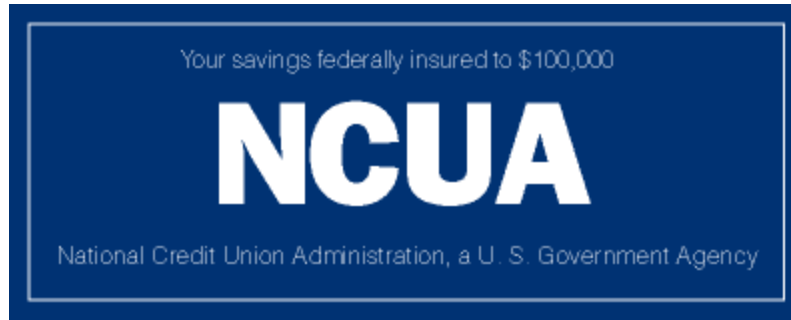
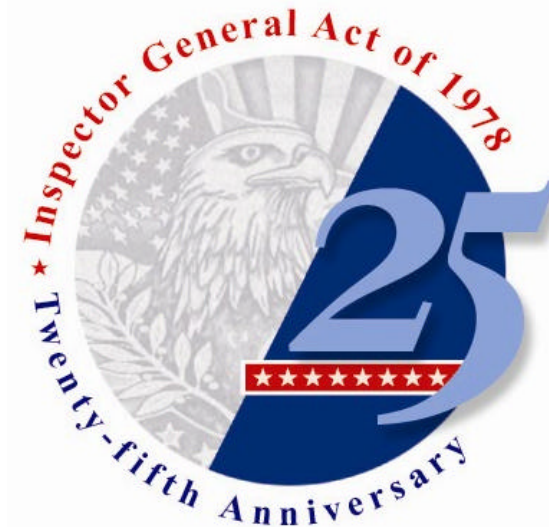


NATIONAL CREDIT UNION ADMINISTRATION OFFICE OF INSPECTOR GENERAL



REPORT TO CONGRESS

April 1, 2003 – September 30, 2003





INSPECTOR GENERAL'S MESSAGE TO THE NCUA BOARD AND THE CONGRESS

It is my pleasure to submit this semiannual report on the accomplishments of the National Credit Union Administration (NCUA) Office of the Inspector General (OIG) for the six-month period ending September 30, 2003. While this report summarizes the major activities of the OIG during this reporting period, it is my hope that the renewed vigor and focus that the OIG has strived to achieve is likewise reflected in our reported accomplishments.

The OIG's values-driven approach to the challenges and issues it faced during this reporting period was developed during a strategic planning conference we convened shortly after I was appointed Inspector General last year. In addition to planning significant projects for 2003, that conference emphasized an invigoration of our sense of excellence, innovation, and integrity—both to our statutory responsibilities under the Inspector General Act of 1978, as amended, as well as to promoting improvements within the agency. Accordingly, during the last reporting period we implemented significant structural and policy changes within the OIG, and relied upon those changes to infuse our audit and investigative work with renewed professionalism and a more profound sense of leadership.

While we continued to emphasize our independent voice within NCUA and to the Congress by identifying opportunities and promoting solutions for improved performance of NCUA programs, we also focused on clarification and mutual understanding of our unique role within the agency. Accordingly, we devoted significant time during this reporting period to working with agency management at all levels to substantially revise an agency-issued directive covering all matters that must be reported to the OIG, as well as the OIG's responsibilities in handling those investigative matters. The end result of that cooperative effort was a directive that clarified the roles and responsibilities of all employees and that shed light on the OIG's statutory responsibilities and how it fulfills them.

Moreover, by continuing to focus on our efforts to integrate the agency's goals and challenges with our statutory mission, we completed a review of NCUA's process for dealing with credit union member complaints and, again working in tandem with agency management, refined and clarified existing procedures to more closely align with applicable law and regulations and render the process more effective and efficient.

Finally, as this report marks the completion of my first year as NCUA's Inspector General, I would like to thank the NCUA Board and my dedicated staff for their support, hard work and cooperation. I would also like to extend my gratitude to President Bush and the Congress for their recent recognition of the 25th anniversary of the IG Act. Of particular note, it was my great pleasure and honor to meet, together with my fellow inspectors general, with the President on October 14, 2003. Our dialog and his words of encouragement and support for the IG community were truly an inspiration.

Herbert S. Yolles
Inspector General

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MISSION STATEMENTS

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 AVAILABILITY OF FINANCIAL SERVICES FOR PROVIDENT AND PRODUCTIVE PURPOSES TO ALL WHO SEEK SUCH SERVICE, WHILE RECOGNIZING AND ENCOURAGING THE HISTORICAL EMPHASIS BY CREDIT UNIONS ON EXTENSION OF FINANCIAL SERVICES TO THOSE OF MODEST MEANS.

WE DO THIS BY MANAGING THE SHARE INSURANCE FUND IN AN EFFICIENT AND PRUDENT MANNER AND ESTABLISHING A REGULATORY ENVIRONMENT THAT ENCOURAGES INNOVATION, FLEXIBILITY, AND CONTINUED FOCUS ON ATTRACTING NEW MEMBERS AND IMPROVING FINANCIAL SERVICE TO EXISTING MEMBERS.

