



NCUA
National Credit Union Administration

**OFFICE OF INSPECTOR
GENERAL**

**AUDIT OF THE NCUA'S
SCHEDULE OF OTHER ASSETS
AND CONTRIBUTED CAPITAL
AS OF SEPTEMBER 30, 2020**

**Report #OIG-20-08
November 13, 2020**





Office of Inspector General

November 13, 2020

The Honorable Rodney E. Hood, Chairman
The Honorable J. Mark McWatters, Board Member
The Honorable Todd M. Harper, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314

Dear Chairman Hood and Board Members McWatters and Harper:

I am pleased to transmit KPMG LLP's (KPMG) report on its audit of the National Credit Union Administration's (NCUA's) schedule of other assets and contributed capital as of September 30, 2020, and the related notes (hereinafter referred to as the "schedule"). The NCUA prepared the schedule in accordance with the form and content guidance provided in Office of Management and Budget (OMB) Circular No. A-136 Revised, *Financial Reporting Requirements*, and subjected it to audit.

Under a contract monitored by the NCUA OIG, KPMG, an independent certified public accounting firm, performed an audit of the NCUA's schedule of other assets and contributed capital as of September 30, 2020. KPMG conducted the audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that KPMG plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

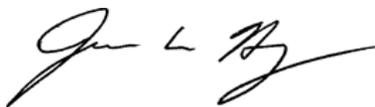
KPMG's audit report for the FY 2020 Consolidated Financial Statements of the U. S. Government includes: (1) an opinion on the schedule, (2) internal control over financial reporting specific to the schedule, and (3) compliance and other matters specific to the schedule. In its audit, KPMG found:

- The schedule presents fairly, in all material respects, the other assets and contributed capital of the National Credit Union Administration as of September 30, 2020, in conformity with U.S. generally accepted accounting principles;
- There were no significant deficiencies related to internal control for the schedule considered to be material weaknesses; and
- There were no instances of noncompliance with other matters that are required to be reported under Government Auditing Standards or OMB Bulletin No. 19-03.

To ensure the quality of the audit work performed, we reviewed KPMG's approach and planning of the audit, evaluated the qualifications and independence of the auditors, monitored the progress of the audit at key points, and reviewed and accepted KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on NCUA's schedule or conclusions about the effectiveness of internal control or conclusions on compliance with laws and regulations, as it relates to the schedule. KPMG is responsible for the attached auditor report dated November 13, 2020, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

We would like to extend our thanks to NCUA management and staff involved in issuing the schedule within the established milestones. In addition, we appreciate the professionalism, courtesies, and cooperation extended to KPMG and the OIG throughout the audit and our oversight of the audit process.

Respectfully,

A handwritten signature in black ink, appearing to read 'James W. Hagen', written in a cursive style.

James W. Hagen
Inspector General

cc: Executive Director Larry Fazio
Deputy Executive Director (Audit Follow-up Official) Rendell Jones
Chief Financial Officer Eugene Schied
Acting General Counsel Frank Kressman
E&I Director Myra Toeppe
Regional Director and AMAC President Keith Morton
Deputy Chief of Staff Gisele Roget
Acting OEAC Deputy Director Joy Lee
Acting Deputy Chief Financial Officer Melissa Lowden

OIG-20-08

National Credit Union Administration

Schedule of Other Assets and Contributed Capital
As of September 30, 2020, and
Independent Auditors' Report

NATIONAL CREDIT UNION ADMINISTRATION

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, National Credit Union Administration and
the National Credit Union Administration Board:

Report on the Schedule

We have audited the accompanying schedule of other assets and contributed capital of the National Credit Union Administration (NCUA) as of September 30, 2020, and the related notes (hereinafter referred to as the "schedule").

