

DOCUMENT RESUME

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[Improvement Needed in Management of National Credit Union Administration]. June 1977. 7 pp.

Report to Lawrence Combs, Administrator, National Credit Union Administration; and P. Sorando, Regional Manager, Field Operations Div.: National Office (Washington).

Contact: Field Operations Div.: Regional Office (Washington).

The audit of the National Credit Union Administration's (NCUA's) financial statements for the 15 months ended September 30, 1977, revealed several areas in which improvements in management were needed. Because share insurance fund losses can be lowered, the Administrator or his designee, when acting as a liquidating agent for liquidating credit unions, should take the necessary legal action to recover unpaid amounts from borrowers who are able but do not repay their loans. Examiners should review credit union automatic data processing (ADP) systems, and the Administrator should develop the necessary ADP skills among his staff who process credit union financial transactions. The internal audit staff of the NCUA should also increase their ADP technical proficiency, including designing necessary controls into the automated system, making postinstallation evaluations, and ascertaining system reliability. ADP management should be strengthened by establishing an ongoing ADP committee, requiring specific program documentation, and developing sufficient security measures and plans in case of an emergency. (EBS)



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RESTRICTED

19 JUN 1978

The Honorable Lawrence Connell, Jr.
Administrator, National Credit Union
Administration

Dear Mr. Connell:

During our audit of the National Credit Union Administration (NCUA) financial statements for the 15 months ended September 30, 1977, we noted the following matters that should be adopted to improve NCUA's management:

1. Legal action should be taken to recover losses on unpaid loans.
2. Examiners should review credit union automatic data processing (ADP) systems.
3. Internal audit staff should increase their ADP technical proficiency.
4. ADP management should be strengthened by
 - establishing an ongoing ADP Committee,
 - requiring specific program documentation, and
 - developing sufficient security measures and plans in case of an emergency.

Although these matters did not affect our opinion on the financial statements and were not included in our report to the Congress, we are taking this opportunity to bring them to your attention.

LEGAL ACTION TO RECOVER LOSSES

When a credit union liquidates involuntarily, the shareholders are paid out of credit union assets and the share insurance fund if necessary. Credit union assets are usually liquidated by NCUA personnel acting as liquidating agents. The share insurance fund usually suffers a loss from involuntary liquidations, because these credit

unions do not have enough assets to pay shareholders. Most of these assets are in loans to credit union members, and many are written off by the share insurance fund because borrowers do not repay them. However, credit checks and other investigations indicate that many borrowers can repay their loans. NCUA has written off over \$400,000 in loans, during calendar years 1977 and 1978, although the records indicate the borrowers had the ability to repay them.

Until 1976 NCUA generally thought that only the Department of Justice could go to court to recover losses from borrowers who could but would not repay their loans. Justice's involvement sometimes was inordinately long and costly compared to the small amount of the loans. However, in August 1976 a memo from the Justice Department said the liquidating agent can

--sue borrowers as his own counsel, without representation by the Attorney General; and

--pay, as liquidating agent, counsel fees out of liquidation funds.

RECOMMENDATION

We believe share insurance fund losses can be lowered. Therefore, we recommend that the Administrator or his designee, when acting as a liquidating agent, take the necessary legal action to recover unpaid amounts from borrowers who can but do not repay their loans.

EXAMINER REVIEW OF ADP SYSTEMS

Most large credit unions use internal or external automatic data processing systems to process financial transactions and prepare financial statements. NCUA examiners rely heavily, and the early warning system relies entirely, upon ADP-generated information to determine these credit unions' financial condition. However, this ADP information may or may not be correct. Examiners are not required to assess the reliability of these ADP systems.

We believe ADP systems producing financial information on credit unions should be reviewed periodically to determine the reliability of their information. ADP systems could be reviewed either by examiners during a regular examination or by ADP specialists whose primary function would be to review ADP reliability. NCUA examiners do not now have the skills to review the reliability of ADP systems.

RECOMMENDATION

We recommend that the Administrator develop the necessary ADP skills among his staff and require reliability reviews of ADP systems used to process credit union financial transactions and produce financial statements.

INTERNAL AUDIT REVIEW OF ADP

We have recommended in the past that the scope of NCUA's internal auditing be expanded to include all NCUA activities and related management controls. The importance of the ADP area has been recognized by the internal audit staff and is scheduled for audit during 1978. The internal audit staff can make great contributions to NCUA's ADP system by (1) working with ADP personnel in designing necessary controls into the automated system, (2) making post-installation evaluations, and (3) ascertaining system reliability.