THE OFFICE OF INSPECTOR GENERAL MISSION

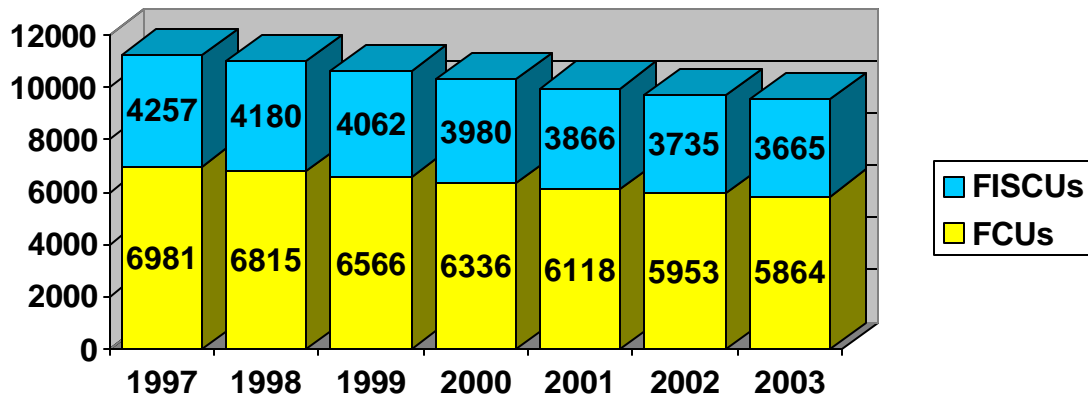
THE OIG PROMOTES THE ECONOMY, EFFICIENCY, AND EFFECTIVENESS OF NCUA PROGRAMS AND OPERATIONS, AND DETECTS AND DETERS FRAUD, WASTE, AND ABUSE, THEREBY SUPPORTING NCUA'S MISSION OF MONITORING AND PROMOTING SAFE AND SOUND FEDERALLY INSURED CREDIT UNIONS.

WE ACCOMPLISH OUR MISSION BY CONDUCTING INDEPENDENT AUDITS, INVESTIGATIONS, AND OTHER ACTIVITIES, AND BY KEEPING THE NCUA BOARD AND THE CONGRESS FULLY AND CURRENTLY INFORMED OF OUR WORK.

INTRODUCTION

The 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 by the credit unions it supervises and insures. As of June 30, 2003, the NCUA was supervising and insuring 5,864 federal credit unions and insuring 3,665 state-chartered credit unions, a total of 9,529 institutions. This represents a loss of 89 federal and 70 state-chartered institutions since December 31, 2002, for a total loss of 159 credit unions nationwide.

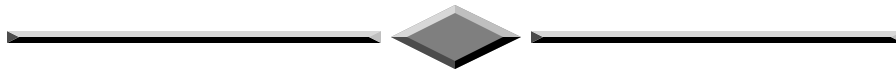
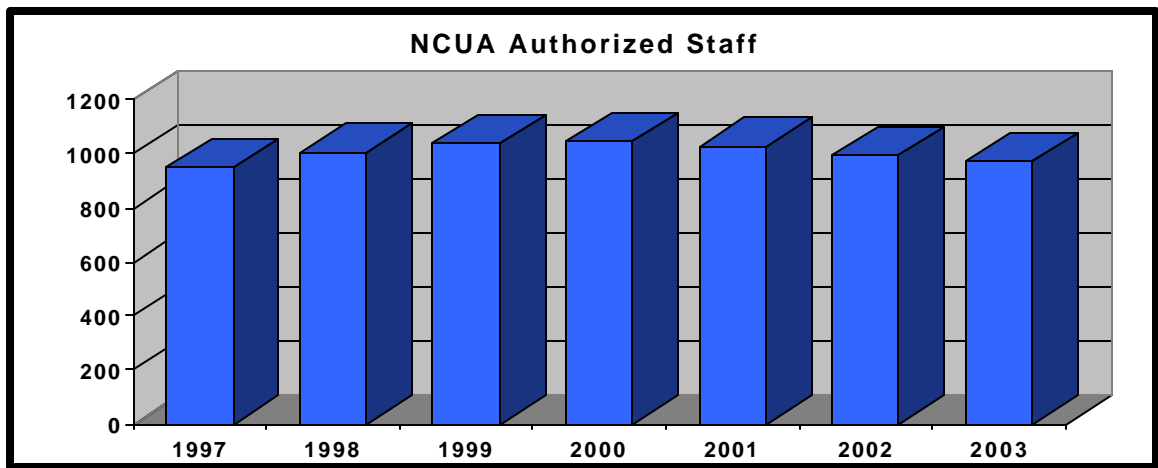
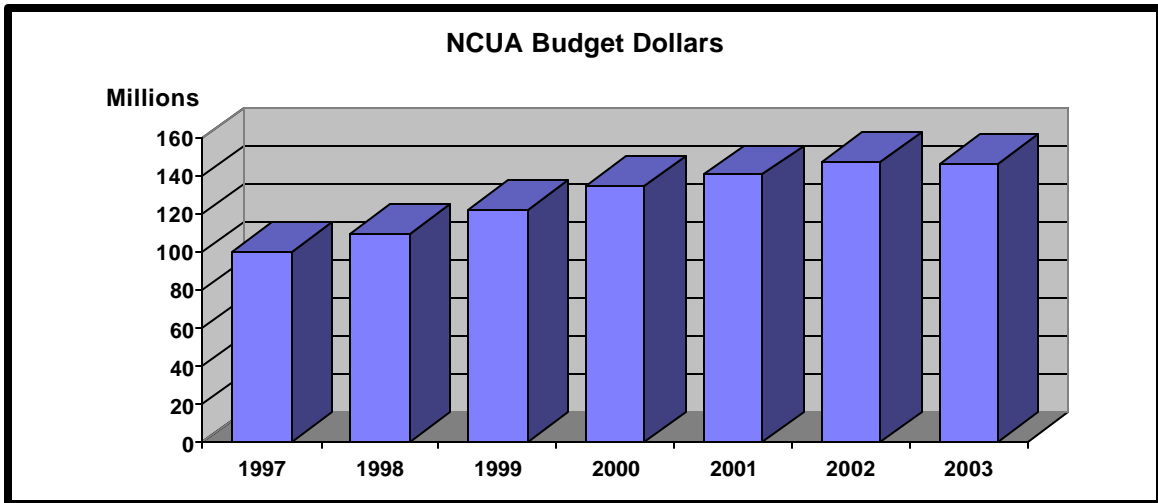
Federally Insured Credit Unions



