

**NATIONAL CREDIT UNION ADMINISTRATION**



**OFFICE OF THE INSPECTOR GENERAL**

**REPORT TO CONGRESS**

**April 1, 2001 – September 30, 2001**



**THE NCUA MISSION**

**OUR CHARGE IS TO FOSTER THE SAFETY AND SOUNDNESS OF FEDERALLY INSURED CREDIT UNIONS AND TO BETTER ENABLE THE CREDIT UNION COMMUNITY TO EXTEND CREDIT FOR PRODUCTIVE AND PROVIDENT PURPOSES TO ALL AMERICANS, PARTICULARLY THOSE OF MODEST MEANS.**

**WE STRIVE TO ENSURE THAT CREDIT UNIONS ARE ENPOWERED TO MAKE THE NECESSARY BUSINESS DECISIONS TO SERVE THE DIVERSE NEEDS OF THEIR MEMBERS AND POTENTIAL MEMBERS. WE DO THIS BY ESTABLISHING A REGULATORY ENVIRONMENT THAT ENCOURAGES INNOVATION, FLEXIBILITY, AND CONTINUED FOCUS ON ATTRACTING NEW MEMBERS AND IMPROVING SERVICE TO EXISTING MEMBERS.**

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**THE OFFICE OF INSPECTOR GENERAL MISSION**

**TO PROMOTE ECONOMY, EFFICIENCY, AND EFFECTIVENESS  
IN NCUA PROGRAMS AND OPERATIONS,  
AS WELL AS PREVENT AND DETECT FRAUD, WASTE, AND ABUSE.**

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**OFFICE OF THE INSPECTOR GENERAL**  
**NATIONAL CREDIT UNION ADMINISTRATION**

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## **INSPECTOR GENERAL'S MESSAGE TO THE CONGRESS**

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) saw prolific activity this period on both the audit and investigative sides of the office. On the audit side, information security issues remained a major focus, culminating in our independent evaluation of NCUA's compliance with the Government Information Security Reform Act (GISRA). On the investigative side, we responded to an influx of cases presenting allegations of Government credit card abuse. We also dedicated significant resources to the following issues impacting on NCUA operations: (1) activities surrounding an agency-wide procurement of notebook computers, in conjunction with the decision to migrate simultaneously from one operating system to another; (2) completion of a lengthy and complex investigation into allegations of criminal and administrative wrongdoing against two senior level officials; and (3) several employee misconduct cases involving allegations of sexual harassment and undue coercion, false claims, and neglect of fiduciary responsibilities, respectively.

The OIG intends to continue its mandate to help promote systems security at NCUA. We have committed to working with information systems managers to ensure that systems integrity within the agency is recognized as a priority and addressed accordingly. In this regard, we have made specific recommendations to NCUA for improving entity-wide system security and planning, and will continue to evaluate management's efforts to comply with GISRA. Moreover, in light of our renewed focus on employees' use of government contractor-issued credit cards, we recently determined to initiate a review of such use and to evaluate the adequacy of management systems and controls that currently oversee the credit card program. We anticipate reporting on that review in our next semiannual report.

Finally, during this reporting period we designated William A. DeSarno the new Deputy Inspector General. Mr. DeSarno will continue to serve concurrently as the Assistant Inspector General for Audit.

### **AUDIT HIGHLIGHTS**

Information technology issues dominated the majority of audit resources this past reporting period. Audit staff completed two mandated reviews: NCUA Website Privacy, required by Public Law 106-554; and, an evaluation of NCUA's compliance with the Government Information Security Reform Act, required by Public Law 106-398. Also on the technology front, we completed a review of NCUA's notebook computer procurement and migration to a new operating system. We also continued our oversight of the agency's efforts under the Government Performance Results Act by issuing a report on NCUA goals that rely on "call reports" from credit unions as data sources for measuring performance.

### **INVESTIGATIVE HIGHLIGHTS**

During the reporting period, the Office of Investigations (OI) initiated seven (7) new investigations, of which one (1) case was reported on and closed. In addition, the OI reported on and closed two (2) cases carried over from the previous reporting period.

The OI closed and issued the second of two reports on its investigation into allegations of criminal and administrative misconduct against two senior NCUA officials. The second report, addressing allegations of discrimination, preferential treatment, gross mismanagement, and abuse of authority against the two officials, reported that the investigation had developed no evidence to substantiate the allegations.

Moreover, the OI officially closed an investigation involving false claims for sick leave and Office of Worker's Compensation Continuation of Pay benefits.

The six new cases currently under investigation involve, respectively, the following issues: (1) misuse of government contractor-issued credit card (3 cases); (2) employee misconduct based on allegations of sexual harassment and undue coercion; (3) false claims and false statements; and (4) employee misconduct based on neglect of fiduciary responsibility.

During this period the OI responded to Freedom of Information Act (FOIA) and Privacy Act (PA) requests in connection with the combined criminal/administrative investigation described above involving two senior level officials. The OI further coordinated with the Office of General Counsel on the latter's response to FOIA and PA requests stemming from the same matter.

Finally, the NCUA OIG's sole Special Agent provided vital assistance in the recovery effort at the Pentagon, in the aftermath of the terrorist attack on September 11, 2001. This Special Agent worked with other law enforcement officers from numerous agencies in combing through literally tons of debris to collect criminal evidence of the hijacking, as well as the personal remains and personal effects of the victims of the attack.

### **FUTURE PLANS**

In continuing to emphasize agency-wide information system security planning and management, the audit staff will follow up on management's efforts to implement the OIG's recommendations for NCUA compliance with GISRA. Moreover, auditors will continue to perform several projected management consulting reviews at the regional office level.

