be considered as part of subsequent annual technology prioritization and budget approval processes.

OIG Recommendation: Quantify and clarify the deferral process for organizing groups by establishing clear guidelines and milestones to ensure enhanced transparency and understanding.

Management Response: We agree with the need to evaluate the role of deferrals in the new charter application process and associated guidelines. We will conduct this evaluation and implement corresponding changes by December 31, 2025.

OIG Recommendation: Post detailed information about the NCUA's charter deferral process on the agency's website to clearly communicate expectations and provide organizing groups with a transparent and comprehensive understanding of deferrals within the charter application process.

Management Response: We will publish information about the new charter deferral process upon implementation of changes that result from the evaluation to be completed by December 31, 2025.

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



Page 2

OIG Recommendation: Establish a structured communication process within the NCUA's federal credit union chartering process that sets expectations, timeframes, and ownership of responses to inquiries initially directed to the NCUA Board and/or NCUA senior management from charter organizing groups to ensure improved operational effectiveness and customer service.

Management Response: We agree to establish protocols that include expectations, timeframes, and ownership of responses to inquiries from charter organizing groups by June 30, 2025.

Thank you for the opportunity to comment.



ACRONYMS, ABBREVIATIONS, AND DEFINITIONS

Acronym	Term
ACCESS	Advancing Communities through Credit, Education, Stability and Support
CURE	Office of Credit Union Resources and Expansion
GAO	Government Accountability Office
OIG	Office of Inspector General
NCUA	National Credit Union Administration