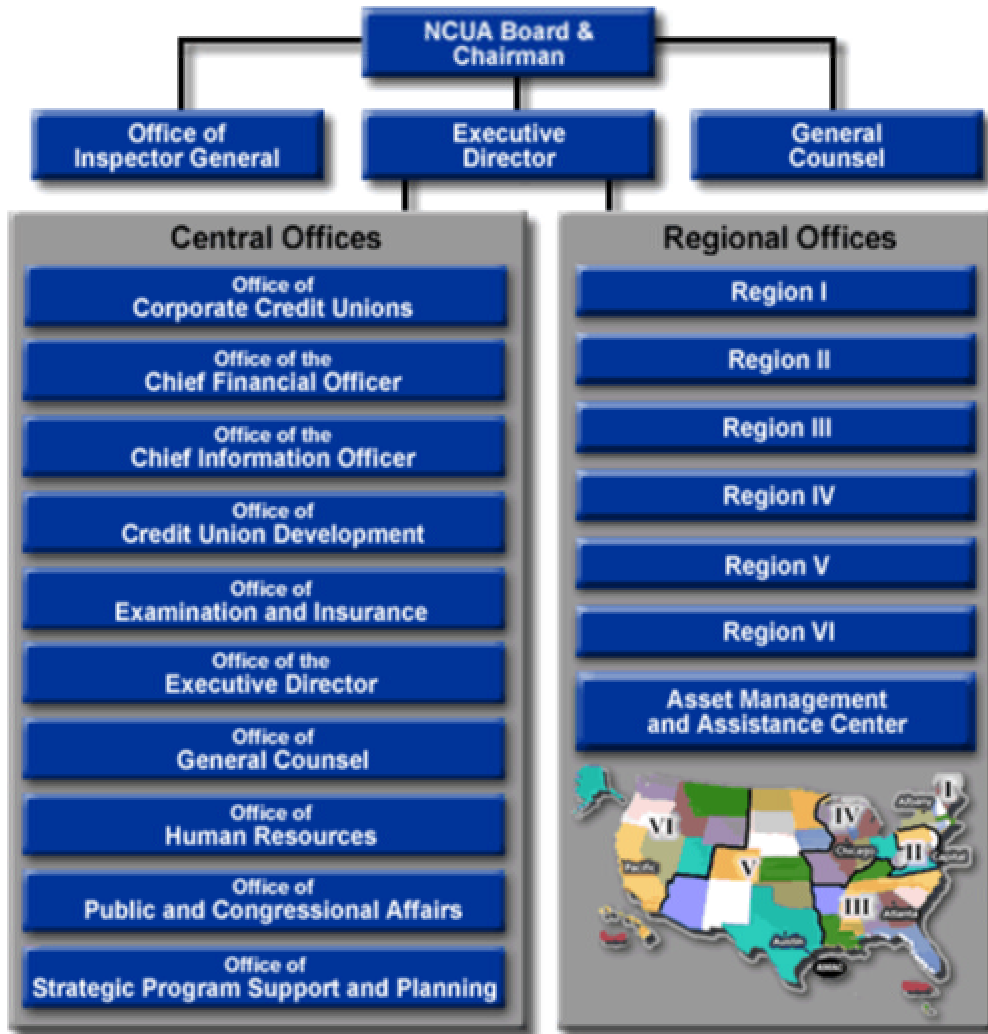
NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one term expires every two years. The Board is responsible for the management of the National Credit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

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 4.

The NCUA Board adopted its 2003 budget on November 21, 2002. The final revised 2003 budget of \$146,079,711 represents a decrease of \$887,750 from the 2002 budget. The Full Time Equivalent (FTE) staffing authorization for 2003 is 971, a reduction of 24 positions over the 2002 total of 995.



NCUA ORGANIZATION CHART



NCUA HIGHLIGHTS**REVISIONS TO MEMBER BUSINESS LENDING REGULATION ADOPTED**

In its open monthly meeting on September 24, 2003, the NCUA Board voted unanimously to issue revisions to the agency's member business lending rule for federally insured credit unions. The revised rule will allow federal credit unions increased flexibility in making loans to small businesses. The rule comes after agency leadership formed an internal working group on member business lending and directed staff to review the last several years of experience under NCUA's rule and comparable state rules.

GAO CALLS FOR FTC TO OVERSEE PRIVATELY INSURED CREDIT UNIONS

In a report issued on August 21, 2003, the General Accounting Office (GAO), noting that many privately insured credit unions are not providing disclosures to consumers, suggested that Congress consider clarifying the authority of the Federal Trade Commission (FTC) so that it can fulfill the oversight responsibility assigned it under the 1991 thrift bailout law. The GAO report found that many privately insured credit unions did not adequately disclose that they were not federally insured. NCUA Chairman Dennis Dollar stated that he was pleased with the results of the GAO study, calling it thorough and consistent with NCUA's long-held position on the enforcement of certain consumer protection rules.