In connection with its plans to conduct an overall review, with the audit staff, of employee use of the government contractor-issued credit card, OI plans to make presentations to NCUA central and regional office staff to heighten employee awareness of proper use of the cards. To prevent similar activity from occurring in the future, OI will alert employees that corrective administrative remedies have been employed where misuse has been proven.



Frank Thomas  
Inspector General

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**NATIONAL CREDIT UNION ADMINISTRATION**

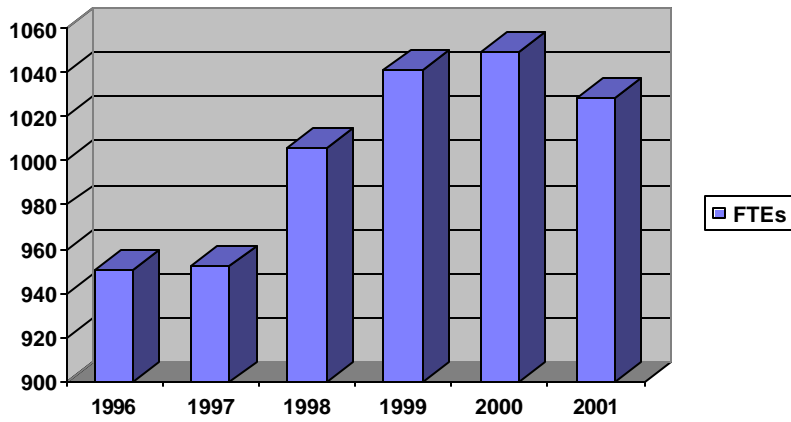
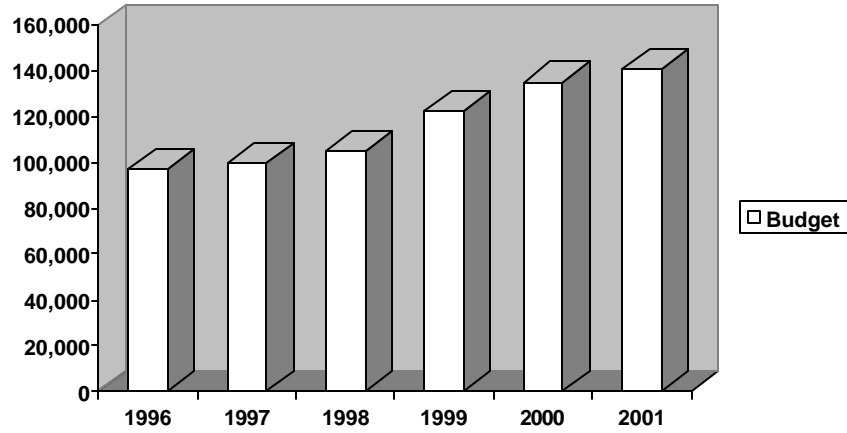
The National Credit Union Administration (NCUA) was established as an independent, federal regulatory agency on March 10, 1970. The agency is responsible for chartering, examining, supervising, and insuring federal credit unions. It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. NCUA is funded entirely by credit unions; it does not receive any tax dollars. As of June 30, 2001, the NCUA was supervising and insuring 6,230 Federal credit unions and insuring 3,915 state-chartered credit unions, a total of 10,145 institutions. This represents a loss of 106 Federal and 65 state-chartered institutions since December 31, 2000, for a total loss of 171 credit unions nation-wide.

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

The National Credit Union Administration executes its program through its central office in Alexandria, Virginia and regional offices in Albany, New York; Alexandria, Virginia; Atlanta, Georgia; Lisle, Illinois; Austin, Texas; and Concord, California. NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer to the NCUA organizational chart on page 3.

