



Office of Inspector General

December 17, 2024

The Honorable Mike Flood
Congressman, 1st District, Nebraska
Committee on Financial Services
U.S. House of Representatives
343 Cannon House Office Building
Washington, DC 20515

Dear Congressman Flood:

This responds to your letter dated November 15, 2024, in which you requested that the Office of Inspector General (OIG) investigate recent losses at Creighton Federal Credit Union in Omaha, Nebraska, which led to Creighton's merger with Cobalt Federal Credit Union. You noted that a Credit Union Times article indicated that Creighton lost \$13.5 million in the 3 months ending June 30, 2024. Creighton was a \$67 million institution that reported \$6.1 million in net worth, \$61 million in shares, and \$44 million in loans for the quarter ending March 2024. The credit union then reported a \$12,217,924 liability in April 2024. On August 1, 2024, Creighton declared itself insolvent and the NCUA merged it with Cobalt. Because there was no loss to the Share Insurance Fund, my office was not required to perform a material loss review. Additionally, NCUA informed us that the agency was not required to conduct a post-mortem review for the same reason.

You asked us to report on the specific circumstances and actions that led to the financial problems at Creighton, the effectiveness of the National Credit Union Administration's (NCUA) examination and oversight processes in detecting and preventing financial irregularities, and the role and performance of external auditors in this case. We address each of these issues below.

Circumstances that Led to Creighton Federal Credit Union's Financial Problems

Regarding the specific circumstances that led to the financial problems at Creighton, we learned from NCUA officials involved in examining and overseeing Creighton that Creighton's loss was not sudden but had accumulated over 26 years due to financial statement fraud perpetrated by the former Chief Financial Officer (CFO). This fraud was only discovered by the credit union and the NCUA after the CFO's death in April 2024. Specifically, the CFO had understated expenses related to the credit union's ATM network to artificially boost Creighton's income statement over 26 years, which resulted in the more than \$12 million loss.

NCUA officials told us that fraud auditors determined that the CFO hid this \$12 million deficit by exploiting the credit union's weak accounting system that allowed him to back post, forward post, delete transactions, and hide general ledger accounts when generating reports for annual financial statement audits and NCUA examinations. NCUA officials believe the former CFO used the "Unapplied Data Processing" account as a suspense account (a temporary account that

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holds transactions that are not yet categorized or classified) for all transactions he did not know how to post. In one instance, the former CFO appeared to not want to show high dividend expenses, so he posted the expense to the Unapplied Data Processing account. In another instance, he used the “77777-No Name” account to offset and hide large deficits when he ran financial statements during annual CPA audits and NCUA examinations.

The NCUA also advised that reviews of the deceased CFO and his family’s accounts going back over 20 years indicated no improper transfer of credit union funds to the CFO or his family.

As background on the steps the NCUA took to reach these conclusions, NCUA officials told us that after the death of Creighton’s CFO in April 2024, Creighton’s Chief Executive Officer (CEO) and a senior accountant needed assistance completing the credit union’s March 31, 2024, Call Report (a Call Report is a financial document that provides information about a credit union’s finances that a credit union submits to the NCUA quarterly). On April 15, 2024, they requested assistance from a local CPA firm. On April 18, 2024, the CPA firm contacted the CEO and told him there was an approximate \$12 million accounting irregularity that appeared problematic and advised the CEO to inform the NCUA’s local supervisory examiner. The supervisory examiner immediately informed the NCUA’s regional director and the associate regional director what he had been told and then went on-site at Creighton to address the problem. The supervisory examiner also contacted the NCUA’s director of the Division of Special Actions and a problem case officer for assistance. On April 19, 2024, NCUA officials held a meeting with the Creighton board of directors, the supervisory committee, and the CPA firm that discovered the accounting irregularity to discuss concerns. During this meeting, NCUA officials recommended that the Creighton board of directors hire both a fraud auditor and bond attorney, which they did. NCUA officials advised us that the problem case officer was on-site at Creighton beginning on April 22, 2024.

On May 2, 2024, the NCUA hired an interim CFO to assist in correcting Creighton’s records. The problem case officer worked with the interim CFO and conducted daily liquidity monitoring and completed a review of the former credit union’s general ledger. The case was transferred to the NCUA’s Division of Special Actions within the agency’s Western Region effective May 3, 2024.

Fraud auditors reviewed ATM and lease payment accounting transactions. The regional director stated that the ATM accounting was extremely complicated due to Creighton having over 150 ATMs and the multiple ways in which income and expenses could be divided. The regional director also said the fraud auditors looked for all ways cash could have left the credit union and found no instances of cash removal.