AMERICAN BANKERS ASSOCIATION BRINGS SUIT AGAINST NCUA

On July 5, 2003, the American Bankers Association (ABA), the Utah Bankers Association, and four individual banks, filed suit against the NCUA challenging the agency's approval of a Utah credit union's community-charter expansion and two federal charter conversions. The plaintiffs contend that NCUA went outside its authority in approving the fields of membership conversion requests, claiming that the actions exceeded the law's definition of what constitutes a "local community." The statute in question, the 1998 Credit Union Membership Access Act, invests the NCUA Board with the discretion to determine the specifics of "local community."

NCUA RELEASES REALIGNMENT TRANSITION PLAN SUMMARY

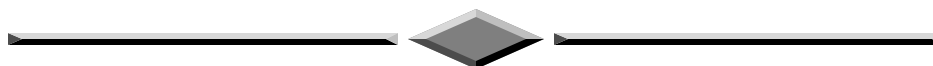
The NCUA released a summary of its Realignment Transition Plan this past summer, providing a timeline for the agency's transition from six regional offices to five, and the relocation of its California office to Arizona. The realignment, announced initially in January, is part of Chairman Dollar's "Accountability in Management" (AIM) initiative, an effort to increase agency efficiency.

NCUA BOARD SETS FINAL RULE ON FOREIGN BRANCHING

The NCUA promulgated a new rule, effective July 1, 2003, that set requirements for federally insured, non-military credit unions seeking to establish branch facilities outside the United States. The rule addresses approval for the branch, its supervision, and federal insurance for deposits in the branch. It also deals with the host foreign country's need for input to the approval process.

NCUA JOINS FEDERAL AGENCIES IN PUBLISHING CONSUMER BROCHURE ON PREDATORY LENDING

The Federal Interagency Task Force on Fair Lending, of which NCUA is a participant, has published a new brochure--"Putting Your Home on the Loan Line is Risky Business"--that alerts consumers to potential borrowing pitfalls, including high-cost home loans, and provides tips for getting the best financing deal possible.



FEDERALLY INSURED CREDIT UNION HIGHLIGHTS

Credit unions submit quarterly call reports (financial and operational data) to NCUA. An NCUA staff assessment of the June 30, 2003, quarterly call reports submitted by all federally insured credit unions found that virtually all key financial indicators were stable.

KEY FINANCIAL INDICATORS STABLE

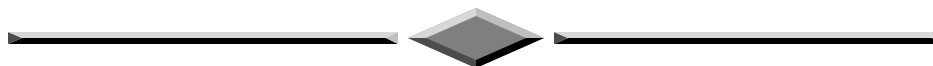
Looking at the June 30, 2003 quarterly statistics for major balance sheet items and key ratios shows the following for the nation's 9,529 federally insured credit unions: assets grew 7.6 percent, or \$42.1 billion; net worth to assets ratio decreased from 10.7 percent to 10.5 percent; the loan to share ratio decreased from 70.8 percent to 67.9 percent; the delinquency ratio decreased from .80 to .74 percent; and credit union return on average assets decreased from 1.1 percent to 1.0 percent.

SAVINGS INCREASED DURING THE FIRST SIX MONTHS OF 2003

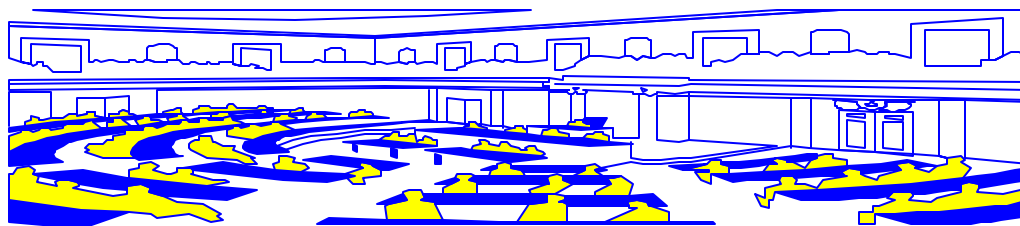
Total share accounts increased 7.6 percent, or \$37.0 billion; share drafts increased 10.5 percent; regular shares increased 9.8 percent; share certificates increased 1.8 percent; money market shares grew 9.7 percent; IRA/KEOGH accounts grew 5.8 percent; and other shares increased 22.4 percent. However, non-member deposits decreased .8 percent.

LOANS AND INVESTMENTS ALSO INCREASED DURING 2003

Loan growth of 3.3 percent resulted in an increase in total loans by \$11.1 billion. First mortgage real estate loans increased \$7.2 billion or 7.1 percent; used auto loans increased \$5.1 billion or 7.0 percent; other real estate loans increased \$300 million or .7 percent; unsecured credit card loans decreased \$1.1 billion or 5.0 percent; all other unsecured loans decreased \$700 million or 3.4 percent; new auto loans decreased \$200 million or .3 percent; leases receivable decreased \$33.6 million or 2.2 percent; and all other loans increased \$600 million or 3.0 percent. First mortgage real estate loans are the largest single asset category with \$107.9 billion accounting for 30.5 percent of all loans. Total investments increased \$17.0 billion or 12.1 percent. All investment categories displayed growth. Investments in government securities of \$84.7 billion account for 54 percent of all credit union investments.



LEGISLATIVE HIGHLIGHTS



FY 2004 APPROPRIATIONS UPDATE

On July 25, 2003, the House passed the Fiscal Year 2004 VA/HUD and Independent Agencies Appropriations bill (H.R. 2861) by a vote of 316-109. Included in the bill is the \$1.5 billion cap on the Central Liquidity Facility (CLF) fund and an allocation of \$51 million for the Community Development Financial Institutions fund. On September 4, 2003, the Senate Appropriations Committee marked up its version of the VA/HUD Appropriations bill. Consistent with the House VA/HUD Appropriations bill, the Senate also included \$1.5 billion for the CLF. The Senate version further provided \$1.5 million for loans and technical assistance to community development credit unions and earmarked \$700,000 for loans and \$800,000 for technical assistance to low income, and community development credit unions. These programs are all housed under the Community Development Revolving Loan Fund (CDRLF) program. The full Senate has yet to approve this measure.