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of this schedule in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the schedule referred to above presents fairly, in all material respects, the other assets and contributed capital of the National Credit Union Administration as of September 30, 2020, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

We draw attention to Note 1 to the schedule, which describes that the accompanying schedule was prepared for the purpose of providing financial information to the U.S. Department of Treasury and the U.S. Government Accountability Office (GAO) to use in preparing and auditing the *Financial Report of the U.S. Government*, and is not intended to be a complete presentation of the assets, liabilities, revenues, or expenses of the National Credit Union Administration as of September 30, 2020. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the schedule as a whole. The information other than the schedule is presented in accordance with the requirements of the U.S. Department of the Treasury's *Treasury Financial Manual* (TFM) Volume 1, Part 2, Chapter 4700 (TFM Chapter 4700) and is not a required part of the schedule. Such information has not been subjected to the auditing procedures applied in the audit of the schedule as of September 30, 2020, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use of the Report on the Schedule

This report is intended solely for the information and use of the NCUA Board, management of the NCUA, NCUA's Office of the Inspector General, U.S. Department of the Treasury, OMB, and GAO in connection with the preparation and audit of the *Financial Report of the U.S. Government* and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the schedule as of September 30, 2020, we considered the NCUA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the schedule, but not for the purpose of expressing an opinion on the effectiveness of the NCUA's internal control. Accordingly, we do not express an opinion on the effectiveness of the NCUA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters Specific to the Schedule

As part of obtaining reasonable assurance about whether the NCUA's schedule as of September 30, 2020 is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03.



Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the NCUA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 13, 2020

NATIONAL CREDIT UNION ADMINISTRATION

SCHEDULE OF OTHER ASSETS AND CONTRIBUTED CAPITAL

As of September 30, 2020

	<u>2020</u>
Other Assets (Note 2)	\$ 81,981,547
Contributed Capital (Note 3)	13,810,981,991

The accompanying notes are an integral part of this statement.

NATIONAL CREDIT UNION ADMINISTRATION

NOTES TO SCHEDULE AS OF SEPTEMBER 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The National Credit Union Administration (NCUA) is the independent federal agency that regulates, charters and supervises federal credit unions. With the backing of the full faith and credit of the U.S. Government, the NCUA operates and manages the National Credit Union Share Insurance Fund (NCUSIF), insuring the deposits of over 123.7 million account holders in all federal credit unions and the majority of state-chartered credit unions. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 47, *Reporting Entity*, the reporting entity for the NCUA's annual submission into the Financial Report of the United States Government (FR) is the consolidation of its NCUSIF, the Central Liquidity Facility, the Community Development Revolving Loan Fund, and the Operating Fund.

Basis of Presentation

A Significant Entity is an entity which is deemed material to the FR if they report any financial statement line items or note disclosures that are equal to or greater than \$1 billion. A calendar year end entity's financial statement line items or note disclosures that contributes to the top 95% of the total data is considered material to the FR. In accordance with the Treasury Financial Manual (TFM), Volume 1, Part 2, Chapter 4700, Federal Entity Reporting Requirements for the FR, Significant Entities are required to submit audited financial statements on an annual basis. For calendar year end entities, audit assurance is required for the financial statement line items or note disclosures that are identified as material. The Schedule and related notes herein are not intended to represent the NCUA's entire FR submission, nor be a complete presentation of the NCUA's assets, liabilities, revenues, or expenses.

The Schedule has been prepared from the NCUA's accounting records in accordance with the Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards. The American Institute of Certified Public Accountants recognizes FASAB as the official accounting standards-setting body of the Federal Government. The format of the Schedule and notes is in accordance with the form and content guidance provided in Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised August 27, 2020.

Consistent with SFFAS No. 34, *The Hierarchy of Generally Accepted Accounting Principles Including the Application of Standards Issued by the Financial Accounting Standards Board*, the NCUA considers and, where appropriate, applies Financial Accounting Standards Board (FASB) guidance for those instances where no applicable FASAB guidance is available. Any such significant instances are identified herein.

Basis of Accounting

The NCUA records its accounting transactions following the accrual method of accounting to record other assets and contributed capital presented on the Schedule.

The NCUA is exempt from requirements under the *Federal Credit Reform Act of 1990* (2 U.S.C. § 661 et seq.).

Use of Estimates

Generally accepted accounting principles (GAAP) for the Federal Government requires management to make estimates and assumptions that affect the reported amounts of Other Assets at the date of the Schedule.

These estimates are based on current conditions that may change in the future. Actual results could differ from estimates. Significant items subject to those estimates and assumptions include the allowance for losses on the receivables from Asset Management Estates (AMEs). The financial statements include information to assist in understanding the effect of changes in assumptions to the related information.