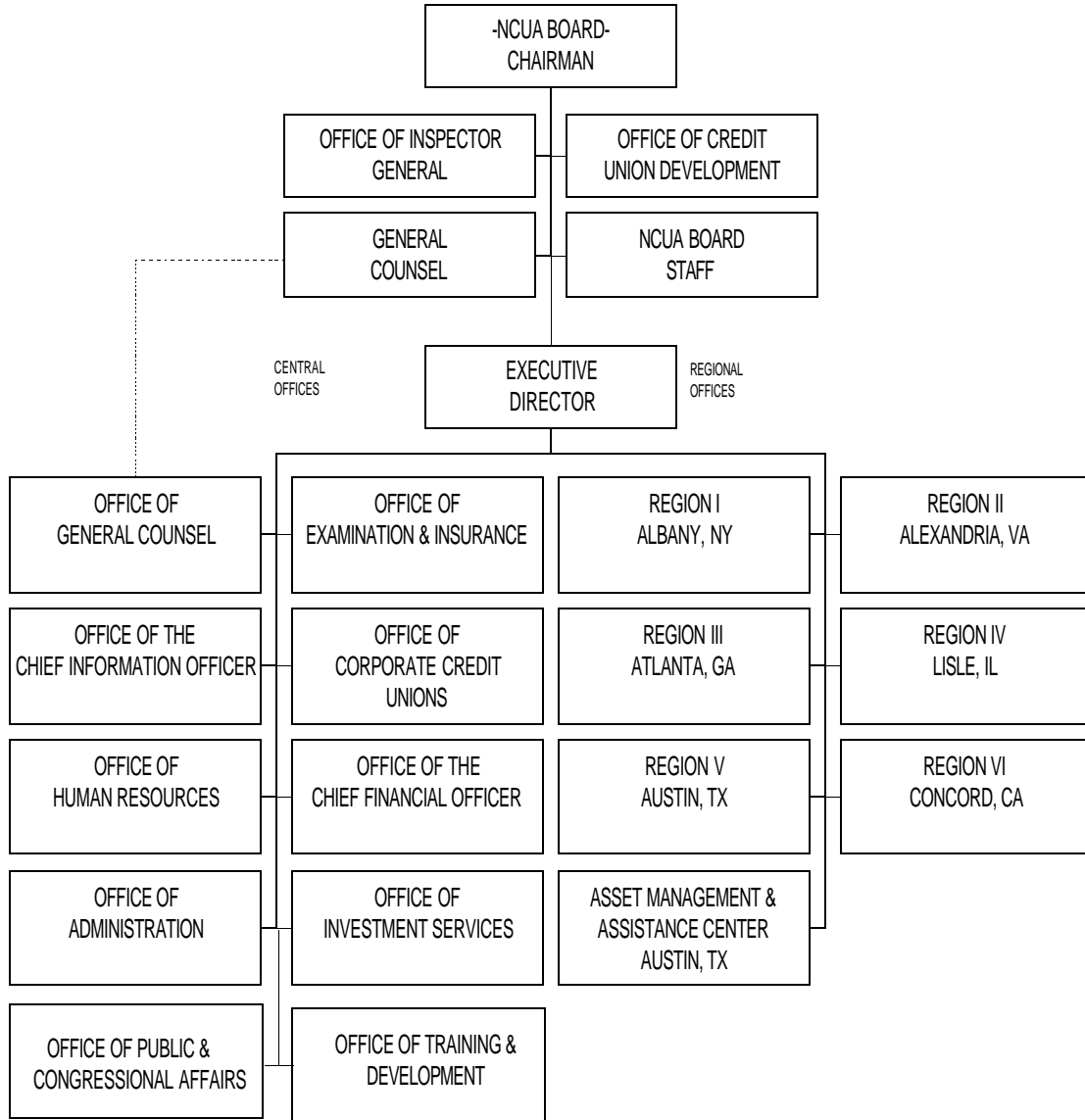
The NCUA Board adopted its 2001 budget on November 16, 2000. The final revised 2001 budget of \$140,568,580 represents an increase of \$5.6 million over the 2000 budget. The Full Time Equivalent (FTE) staffing authorization for 2001 is 1,028, a reduction of 21 positions over the 2000 total of 1,049.

	<b>2001</b>	<b>2000</b>	<b>Difference</b>
<b>LOCATION</b>	<b>FTE</b>	<b>FTE</b>	<b>FTE</b>
<b>Central Office</b>	<b>237</b>	<b>236</b>	<b>1</b>
<b>Regional Offices &amp; AMAC</b>	<b>173</b>	<b>173</b>	<b>-</b>
<b>Field Examiners</b>	<b>618</b>	<b>640</b>	<b>&lt;22&gt;</b>
<b>Total Positions Authorized</b>	<b>1028</b>	<b>1049</b>	<b>&lt;21&gt;</b>





**NCUA ORGANIZATION CHART**



***NCUA HIGHLIGHTS***

**PRESIDENT BUSH DESIGNATES DOLLAR CHAIRMAN**

President George W. Bush designated Dennis Dollar Chairman of the NCUA Board, effective September 13, 2001. Mr. Dollar has served as Acting Chairman since February 8, 2001. His six-year term expires August 2003.

**PRESIDENT BUSH ANNOUNCES INTENTION TO NOMINATE JOANN JOHNSON TO NCUA BOARD**

President Bush announced his intention to nominate JoAnn Johnson to a seat on the NCUA Board. Designated nominee JoAnn Johnson has been an Iowa State Senator since 1994. She currently chairs the Iowa Senate Commerce Committee and was chair of the Senate Ways and Means Committee from 1996 to 2000. Ms. Johnson will be filling the six-year Board term that began August 2001, with the expiration of the Board term of Yolanda Townsend Wheat.

**NCUA ACTIVATES DISASTER RELIEF POLICY FOR NEW YORK AND ARLINGTON, VIRGINIA**

For the first time other than for a natural disaster, NCUA activated its disaster relief policy in order to assist affected credit unions and their members in New York City and Arlington, Virginia. Under the disaster assistance policy, NCUA encourages credit unions to make loans with special terms and reduced documentation to affected members; reschedule routine examinations of affected credit unions, if necessary; guarantee lines of credit through the National Credit Union Share Insurance Fund; and make loans to meet the liquidity needs of member credit unions through the Central Liquidity Facility.

**NCUA DIRECTS CREDIT UNIONS TO CONDUCT COUNTER-TERROR RECORDS SEARCH**

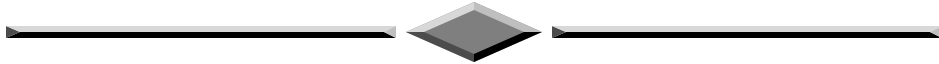
NCUA issued a *Letter to Credit Unions*, in response to a formal request for assistance by the Federal Bureau of Investigation, directing a records search aimed at producing any information on transactions or accounts related to those suspected of participation in terrorism against the United States.

**NCUA BOARD APPROVES RISK-BASED EXAMINATION SCHEDULE**

On July 26, 2001, the NCUA Board approved a risk-based examination schedule policy for federal credit unions so the agency can better manage resources and risk. The new policy provides staff with the flexibility to identify credit unions posing little or no risk to the National Credit Union Share Insurance Fund and to extend the examination cycle beyond the 12-month cycle where feasible.