BANKRUPTCY CODE REFORM UPDATE

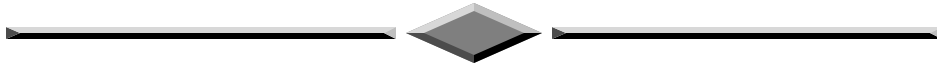
Last year's bankruptcy bill, *The Bankruptcy Abuse Prevention and Consumer Protection Act of 2003* (H.R. 975) was overwhelmingly passed by both the House and Senate, although controversial language in the legislation prevented a final vote. With regard to credit unions, the reforms would preserve voluntary reaffirmation authority for credit union members; provide a "means" test so those debtors who can repay some part of their debt do so; establish mandatory debtor education programs; and contain a measure dealing with bilateral netting agreements for credit unions. With the controversial language removed from the legislation, H.R. 975 was passed by the House and is now headed for the Senate. Last year, more than 240,000 credit union members filed for bankruptcy. As non-profit financial cooperatives, credit unions are forced to pass on the cost of bankruptcy filings to other members in the form of higher interest rates on loans and lower dividend payments on share and share draft accounts.

DEPOSIT INSURANCE REFORM LEGISLATION PENDING

On April 2, 2003, the House passed bill H.R. 522, which is intended to reform the deposit insurance system. A second reform bill, S. 229, has been introduced in the Senate, but not yet passed. Federal “deposit” and “share” insurance is provided only by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Share Insurance Fund (NCUSIF), respectively. The FDIC is currently managing separate funds for banks and thrifts, which the FDIC would like to merge into a single fund. Additionally, there is some interest in increasing deposit insurance coverage above the current \$100,000 level. The legislation introduced in the 108th Congress proposes several structural changes in the deposit insurance system for the FDIC, and proposes an increase in coverage levels for both the FDIC and the NCUSIF.

HOUSE AND SENATE CONFEREES FINISH NEGOTIATING CHECK TRUNCATION BILL

Check truncation legislation was introduced in Congress to transform the U.S. payment system from a physical one to an electronic one. “Truncation” means to remove an original paper share draft (check) from the collection or return process and in its place to send a substitute share draft or, by agreement, information relating to the original share draft (i.e., electronic image). While most credit unions have had “truncated” share drafts since 1974, current check truncation legislation would allow the process to occur earlier in the clearing system. The House and Senate Conferees finished negotiating the bill on October 1, 2003, and it is expected to be signed into law by the President in the near future.

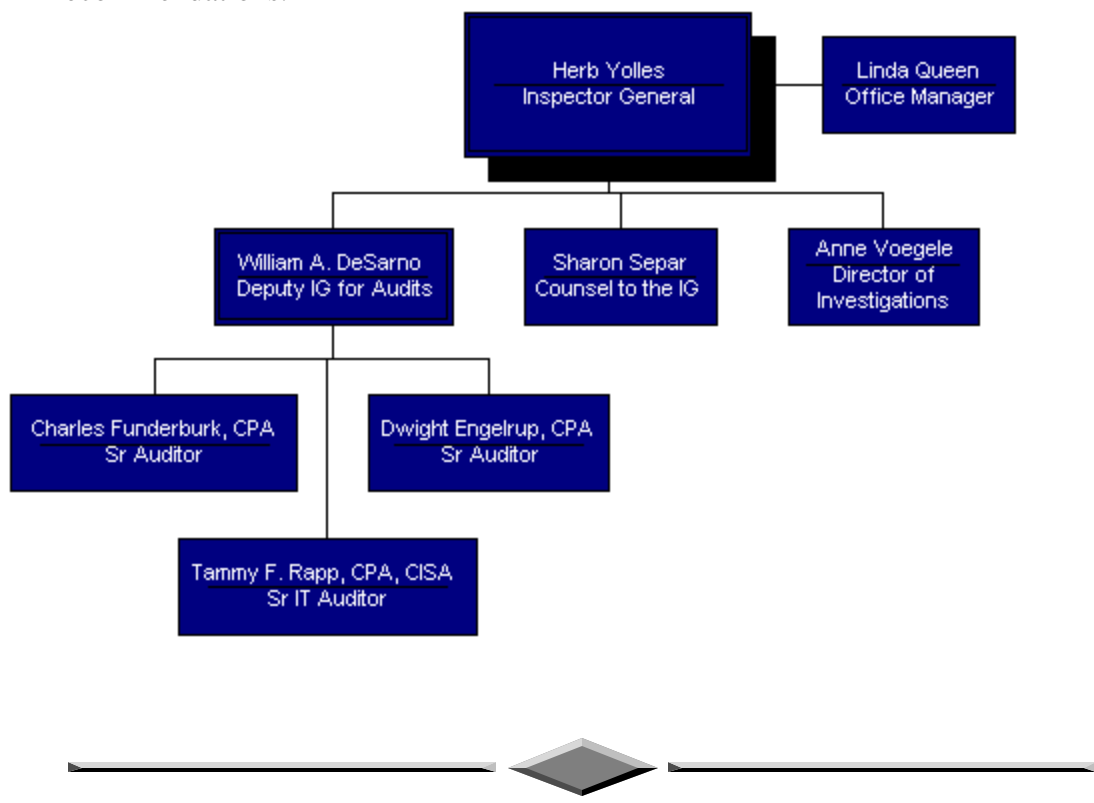


OFFICE OF THE INSPECTOR GENERAL

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, Deputy Inspector General for Audits, Counsel to the Inspector General, Senior Special Agent, two Senior Auditors, Senior Information Technology Auditor, and Office Manager.