Other Assets

Receivables from Asset Management Estates, Net

The Receivables from Asset Management Estates, Net, represents the expected reimbursements from the AMEs for the amounts paid by the NCUSIF on behalf of the AMEs. The related allowance for losses takes into account the NCUA’s assessment of expected recovery from the AMEs.

Contributed Capital

Capitalization Deposits

Each insured credit union pays and maintains with the NCUSIF a capitalization deposit in the amount equal to 1.00% of its insured shares. The NCUSIF reports the capitalization deposits from member credit unions as contributed capital when received.

Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

2. OTHER ASSETS

Other Assets consists primarily of Receivables from Asset Management Estates, Net, for the NCUSIF. Additionally, Other Assets includes Advances and Prepayments for the NCUSIF and the Operating Fund.

As of September 30, 2020

Fund	Description	Gross Balance	Allowance	Net Balance
NCUSIF	Receivables from AMEs	\$ 4,036,300,560	\$ (3,959,817,973)	\$ 76,482,587
NCUSIF	Advances and Prepayments	1,022,913	-	1,022,913
Operating Fund	Advances and Prepayments	4,476,047	-	4,476,047
		<u>4,041,799,520</u>	<u>(3,959,817,973)</u>	<u>81,981,547</u>

Receivables from Asset Management Estates

The NCUA records the receivables from AMEs when claims are paid by the NCUSIF in order to satisfy obligations to insured shareholders and other guaranteed parties, as well as to pay administrative expenses on behalf of AMEs. Assets held by the AMEs are the main source of repayment of the NCUSIF's receivables from the AMEs. As the assets are monetized, recoveries from the assets are paid to the NCUSIF to reduce the receivable from AMEs.

The gross AME receivable is reduced by an allowance for loss. This allowance represents the difference between the funds disbursed and obligations incurred and the expected repayment, when recognized, from the AMEs pursuant to the liquidation payment priorities set forth in 12 C.F.R. §709.5(b). The NCUA records the allowance amount for loss on receivables from AMEs based on expected asset recovery rates. Expected asset recovery rates are evaluated during the year, but remain subject to uncertainties because of potential changes in economic and market conditions. The asset recovery rates are based on several sources including:

- actual or pending AME asset disposition data;
- asset valuation data based upon the performance, quality, and type of the assets in the portfolio;
- estimated liquidation costs based on information from similar recently failed credit unions; and
- estimated AME specific administrative expenses based upon complexity and expected duration of the AME.

Advances and Prepayments

NCUSIF – Advances and Prepayments are for cash paid in advance for contracted goods and services.

Operating Fund – Advances are to NCUA Employees for Travel and Relocation. Prepayments are for software licenses and system maintenance agreements.

3. CONTRIBUTED CAPITAL (DEPOSIT INSURANCE)

The NCUSIF contributed capital consists of the 1.00% capitalization deposit of insured shares collected from federally insured credit unions.

Fund	Description	September 30, 2020
NCUSIF	Contributed Capital	<u>\$13,810,981,991</u>

The *Credit Union Membership Access Act of 1998* (CUMAA) mandates that each insured credit union shall pay to and maintain with the NCUSIF a deposit in an amount equaling 1.00% of the credit union's insured shares. Under Section 202(c) of the FCU Act, the amount of each insured credit union's deposit is adjusted as follows, in accordance with procedures determined by the NCUA Board, to reflect changes in the credit union's insured shares: (i) annually, in the case of an insured credit union with total assets of not more than \$50.0 million; and (ii) semiannually, in the case of an insured credit union with total assets of \$50.0 million or more. The annual and semi-annual adjustments are based on insured member share deposits

outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. The 1.00% contribution is returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the NCUSIF are transferred from the NCUA Board.

Deposits insured by the NCUSIF are backed by the full faith and credit of the United States. The NCUSIF has multiple sources of funding. As of September 30, 2020, the aggregate outstanding insured shares of all federally insured credit unions were estimated at \$1.4 trillion. This amount represents the maximum potential future guarantee payments that the NCUSIF could be required to make under the share insurance program, without consideration of any possible recoveries.