**CHAIRMAN DOLLAR ANNOUNCES FAITH-BASED INITIATIVE**

After President Bush designated Mr. Dollar Acting Chairman in February 2001, the Chairman directed agency management to examine its chartering and expansion processes to identify and eliminate any unnecessary barriers to faith-based credit unions through regulatory empowerment. This resulted in NCUA's faith-based initiative, announced in April. Nearly 500 faith-based credit unions with assets over \$2 billion provide affordable financial services to their members in the United States.



**FEDERALLY INSURED CREDIT UNION HIGHLIGHTS**

**C**redit unions submit semiannual call reports (financial and operational data) to NCUA. An NCUA staff assessment of the June 30, 2001, semi-annual call reports submitted by all federally insured credit unions found that virtually all key financial indicators were healthy.

**SLOWER LOAN GROWTH IN FIRST SIX MONTHS OF 2001**

Lending grew 2.8 percent and shares grew 9.7 percent in the first six months of 2001 according to preliminary data from semi-annual call reports submitted by the nations 10,145 federally insured credit unions.

Every category of lending saw positive growth. New and used auto loans grew .68 and 4.77 percent, respectively. The largest category of loans, first mortgage real estate loans grew 6.66 percent while other types of real estate loans grew 2.44 percent.

**KEY FINANCIAL INDICATORS REMAIN STRONG**

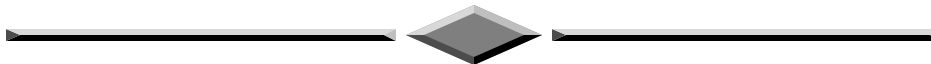
Looking at mid-year statistics for major balance sheet items and key ratios shows: Assets grew 8.9 percent, up from \$438.2 to \$477.2 billion; Loans grew 2.8 percent, up from \$301.3 to \$309.7 billion; Deposits grew 9.7 percent, up from \$379.2 to \$416.1 billion; Equity grew 4.8 percent, up from \$50.1 to \$52.5 billion; Net worth to assets ratio decreased from 11.43 percent to 10.94 percent; Delinquency ratio remains at its 1999 established historic low 0.7 percent; Return on average assets decreased from 1.04 percent to .96 percent and Membership increased 1.4 percent, up from 77.6 to 78.7 million people.

**SAVINGS ALSO INCREASED IN FIRST SIX MONTHS**

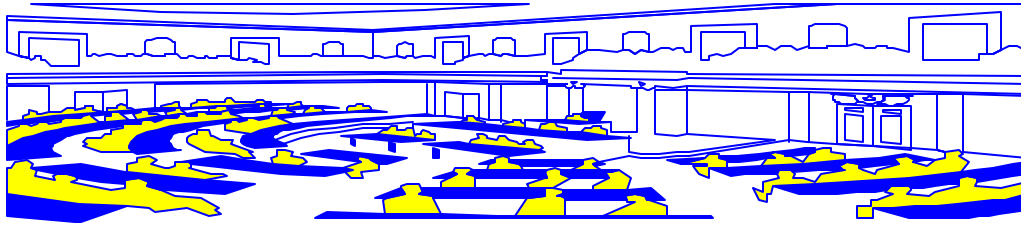
Regular shares increased 8.2 percent, up from \$131 to \$141.9 billion; Share certificates increased 11.2 percent, up from \$105 to \$116.7 billion; Share drafts grew 5.8 percent, up from \$50.6 to \$53.5 billion; and money market shares grew 16.8 percent, up from \$50.5 to \$59 billion.

**ELECTRONIC FINANCIAL SERVICES**

The number of credit unions offering web site access increased 8.9 percent to 3,807 credit unions during the first six months of 2001. An additional 2,659 credit unions now offer internet based electronic financial services.



## **LEGISLATIVE HIGHLIGHTS**



### **HOUSE PASSES FREQUENT-FLIER BILL**

The House of Representatives approved legislation on July 30, 2001, that would allow federal employees to keep the frequent-flier miles they accumulate while traveling on government business. The bill would also allow federal workers to receive seating upgrades and access to airline clubs and facilities. Under current law, federal employees must turn back the frequent-flier miles they earn while conducting official business so that these miles can defray the cost of future government trips. The Bush administration has endorsed the proposal, but it awaits passage by the Senate.

### **HOUSE PASSES SAVINGS INCENTIVE BILL**

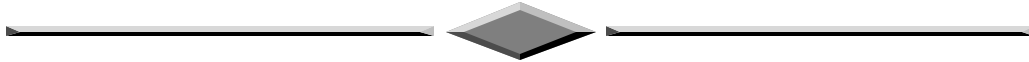
On May 2, 2001, the House overwhelmingly passed a bill to gradually increase the limits on annual IRA contributions from \$2000 to \$5,000 by 2004 and increase 401(k) contributions from \$10,500 to \$15,000 by 2006. While it would also allow people over 50 to make catch-up contributions, the bill does not raise the current income limits for tax-deferred IRA contributions. Senate approval is uncertain.

### **CONSUMER PRIVACY LAW LIMITS RELEASE OF ACCOUNT NUMBERS**

Federal financial regulators issued a joint letter in May 2001 to clarify that even with customer consent, a “financial institution shall not disclose, other than to a consumer reporting agency, a consumer account number or similar form of access number or access code for a credit card account, deposit account, or transaction account to any nonaffiliated third party for use in telemarketing, direct mail marketing, or other marketing through electronic mail to the consumer,” based on Section 502(d) of the *Gramm-Leach-Bliley Act*.