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

1. Conducting, supervising, and coordinating audits and investigations 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

Independent Evaluation of NCUA's Information Security Program
OIG-03-06 September 12, 2003

The Federal Information Security Management Act (FISMA) permanently reauthorized the framework laid out in the Government Information Security Reform Act of 2000 (GISRA) which expired in November 2002. FISMA continues annual review and reporting requirements introduced in GISRA.

During 2003, the OIG engaged Cotton & Company LLP to conduct an independent evaluation of NCUA's information systems (IS) and security program and controls for compliance with FISMA, Title III of the E-Government Act of 2002, and Office of Management and Budget (OMB) Circular A-130, Appendix III. This report discusses the effectiveness of IS controls to protect and secure NCUA's information technology (IT) infrastructure and assets.

Overall, the evaluation determined that NCUA's information security program does not fully meet the minimum security requirements of OMB Circular A-130, Management of Federal Resources, Appendix III, Security of Federal Automated Information Resources (A-130). Two significant deficiencies exist in the NCUA IT infrastructure. First we noted several weaknesses related to the underlying general support systems and network. This is significant because every application relies on the security of the operating system on which it resides. Therefore if the underlying operating systems are not secure, then the applications themselves cannot be assured of being secure.

Second, we determined that information stored on examiners' laptop computers is not adequately secured. For example, examiners frequently store credit union member personal financial information on their laptop computers. We noted during our review that the examiner laptops and the information stored on the laptops were not considered in any system security plan or certification and accreditation document. In our judgment, this information is quite sensitive and presents a significant security risk.

While we noted other significant weaknesses in IT controls, we concluded the two conditions described above are the most significant to NCUA, and should be addressed as soon as possible by NCUA's Executive Director and Chief Information Officer.

OIG Report to OMB on NCUA Compliance With The Federal Information Security Management Act 2003

OIG-03-07 September 12, 2003

The OMB issued Fiscal Year 2003 Guidance on Annual Information Technology Security Reports on August 7, 2003. This guidance provided clarification to agencies for implementing, meeting, and reporting FISMA requirements to OMB and the Congress. This report contains a summary of our evaluation of the NCUA's information security program presented in the OMB prescribed format.

The OIG issued two reports during the past year that reported on the testing of the effectiveness of information security and internal controls:

- On March 31, 2003, the OIG issued the Financial Statement Audit Report for the year ended December 31, 2002. The purpose of this audit was to express an opinion on whether the financial statements were fairly presented. In addition, the internal control structure was reviewed and an evaluation of compliance with laws and regulations was performed as part of the audit. The result of this audit was an unqualified opinion, stating that the financial statements were presented fairly. Although there were no material weaknesses identified during the review of the internal control structures pertinent to financial reporting, eight recommendations were made relating to weaknesses in the area of information security.
- On September 12, 2003, the OIG issued a report containing an Independent Evaluation of the NCUA's Information Security Program - 2003. The content of the independent evaluation report supports the conclusions presented in this report.

In October 2002, the Chief Information Officer identified and reported 167 weaknesses to OMB in the NCUA's Plans of Action and Milestones (POA&M) report. Additionally, the independent evaluation supporting this report identified 12 new weaknesses and made specific recommendations to address those weaknesses. The table below shows the current status of the weaknesses, along with the new recommendations identified in the independent evaluation.

Description	Number of Weaknesses
Reported in NCUA's FY 2002 POA&M	167
Completed/Implemented Fully During FY 2003	45
Partially Completed/Implemented	46
New Weaknesses	12
FY 2002 Weaknesses Awaiting Implementation	76
As of August, 2003	

Review of NCUA's Member Complaint Process
OIG-03-08 September 25, 2003

Congress has charged NCUA with enforcing a broad range of federal consumer laws and regulations in federally chartered credit unions and, in certain instances, state-chartered credit unions. The NCUA is also required to report to Congress and other federal agencies on credit unions' compliance with certain of these laws and regulations. The agency regularly receives inquiries and complaints regarding consumer compliance issues from the public and credit union members throughout the nation. In addition, the agency receives inquiries and complaints on subjects other than federal consumer laws and regulations. During 2002, NCUA received approximately 2,000 inquiries and complaints, about half of which alleged violations of regulations or consumer laws.

We reviewed the NCUA member complaint process in order to: (1) gather information to determine the appropriate role for the agency; (2) evaluate the current process; and (3) compare the current process with actions taken by four other federal financial institution regulators in their handling of inquiries and complaints.

Current NCUA practice and guidance is for each regional office to respectively handle all complaints it receives—those alleging regulatory and consumer compliance violations as well as those that do not. While we identified a statutory requirement for NCUA's investigation of alleged violations of Federal consumer laws and regulations, we did not identify a legal authority requiring NCUA to investigate or track complaints of a non-statutory or non-regulatory nature. The NCUA's Office of Examination and Insurance (E&I), has agreed to revise the current agency Instruction (Instruction 12400.04, *Compliance Activities: Complaint Handling and Documentation of Violations*, dated September 5, 2002) for handling member complaints so that it no longer requires tracking and monitoring of allegations that do not allege regulatory and consumer compliance violations.

Overall, we found that NCUA's six regional offices approached the task of handling member complaints in a serious and responsible manner. We concluded that the NCUA regions are effective in identifying, processing, and monitoring non-regulatory complaints and that, overall, the process is working reasonably well in meeting credit union members' needs in an effective and timely manner.