NCUA officials advised that in early October 2024, they learned from Cobalt that after the merger, Cobalt determined that the former CFO understated expenses related to the ATM network to artificially boost Creighton’s income statement to appear to achieve a steady net

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income. Cobalt surmised that the former CFO was either not booking the monthly ATM expenses at all or was severely understating the expenses. Cobalt indicated the ATM costs alone should have been \$255,000 each quarter. They determined the CFO booked around \$120,000 per quarter to the office Operations account. Cobalt officials explained to NCUA officials that this would account for an approximate \$500,000 to \$550,000 reduction in net income per year if no other expenses were booked to the Office Operations account. Cobalt officials explained that over more than 26 years, such an understatement would easily account for the \$12.5 million deficit.

As previously mentioned, the NCUA advised that fraud auditors completed reviews on the deceased CFO and his family's accounts going back over 20 years. Fraud auditors completed Lexus Nexus, Clear, Suspicious Activity Reports (SAR)/Currency Transaction Report (CTR) reviews on the CFO, his wife, the CEO, as well as the owner of the ATM company because of the partnership the ATM company owner had with Creighton. Fraud auditors determined each of these individual's reports were clean. In addition, fraud auditors completed forensic backups and performed analyses on the former CFO's work desktop, laptop, and external hard drive and found nothing suspicious.

In summary, NCUA officials believe the credit union failed due to bad accounting and financial statement fraud. The large deficit was hidden by the former CFO who exploited Creighton's weak accounting system that allowed back posting, forward posting, deleting transactions, and hiding general ledger accounts when generating reports. Because no money was found to have left the credit union through this, NCUA officials believe the former CFO committed the fraud not for personal financial gain, but to make the credit union appear to be thriving in the eyes of its Board and membership.

The Effectiveness of the NCUA's Examination and Oversight Processes in Detecting and Preventing Financial Irregularities

To assess the effectiveness of the NCUA's examination and oversight processes in detecting and preventing financial irregularities, my office would need to conduct an audit. The OIG's 2025 Annual Work Plan includes a planned audit to review the NCUA's Total Analysis Process (TAP), which will address the effectiveness of the NCUA's examination and oversight processes.

According to the NCUA, the goal of TAP is to accurately and holistically assess a credit union based upon the sum of its parts. TAP requires examiners to look beyond individual facts and static balance sheet figures to determine the true financial condition, quality of service, and risk potential of supervised credit unions. As part of TAP, the NCUA's National Supervision Policy Manual (NSPM) requires that examiners review numerous financial ratios and perform a series of data analyses to help them understand a credit union's financial ratios both individually and as part of an interrelated system, where trends or risk exposures in one area can affect another.

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Examiners also look at financial indicators such as adverse economic trends, unusual growth patterns, or concentration levels. These indicators can serve as triggers of changing risk and possible future problems. When negative indicators are present, examiners must determine the action needed to reverse unfavorable trends and formulate recommendations and plans to ensure implementation of these actions. The objective of our audit will be to determine the effectiveness of the NCUA's TAP in detecting and preventing financial irregularities. We intend to begin this audit in 2025 and will provide you with a copy of the final report.

The Role and Performance of External Auditors

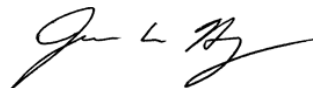
Regarding the role and performance of external auditors in this case, we confirmed with NCUA officials that Creighton engaged an independent CPA firm for the annual financial statement audit since 1999, consistent with NCUA regulation 12 CFR § 715.4.

Prior to 1999, an independent CPA firm completed agreed-upon procedures¹ at Creighton from 1992 through 1998. In 1999, a different CPA firm completed Creighton's first financial statement audit² and this same CPA firm, which has since changed its name, continued to perform the financial statement audits for Creighton. The last issued financial statement audit report was dated June 30, 2022. We were advised that although there is a draft of the June 30, 2023, financial statement audit report, the CPA firm did not issue the report because of Creighton's failure and subsequent merger with Cobalt.

We are unable to assess the CPA's performance in this case as we have no access to Creighton's records or access to the CPA firm's audit records and workpapers. However, we learned that Cobalt has retained the services of a law firm and could pursue legal action against the CPA firm.

I hope this addresses your questions and concerns. Thank you for your inquiry.

Sincerely,



James W. Hagen
Inspector General

¹ Auditor performs procedures expressly agreed upon by the credit union of certain selected areas of the financial statement, and reports on the findings of those procedures without expressing an opinion whether the credit union's financial statements present a true and fair view of the credit union's financial position and performance in accordance with auditing standards.

² Auditor conducts a comprehensive examination of the credit union's financial statements and underlying records and provides an opinion on whether the financial statements present a true and fair view of the credit union's financial position and performance in accordance with auditing standards.

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cc: Chairman Patrick McHenry
Ranking Member Maxine Waters