**MISCELLANEOUS LEGISLATIVE UPDATE**

**Central Liquidity Facility Cap:** Chairman Dollar, on May 16, 2001, urged members of the House Appropriations Subcommittee on VA, HUD and Independent Agencies to set the Central Liquidity Facility's (CLF) cap on new loans for the year 2002 no lower than the \$1.5 billion level in place for the current year. The CLF serves as an additional liquidity source for credit unions during short-term, seasonal, or protracted periods of hardship.

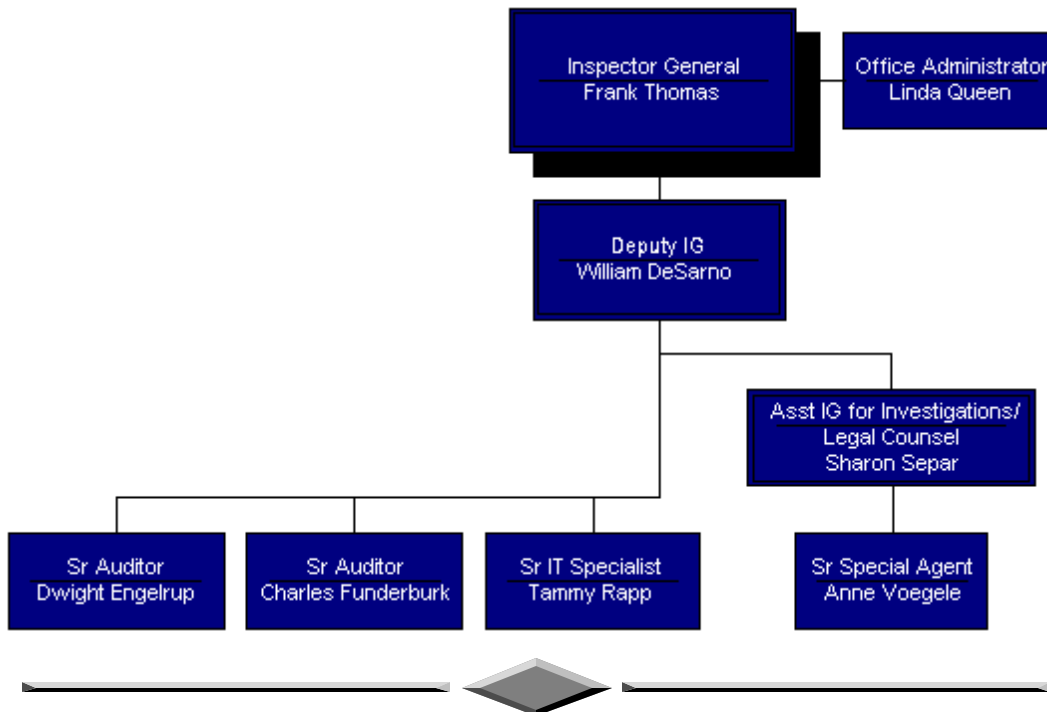


**OFFICE OF THE INSPECTOR GENERAL**

The Office of the Inspector General was established at the NCUA in 1989 under the authority of the Inspector General Act of 1978, as amended in 1988. The staff consists of the Inspector General, a Deputy Inspector General, an Assistant Inspector General for Investigations/Counsel, a Senior Special Agent, two Senior Auditors, a Senior Information Technology Auditor and an Office Administrator.

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

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



**AUDIT ACTIVITY**

**AUDIT REPORTS ISSUED**

**NCUA Website Privacy and "Cookies" Review**  
**OIG-01-06 May 31, 2001**

Public Law 106-554 required Inspectors General to submit a report to Congress relating to the collection of personally identifiable information. In addition, the National Credit Union Administration, Office of Inspector General took this opportunity to review NCUA's compliance with Office of Management and Budget Memoranda M-99-18 and M-00-13, which requires agencies to post Internet privacy policies, and generally prohibits the use of persistent cookies on agency web sites.

We found that NCUA's Internet Privacy Statement substantially complied with OMB policy. We also determined NCUA was in compliance with its policy prohibiting the use of cookies on its Internet site. NCUA collects limited personal information through its web site and does not create any user profiles, or sell any personal information that is obtained via the web site.

The OIG review focused on the collection of personal information through electronic submission of data and the use of cookies on NCUA's external Internet site. The review included inquiry of personnel, document review and analysis. We also tested 384 pages on NCUA's web site to determine if cookies were placed on visitor's computers.

The OIG report offered two recommendations for improving web site policy notification.

**Notebook Procurement and Windows 2000 Migration Review**  
**OIG-01-07 July 10, 2001**

NCUA's January 2000 notebook computer procurement and migration to Windows 2000 Professional (Windows 2000) required significant agency resources. NCUA senior management was interested in a review of the notebook procurement and Windows 2000 migration risks, and we viewed this as an opportunity to present lessons learned and provide recommendations for improvement in a recurring event.

This review contained two major objectives. The first was to determine what methodology was used to acquire new computers and Windows 2000 and whether this methodology was followed; and the second objective was to determine if the agency was exposed to unreasonable risks by implementing an operating system before it was commercially available.



The NCUA Board approved Simplified Procurement Procedures for the notebook procurement. We determined that the agency substantially complied with Simplified Procurement Procedures, as well as NCUA policies and procedures and NCUA's unofficial Methodology for Acquisition of New Computers & Printers. The agency purchased Windows 2000 off GSA schedule, which was deemed compliant with NCUA policies and procedures. Actual costs incurred for the notebooks and associated hardware were approximately \$2 million less than budgeted. We identified many other strengths including NCUA's evaluation of equipment and vendors; and obtaining quotes from several sources. In addition, the Information Systems Oversight Committee (ISOC) was heavily involved in the notebook procurement process, including approval and presentation to the Board. The report also noted some areas where NCUA needs to strengthen planning and documentation.