Our report contains three recommendations for improving the national member complaint process. The NCUA Office of General Counsel (OGC), and the NCUA Office of Examination and Insurance (E&I) commented on our draft report. Both OGC and E&I concurred with the report recommendations.

Management Advisory Report – King Street Parking Garage
OIG-03-09 September 25, 2003

The OIG is currently reviewing the operation of NCUA's parking garage to (1) assess the internal controls over the parking garage income and expenses; (2) determine whether NCUA is receiving its correct parking garage net income; and (3) assess the reasonableness of revenue variances and trends. In performing this review, we identified a number of preliminary observations regarding the Parking Operations Agreement and the Parking Management Agreement. We provided our preliminary observations to NCUA's Chief Financial Officer (CFO) in the form of a Management Advisory Report, in order to provide timely information to the CFO for making suggested revisions to the Parking Operations and Management Agreements. We plan to issue a final report on the results of our review at the conclusion of our detailed audit.

AUDITS IN PROGRESS

Review of NCUA's Parking Operations Agreement

It has been 10 years since NCUA originally entered into a parking lot operations agreement for management and operation of the parking garage located directly under the NCUA Central Office Building at 1775 Duke Street, Alexandria, Virginia. This review is focusing on the controls in place to ensure the accurate reporting of revenue and expenses related to NCUA's parking spaces.

Review of NCUA's Supervision of State Chartered Credit Unions

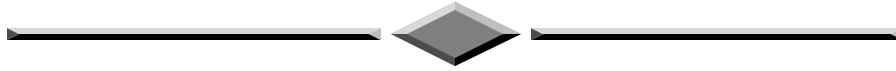
The objective of this review is to evaluate how NCUA supervises and monitors federally insured, state chartered credit unions. This review will also evaluate how agreements are negotiated between NCUA and the respective state supervisory authorities as well as the adequacy of the agreements regarding supervision and monitoring of federally insured state chartered credit unions.

SIGNIFICANT AUDIT RECOMMENDATIONS ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

As part of the 2003 Independent Evaluation of the Information Security Program, the OIG verified implementation of recommendations made in the prior year's Independent Evaluation of NCUA's Information Security Program. The OIG was not provided with sufficient evidence to demonstrate implementation of all recommendations contained in the prior evaluation.

Based on the documentation provided, we could only validate 45 actions as completed and another 46 partially completed. We could not verify implementation of the remaining 76 recommendations because management informed us either that

documentation was unavailable or that a management decision had been made not to implement a recommendation. We discussed with management the importance of disclosing recommendations that management has decided not to implement. We requested that management provide the OIG and agency head with analysis when these types of decisions are made.



INVESTIGATIVE ACTIVITY

In accordance with professional standards and guidelines established by the Department of Justice, the OIG performs investigations of criminal, civil, 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 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.



Moreover, we receive complaints from credit union members and officials that involve NCUA employee program responsibilities. We examine these complaints to determine whether there is any allegation of NCUA employee misconduct. If not, we refer the complaint to the appropriate regional office for response, or close the matter if contact with the regional office indicates that the complaint has already been appropriately handled.

During this reporting period, we worked closely with agency management at all levels to substantially revise an agency-issued directive that set forth employees' duties and responsibilities for reporting misconduct to the OIG. The Inspector General introduced the revised directive at a meeting of agency senior management and, in tandem with the Director of Investigations, is planning further introductions of the directive at regional offices and various agency meetings during the next reporting period.

Additionally, as a result of OIG concern regarding the release and control of IG investigative reports and ensuing privacy concerns, the OIG entered into a Memorandum of Understanding (MOU) with the agency's Executive Director. The MOU addressed distribution of investigative reports and use of the reports for administrative actions.

Also during this reporting period, we revised and significantly expanded the investigations manual. The policy revisions were done in accordance with industry standards and standards established by the President's Council on Integrity and Efficiency.

Investigative Operations

Contacts/inquiries/investigations carried forward from previous reporting period	3
Contacts initiated during reporting period	6
Contacts closed	7
Investigative reports issued	3
Investigative subpoenas issued	1
Matters referred back to the agency	3
Management Implication Reports issued	1
Matters remaining open	2

CLOSED INVESTIGATIONS

In the last reporting period, we reported on an investigation into allegations that an employee was in violation of agency policy and a specific supervisory direction to reside within her assigned duty station. Because the employee's actual residence was approximately 100 miles from her claimed address, the travel vouchers she routinely submitted contained false information which resulted in her being paid a substantially higher locality pay, and enabled her to obfuscate her actual hours of work. The United States Attorney's office authorized the use of administrative Kalkines warnings for this investigation. During her interview with the OIG, the employee provided false testimony while under the Kalkines immunity agreement. NCUA management has advised the OIG that due to other considerations it plans no action in this matter.

Also in the last reporting period, we reported on two investigations of false voucher claims and related falsification of attendance at a required agency training conference. In one case, the employee provided false testimony while under a Kalkines immunity agreement. The employee subsequently acknowledged the false statement during the same interview. The agency suspended the employee for ten days. In the other case, the employee admitted the false claim of attendance at the conference, as well as other false claims. The agency suspended that employee for three days.

During this reporting period, we completed two (2) investigations. In one investigation, the employee was alleged to have had an inappropriate relationship with a former employee of a credit union and to have released confidential information to that individual. The investigation did not substantiate the allegation. However, in the course of the investigation, information was developed that the employee inappropriately accepted gifts from a credit union employee. The agency counseled the employee on the relevant ethics rules and agency policy regarding acceptance of gifts.

Another investigation concerned allegations regarding the potential misuse of authority by an intra-agency committee designated to resolve policy disputes related to employee relocations. The investigation determined that the committee had exercised authority which exceeded the specific authority delegated to it by the agency. The OIG issued a Management Implication Report recommending that the agency establish a policy which clarifies the committee's authority. No intentional wrongdoing was identified.