However, to be able to make these contributions, the internal audit staff should have the necessary ADP skills. The minimum ADP knowledge requirements should include:

1. A basic understanding of computer systems, including equipment components and their general capabilities.
2. A general familiarity with the file processing techniques and data structures.
3. Sufficient working knowledge of computer audit software to use existing standardized audit packages and test decks.
4. The ability to review and interpret system documentation, including flow charts and record definitions.
5. Sufficient working knowledge of basic ADP controls to:
 - Identify and evaluate the controls.
 - Determine the extent to which such controls should be tested and evaluate the results of such tests (although not necessarily to execute such tests).
6. Sufficient knowledge of ADP systems to develop the audit plan and supervise its execution.
7. A general familiarity with developing and modifying computer programs and automated processing systems,

and sufficient knowledge to review testing and debugging procedures for changes to ADP programs and systems.

RECOMMENDATION

We recommend that the Administrator provide the needed resources to train the existing internal audit staff or hire people with the necessary skills.

ADP COMMITTEE

Each year NCUA spends about \$1.1 million for data processing. In 1975 an Electronic Data Processing Acquisition Group was appointed by the Administrator to develop a long-range ADP plan. This group had representatives from only the NCUA headquarters offices and was concerned primarily with acquiring a new ADP system. The lack of agency-wide participation in the design and implementation of NCUA's prior ADP system caused serious shortcomings in that system. For example, subsidiary accounting files frequently do not balance with master files.

Recently, the Office of the Comptroller has been designating NCUA personnel to serve on a series of task forces to identify user needs, which will be included in the detailed design of the new ADP system. These task forces report to the Comptroller's Office and are then disbanded. We believe an ADP Committee with the continuous active participation of top management and user management overseeing data processing is necessary to make sure NCUA benefits from its ADP resources.

RECOMMENDATION

We recommend that the Administrator appoint an ongoing ADP Committee with representatives of top management and user management to

- approve agency policies for ADP,
- approve short- and long-range plans for developing and implementing new computer systems,
- evaluate the needs for new computer equipment and help make sure it is acquired and implemented efficiently and effectively,
- assign agency resources to accomplish ADP policies and plans,

- consider user priorities in assigning resources, and
- report periodically to the Administrator on the above areas and how well user needs are being met.

We believe the ADP Committee should involve its top management in ADP policymaking and planning, while user representatives should assume responsibilities at the operational level.

REQUIRED PROGRAM DOCUMENTATION

Program documentation is that information that shows what is going on inside the computer when it is performing various tasks. More specifically, it refers to the information recorded during the design, development, and maintenance of computer applications to explain aspects of a data processing system--including purposes, methods, logic, relationships, and capabilities.

Comprehensive and current documentation is needed to (1) enable changes to be made quickly and effectively, (2) enable programmers and system analysts other than originators to review and revise computer programs, (3) help the user to understand what is being done, (4) increase program sharing potential, (5) facilitate auditing and verification of program operations, and (6) enhance recovery capabilities in the event of disaster. Added costs, delays, and other difficulties NCUA programmers run into when converting programs to the new data processing system clearly show the need for adequate documentation. During the conversion, NCUA programmers are developing some documentation. However, the types and intent of this documentation vary since NCUA does not have documentation requirements.

RECOMMENDATION

We recommend that adequate documentation be developed and implemented. The following should be considered for inclusion in these standards:

- Program development and change requests.
- General narrative description of program.
- Systems specifications--both original and modifications.
- Detailed narrative description of the program.
- Detailed logic diagram or decision table.

- Input record formats and descriptions.
- Output record formats and descriptions.
- Master file formats and descriptions.
- List of constants, codes, and tables used.
- Source and object program listings.
- Operating instructions.
- Descriptions of test data used to test programs.
- Detailed history of program failure.

SECURITY MEASURES

Computers are a major part of NCUA operations. NCUA would find it impractical, if not impossible, to function without computers. Data processing security for safeguarding computer hardware, software, personnel, disclosure or modification of data, and facilities is important to assure the system can continue to function effectively.

We found that NCUA has no ADP security plan and that existing ADP security needs improvement in several areas, such as access to the computer area, disaster recovery controls, and others.

RECOMMENDATION

We recommend that the Administrator appoint a management official who is independent from the direct management of the ADP facility to develop and implement a data processing security plan. This plan should include protective measures against fire, theft, or misuse; sabotage; and electrical power fluctuations. In addition, a contingency plan should be developed in the event of work stoppage, physical damage, or when a loss occurs. A typical contingency plan might include

- evacuating people;
- locking up files and facilities;
- turning off power;


- maintaining, in a remote location, copies of programs and sufficient generations of files to facilitate reconstruction; and
- making provision for using a backup ADP center.

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We will be happy to discuss any of these matters with you and to provide additional information to assist you.

Thank you for the cooperation and courtesy extended to us during our annual audit. We received outstanding cooperation and assistance from the entire NCUA staff.

Sincerely yours,


David P. Sorando
Regional Manager