We determined that the agency implemented an early copy of Windows 2000 that was obtained directly from Microsoft in December 1999 and was the same release placed on store shelves in February 2000. There were risks with implementing Windows 2000 prior to its general use in the industry. However, those risks were not unreasonable and many steps were taken to mitigate some of the risks.

Although the CIO is responsible for the agency's architecture as defined in the Clinger-Cohen Act of 1996 and the CIO's position description, NCUA's CIO informed the ISOC and the Office of Executive Director (OED) of his impending decision to migrate from Windows NT 4.0 to Windows 2000. The CIO identified the benefits of Windows 2000 and took action to mitigate some of the risks of early adoption. The upgrade to Windows 2000 was inevitable, so the CIO weighed the options of adopting Windows 2000 with our new hardware, upgraded office automation software, and examination system versus waiting to a later date. The OIG was informed that if Windows 2000 was not available to meet our training schedule, our contingency plan was to continue with the NT platform. There was insufficient evidence to support that NT was a viable contingency plan. In addition, there was insufficient documentation to determine the level of testing performed. However, the post implementation results indicate that there were no significant issues with NCUA's migration to Windows 2000.

We made 22 specific recommendations regarding lease analysis, budget estimates, shopping GSA schedule, improvements in vendor listing, compressed time frames, improved project planning and documentation.

### **Results Act: Call Report Performance Measures** **OIG-01-08 July 5, 2001**

The Government Performance Results Act of 1993 (Results Act) seeks to improve the effectiveness, efficiency, and accountability of federal programs. The Results Act requires government agencies to develop strategic plans, annual performance plans, and performance reports. The agency performance plan must also include objective, quantifiable, and measurable performance goals. Natural person and corporate credit

unions periodically report their financial status to the National Credit Union Administration (NCUA) using call report forms 5300 and 5310 respectively. NCUA has identified the call reports as key data sources to measure progress in achieving agency strategic goals meeting the requirements of the Results Act.

We performed a review of the NCUA-identified goals using call reports as data sources for the year 1999 and to a lesser extent 2000. The purpose of the review was to evaluate and determine the reliability of credit union call report information identified as Results Act performance measurements.

Timely information is critical to ensure appropriate regulatory action. We found that all other federal financial regulators require quarterly call report information from their insured institutions. Credit union call reports are available semi-annually from all natural person credit unions with assets less than \$50 million and quarterly from credit unions with assets greater than \$50 million. Because of the size of a significant number of federally insured credit unions, credit unions representing the vast majority of assets are submitting call reports each quarter. In instances where full information is available for all natural person credit unions twice a year, the agency attempts to remedy the situation by using examination information. However, this is an imperfect situation and can result in delayed or incorrect information available to agency management in making corrections to plans and measuring goal achievement.

Call report information is available on a monthly basis from all corporate credit unions. The report commended NCUA's Office of Corporate Credit Unions for its system of monthly call reports from corporate credit unions and the monthly update reports prepared by staff. The reports and follow-up provide timely information to adjust, as needed regulatory efforts.

Overall, we concluded that the call report system, and the methods used by the agency in verifying and validating the call report information for the identified goals, is appropriate. The report provided six recommendations for consideration and system improvement.

### **OIG Evaluation: Government Information Security Reform Act - 2001**

#### **OIG-01-09 September 7, 2001**

The Government Information Security Reform Act (GISRA), Public Law 106-398, requires Inspectors General (IG) to perform independent evaluations to:

- Assess compliance with GISRA and agency security policies and procedures; and
- Test effectiveness of information security control techniques for a subset of the agency's information systems.

We determined that NCUA is not yet in compliance with GISRA. The following represents the agency's status toward compliance with key GISRA provisions as of August 2001:

- NCUA needs to develop an agency-wide security program. NCUA developed a draft security policy that will be incorporated in the security program. However this policy has not been approved by the agency head or disseminated to personnel with key responsibilities.
- NCUA needs to perform formal risk assessments.
- NCUA program managers need to perform periodic management testing of controls and perform their annual program review as required by GISRA.
- For the reporting cycle, NCUA has provided some security training to personnel with significant security responsibilities, and security awareness training is provided to all employees on a 3-year cycle coinciding with equipment replacement. New examiners are provided with basic computer training, which includes security awareness. Contractors and new non-examiner personnel are not provided any security awareness training.
- NCUA needs to formalize an incident response program.
- NCUA's Office of the Chief Information Officer (OCIO) needs to perform the annual security program review required by GISRA.
- NCUA has not yet determined the resources required to implement the security program and incorporate this program in the budget and strategic planning process.

Although we concluded that the agency is not in compliance with GISRA, we have not opined on actual security measures in place at the agency. According to the Chief Information Officer (CIO), NCUA has taken several steps to provide a secure environment, and as a result NCUA has not become aware of any significant security breaches. Some examples of proactive security practices include: matching risk to security controls; building controls into applications during development; and moving forward with new technologies that have increased security.

The NCUA OIG with assistance from independent public accounting firms performed two audits during the reporting cycle that tested the effectiveness of information security and internal controls. This evaluation report briefly discusses the findings of these two audits.

We presented 18 recommendations in this evaluation report describing actions that NCUA needs to take in order to comply with GISRA.