During this reporting period, we received three (3) referrals which we declined to investigate and returned to the agency for appropriate follow-up and action, as necessary.

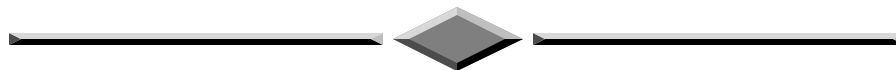
We issued one (1) IG Investigative Subpoena during this reporting period.

OPEN INVESTIGATIONS

The OIG has two (2) open investigations. One involves an ongoing initial inquiry into allegations of contract fraud by a government contractor. Additionally, we have one open investigation into possible Privacy Act violations.

AGENCY REFERRALS

During this reporting period the OIG received thirteen (13) written requests for investigations of actions taken by credit unions. These matters were referred to the respective regional offices for review and processing.



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 19 items, including proposed and final changes to legislation, regulations, and agency Interpretive Ruling and Policy Statements (IRPS).

SUMMARY OF STATUTES AND REGULATIONS REVIEWED	
Legislation	Title
H.R. 2622	“Fair and Accurate Credit Transactions Act of 2003”
S. 1334	“Check Truncation Act of 2003”
H.R. 975	“The Bankruptcy Abuse Prevention and Consumer Protection Act of 2003”
S. 1359	“International Money Transfer Disclosure Act and Money Wire Improvement and Remittance (WIRE) Act”
H.R. 2724	Proposed Amendments to “Fair Credit Reporting Act”
H.R. 2861	“VA-HUD and Independent Agencies FY 2004 Appropriations”
H.R. 522	Deposit Insurance Reform
Regulations/Rulings	Title
12 CFR Part 740	Final Rule: “Accuracy of Advertising and Notice of Insured Status”
12 CFR Parts 703, 742	Final Rule: “Investment and Deposit Activities and Regulatory Flexibility Program”
12 CFR Part 709	Final Rule: “Involuntary Liquidation of FCUs and Adjudication of Creditor Claims Involving Federally-Insured CUs in Liquidation”
Final IRPS 03-02	Amendment to Change Definition of Small Credit Union
	Privacy Act Systems Notice/Board Action Memorandum
12 CFR Part 745	Proposed Rule: “Share Insurance”
12 CFR section 701.21(c)(7)(ii)(c)	Interest Rate Ceiling
12 CFR 723	Summary of Comments—Proposed Rule on MBLs and Related Regulations

12 CFR Part 708a	Proposed Rule: “Conversion of Insured CUs”
12 CFR Parts 702, 704, 712, 723, 742	Draft Final Rule: “PCA; Corporate Credit Unions; CUSOs; MBLs’ Reg Flex Program”
12 CFR section 701.20	Proposed Rule: “Surety and Guaranty Agreements and Waiver Requests by FISCUs from the Maximum Borrowing Limitation
12 CFR 748 and App.B	Proposed Rule for Comment: “Guidance on Response Programs for Unauthorized Access to Member Information and Member Notice”

TABLE I

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS				
		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

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE			
		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	N/A
	(ii) Dollar value of recommendations not agreed to by management.	N/A	N/A
D.	For which no management decision was made by the end of the reporting period.	0	0
E.	For which no management decision was made within six months of issuance.	0	0

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

TABLE III

SUMMARY OF OIG ACTIVITY APRIL 1, 2003 THROUGH SEPTEMBER 30, 2003		
PART I – AUDIT REPORTS ISSUED		
Report Number	Title	Date Issued
OIG-03-06	Independent Evaluation of NCUA’s Information Security Program	9/12/2003
OIG-03-07	OIG Report to OMB on NCUA’s Compliance With The Federal Information Security Management Act	9/12/2003
OIG-03-08	Review of NCUA’s Member Complaint Process	9/25/2003
OIG-03-09	Management Advisory Report – King Street Parking Garage	9/25/2003
PART II – AUDITS IN PROCESS (as of September 30, 2003)		
	Review of NCUA’s Parking Operations Agreement	
	Review of NCUA’s Supervision of State Chartered Credit Unions	

<i>INDEX OF REPORTING REQUIREMENTS</i>

SECTION	DATA REQUIRED	PAGE REF
4(a)(2)	Review of Legislation and Regulations	19
5(a)(1)	Significant Problems, Abuses, or Deficiencies relating to the administration of programs and operations disclosed during the reporting period.	11
5(a)(3)	Recommendations with Respect to Significant Problems, Abuses, or Deficiencies.	11
5(a)(3)	Significant Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed.	14
5(a)(4)	Summary of Matters Referred to Prosecution Authorities and Prosecutions, Which Have Resulted.	None
5(a)(5)	Summary of Each Report to the Board Detailing Cases Where Access to All Records Was Not Provided or Where Information Was Refused.	None
5(a)(6)	List of Audit Reports Issued During the Reporting Period.	23
5(a)(7)	Summary of Particularly Significant Reports.	11
5(a)(8)	Statistical Tables on Audit Reports With Questioned Costs.	21
5(a)(9)	Statistical Tables on Audit Reports With Recommendations That Funds Be Put To Better Use.	22
5(a)(10)	Summary of Each Audit Report Issued Before the Start of the Reporting Period for Which No Management Decision Has Been Made by the End of the Reporting Period.	None
5(a)(11)	Description and Explanation of Reasons for any Significant Revised Management Decision Made During the Reporting Period.	None
5(a)(12)	Information Concerning Significant Management Decisions With Which the Inspector General is in Disagreement.	None

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