**AUDITS IN PROGRESS**

**NCUA Budget Process**

We had begun preliminary planning on a review of the NCUA budget process but this review was suspended because of higher priority commitments. Once this review is resumed, we will evaluate the budget process to see if it can be improved to provide more useful and reliable information to the NCUA Board. Specific objectives include how well the NCUA budget accounts for the cost of meeting each of the agency's strategic goals; and how well the events leading up to approval of the NCUA budget are effectively planned.

**Management Consulting Review – Region VI**

The OIG will be providing assistance to NCUA's Region VI in determining the effectiveness of the regional Small Credit Union Program process.

**Management Consulting Review – Region IV**

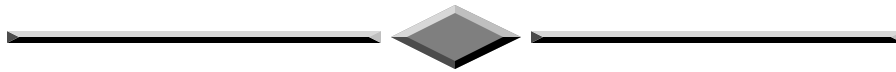
During this management review, the OIG is providing assistance to Region IV in determining the effectiveness of its regional employee appraisal, individual development, and training processes.

**Management Review of the SmartPay Procurement and Travel Charge Card Programs**

We have initiated a joint audit/investigative review of NCUA Visa cardholders' adherence to the terms of their agreement under the SmartPay program. We will evaluate the extent of misuse of both travel and purchase cards, if any, as well as to evaluate the adequacy of management systems and controls to prevent abuse.

**SIGNIFICANT AUDIT RECOMMENDATIONS ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED**

As of September 30, 2001, there were two audit reports issued over six months ago containing significant recommendations that have not been fully implemented. Of the 42 recommendations made in the SAP Security Review, there are three significant recommendations that are in the process of implementation and management anticipates completion by the end of the year. In addition, in the Financial Statement Audit, there was one significant recommendation that is scheduled for implementation by the end of the year. These recommendations relate to information technology access controls and management anticipates implementation of these recommendations before the next reporting period.



**INVESTIGATIVE ACTIVITY**

In accordance with professional standards and guidelines established by the Department of Justice, the Office of Investigations performs investigations of both criminal and administrative wrongdoing involving agency programs. Our investigative jurisdiction focuses on activities designed to promote economy, effectiveness, and efficiency, as well as fighting fraud, waste, and abuse in agency programs. In addition to our proactive efforts to deter misconduct and promote integrity awareness among agency employees, we investigate referrals and direct reports of employee misconduct. Investigations may involve possible violations of regulations regarding employee responsibilities and conduct, Federal criminal law, and other statutes and regulations pertaining to the activities of NCUA employees. Investigative findings may lead to criminal prosecution, civil prosecution, or administrative action.



Moreover, we receive complaints from credit union members that involve NCUA employee program responsibilities. These complaints are examined to determine whether there is any allegation of NCUA employee misconduct. If not, the complaint is referred to the appropriate regional office for response, or closed if contact with the regional office indicates that the complaint has already been appropriately handled.

<b>Investigative Operations</b>	
Contacts/inquiries/investigations carried forward from previous reporting period	2
Contacts initiated during reporting period	7
Contacts closed for lack of verifiable evidence or referred to another office	0
Reports issued and/or matters closed	3
Management Implication Reports issued	0
Matters Remaining Open	6

**OFFICE OF INVESTIGATIONS ACTIVITIES**

**OPEN INVESTIGATIONS**

During this reporting period, OI received an influx of cases alleging employee misuse of the government contractor-issued travel credit card. Currently, OI has three (3) open investigations on travel card misuse. Moreover, OI has undertaken an overall review, in conjunction with the OIG audit staff, of employee use of government contractor-issued credit cards—both travel and purchase cards—as well as the adequacy of management systems and controls that currently oversee the credit card program.

The OI has three (3) additional cases that remain open: one involving allegations of false claims and false statements; the second involving employee misconduct based on allegations of sexual harassment and undue influence; and the third alleging employee misconduct based on neglect of fiduciary responsibility in the conduct of official duties.

The OI anticipates completing its investigations of and reporting on these cases in the next semiannual report.

**CLOSED INVESTIGATIONS**

**Criminal and Administrative Misconduct**

**OIG-I-CO-00-03(1) and (2)**

The OI closed its investigation based on a broad array of allegations—both criminal and administrative—referred to it concerning misconduct on the part of two senior agency officials. During the subject reporting period, the OI issued the second of two reports on this matter. The first report was issued in the previous reporting period, and addressed allegations of criminal misconduct and violations of the standards of conduct for federal employees. That report found that no criminal wrongdoing occurred. However, one senior official was found to have violated standards of ethical conduct. With regard to the second phase of the investigation, involving administrative allegations of discrimination, preferential treatment, gross mismanagement, and abuse of authority against the same two senior officials, during this reporting period the OI completed its investigation and issued a second report. The investigation developed no evidence to substantiate the administrative allegations. NCUA management subsequently advised OI that it would not rely on the OIG's final Reports of Investigation in this matter. OI officially closed the case after management notified it of its proposed action against one senior official based on the ethics violations.

**False Claims for Workers' Compensation Benefits**

**OIG-I-CO-00-04**

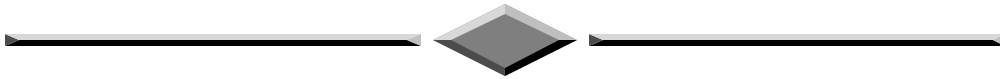
The OI investigated an allegation that an employee had verbally abused and threatened another employee. During the course of the investigation, the OIG developed additional information that the employee had submitted false claims for sick leave and Office of

Worker's Compensation Program (OWCP) Continuation of Pay (COP) benefits. OI issued a Report of Investigation and management responded accordingly.

**Misuse of Travel Card**

**OIG-I-CO-01-02**

The OI initiated and, subsequently, closed an investigation based on allegations that an employee had misused her government contractor-issued credit card. The investigation determined that the employee had charged in excess of \$2,500 in personal charges and was moreover delinquent in making payments on the card. The employee was suspended after the OI issued its report.





**LEGISLATIVE AND REGULATORY REVIEWS**

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

During the reporting period, the OIG reviewed 18 items, including proposed changes to legislation and regulations, OMB guidance, and internal directives that could affect NCUA. Of significant interest was our review of draft OMB guidance on implementing the Government Information Security Reform Act (GISRA). In reviewing this guidance, we focused in particular on the importance of conveying to NCUA managers the need to fully coordinate their activities under the Act with OIG evaluation efforts. Finally we reviewed several new legislative items arising from the events of September 11, 2001, that have a government-wide impact.

<b>SUMMARY OF STATUTES AND REGULATIONS REVIEWED</b>	
<b>Legislation</b>	
H.R. 2547	Erroneous Payments Recovery Act of 2001
H.R. 2888	2001 Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States
<b>Regulations</b>	
	Title
12 CFR 709	Involuntary Liquidation of FCU's and Adjudication of Creditor Claims Involving Federally-Insured Credit Unions in Liquidation
12 CFR 707	Truth in Savings Act
12 CFR 749	Records Preservation
12 CFR 721	Incidental Powers
12 CFR 712	Credit Union Service Organizations
12 CFR 703	FCU Investment and Deposit Activities
12CFR 702.101(c) 702.103(b) 741.6(a)	Prompt Corrective Action; Requirements for Insurance
12 CFR 701.23 741.8	Conflict of Interest: Purchase, Sale or Pledge of Eligible Obligations
12 CFR 701.31(d)	Nondiscrimination in Advertising
12 CFR 704	Corporate Credit Unions
12 CFR 205	Electronic Fund Transfers
5 CFR 537	Repayment of Student Loans

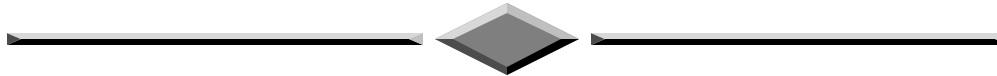
***OTHER OIG ACTIVITIES***

**STAFF TRAINING AND DEVELOPMENT**

The Inspector General (IG), Frank Thomas continued to participate in the Financial Institutions Regulatory Committee of the Executive Council on Integrity and Efficiency (ECIE). The Committee provides a forum for Inspectors General of the NCUA, the Federal Reserve System, the Department of the Treasury, the FDIC, the Federal Housing Finance Board, the Securities and Exchange Commission, and the Farm Credit Administration to: discuss matters of mutual interest; coordinate relevant audits, investigations, legislative, and regulatory matters; and seek uniform approaches to handling similar issues.

Deputy IG, William DeSarno attended the Inspectors General Institute and has received the designation of Certified Inspector General by the Association of Inspectors General. Deputy IG, DeSarno attended the Federal Financial Institutions Regulatory OIG Council Meetings. Deputy IG, DeSarno also attended the NCUA Management Conference in St. Petersburg, Florida. Senior Auditor, Charles Funderburk attended a course on Microsoft Visio. Senior Auditor, Dwight Engelrup attended a Senior Examiner Update and Strategic Planning for Government Organizations. Senior Information Technology Auditor, Tammy Rapp attended seminars on Auditing and Security of Cisco Routers and Intrusion Detection, a Federal Financial Institutions Examination Council, Information System and Technology Conference, and an Overview of OMB A-130, IT Strategic Plans, and the Investment Review Process. Office Administrator, Linda Queen attended a seminar on Office Management and Processing Personnel Actions. She also attended the NCUA Administrative Conference in Mystic, Connecticut.

Assistant IG for Investigations (AIGI) and Counsel to the IG Sharon Separ attended the Merit Systems Protection Board Law Trends and Updates training course. AIGI Separ also attended the NCUA Management Conference in St. Petersburg, Florida.



**TABLE I**

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

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

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

**TABLE II**

<b>INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE</b>			
		Number of Reports	Dollar Value
A.	For which no management decision had been made by the start of the reporting period.	0	\$0
B.	Which were issued during the reporting period.	0	0
	Subtotals (A + B)	0	0
C.	For which management decision was made during the reporting period.	0	0
	(i) Dollar value of recommendations agreed to by management.	N/A	0
	(ii) Dollar value of recommendations not agreed to by management.	N/A	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**

<b>SUMMARY OF OIG ACTIVITY APRIL 1, 2001 THROUGH SEPTEMBER 30, 2001</b>		
<b>PART I – AUDIT REPORTS ISSUED</b>		
<b>Report N umber</b>	<b>Title</b>	<b>Date Issued</b>
OIG-01-06	NCUA Website Privacy and “Cookie” Review	5/31/01
OIG-01-07	Notebook Procurement and Windows 2000 Migration	7/10/01
OIG-01-08	Results Act: Call Report Performance Measures	7/05/01
OIG-01-09	Government Information Security Reform Act - 2001	9/07/01
<b>PART II – AUDITS IN PROCESS (as of September 30, 2001)</b>		
	NCUA Budget Process	
	Management Consulting Review – Region VI	
	Management Consulting Review – Region IV	
	Management Review of the SmartPay Procurement and Travel Charge Card Programs	

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