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# REPORT TO THE CONGRESS

UNITED STATES  
GENERAL ACCOUNTING OFFICE



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JUL 15 1975

Examination Of Financial  
Statements Of The National  
Credit Union Administration  
For The Fiscal Year Ended  
June 30, 1974, Limited By  
Restriction On Access To Credit  
Union Examination Records

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-164031(4)

To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on the examination of the financial statements of the National Credit Union Administration for fiscal year 1974.

We made our examination pursuant to the Federal Credit Union Act, as amended (12 U.S.C. 1752a(f) and 1789 (1970)).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; and the Administrator, National Credit Union Administration.

*James A. Atchaf*  
Comptroller General  
of the United States

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## FINANCIAL STATEMENTS

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COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

EXAMINATION OF FINANCIAL  
STATEMENTS OF THE NATIONAL  
CREDIT UNION ADMINISTRATION  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 1974, LIMITED BY  
RESTRICTION ON ACCESS TO  
CREDIT UNION EXAMINATION  
RECORDS

D I G E S T

WHY THE EXAMINATION WAS MADE

The Federal Credit Union Act, as amended, requires GAO to audit the National Credit Union Administration.

Background

The National Credit Union Administration was established in 1970 as an independent executive branch agency. Its objectives are to promote a national system of financially sound cooperative thrift and credit organizations and to provide a Federal system of share insurance to safeguard member savings in credit unions.

The Administration administers its insurance functions under a share insurance fund; it administers its functions of chartering, supervising, and examining credit unions under an operating fund. GAO examined the financial statements of both funds.

OPINION ON FINANCIAL STATEMENTS

Operating fund

In GAO's opinion, the Administration's financial statements present fairly the operating fund's financial position at June 30, 1973 and 1974, the results of its operations for the fiscal years then ended, and the changes in its financial position for the fiscal year ended June 30, 1974, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

## Share insurance fund

Financial statements for the share insurance fund do not show an estimate of the liability which the Administration may incur as a result of future credit union failures.

Because GAO's access to examination reports and related documentation was restricted, as in previous years, it could not determine (1) whether the Administration had taken effective followup action on all findings disclosed by its examinations and (2) the possible adverse effects that problem credit unions could have on the financial position of the insurance fund.

GAO cannot express an opinion on the reasonableness of:

- Assets acquired from liquidating credit unions because it was not practicable for GAO to verify by direct confirmation validity of the amounts owed by individual borrowers on their loans. (See pp. 11 and 12.)
- Allowance for doubtful accounts and bad debts expense because reasonableness of data used to compute the estimated losses was not determinable. (See p. 12.)

GAO also found the following are improperly classified:

- Insurance payments to shareholders are classified as an expense. However, insurance payments result in the acquisition of assets in the form of claims against closed credit unions, but they are not recorded as assets. (See pp. 12 and 13.)
- Asset recoveries from closed credit unions are classified as income. However, they should be treated as a reduction of the asset representing claims against closed credit unions. (See pp. 12 and 13.)

For reasons explained in the preceding paragraphs, GAO cannot express an overall opinion on the accompanying financial statements for

fiscal years 1973 and 1974. However, except as noted above, the individual amounts shown in the financial statements are fairly stated as of June 30, 1973 and 1974, and for the fiscal years then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General of the United States.

#### OTHER MATTERS OF INTEREST

GAO was unable to fully discharge its audit responsibilities for the share insurance fund because the Administration did not grant GAO access to the closed section of the examination reports on the credit unions it insures.

GAO believes that access to these records is essential because they contain opinions, conclusions, and recommendations of vital importance in conducting the Administration's affairs.

The Administration believes closed sections of the reports are confidential and that access to these sections is outside the scope of GAO's audit authority. (See pp. 4 and 5.)

On November 27, 1974, the maximum insurance for each member account increased from \$20,000 to \$40,000. (See p. 1.)

#### RECOMMENDATION

GAO recommends that the Administrator record payments to credit union shareholders of their insured accounts as an asset and corresponding recoveries as reductions of these assets.

#### AGENCY ACTIONS AND UNRESOLVED ISSUES

The Administration believes credit union examination reports and related data are confidential and that access to them is outside the scope of GAO's audit authority.

The Administrator agreed with our recommendation to change the accounting for insurance payments to credit union shareholders and asset recoveries from closed credit unions.

We were told the changes had been made effective January 1975.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report comments on GAO's inability to fully discharge its audit responsibility because Administration officials restricted access to examination reports, files, and other records on the credit unions it insures.

Both the Administration and GAO believe that the existing statutes support their respective positions. GAO recommends that the Congress amend the Federal Credit Union Act to clarify GAO's unrestricted access to credit union examination reports.

## CHAPTER 1

### INTRODUCTION

The National Credit Union Administration is an independent executive branch agency which charters, supervises, and examines Federal credit unions (12 U.S.C. 1751 et seq. (1970), as amended (Supp. III, 1973), and Public Law 93-383, 88 Stat. 719 (Aug. 22, 1974)). The Administration also insures member savings in Federal credit unions and qualified State-chartered credit unions (12 U.S.C. 1781-90 (1970)). The maximum insurance on each member account increased from \$20,000 to \$40,000, effective November 27, 1974.

The Administration's insurance functions are separated from its other functions of chartering, supervising, and examining credit unions. Insurance functions are administered under a share insurance fund and are financed principally by assessments against insured credit unions and from earnings on investments in Government interest-bearing securities. At June 30, 1974, the share insurance fund had accumulated net income of \$32 million since January 1, 1971. This was equivalent to .17 percent of estimated insured savings of \$13.7 billion in Federal credit unions at June 30, 1974, and insured savings of \$5.6 billion in federally insured State-chartered credit unions at August 31, 1974 (estimates not available at June 30, 1974). In addition to the accumulated net income, the fund has a \$100 million borrowing authority from the U.S. Treasury for emergencies. This borrowing authority has not been exercised. At June 30, 1974, 12,813 Federal credit unions and 1,877 State-chartered credit unions were insured under the share insurance program.

The Administration's chartering, supervising, and examining functions are administered under an operating fund and are financed by fees received from Federal credit unions for these services and from the share insurance fund for work related to share insurance. At June 30, 1974, the operating fund had accumulated net income of \$2.3 million.

### MANAGEMENT AND ADMINISTRATION

The Administrator, National Credit Union Administration, directs the activities of both the operating and the share insurance funds. The Administrator, appointed by the President with the advice and consent of the Senate, serves at the pleasure of the President.

A National Credit Union Board acts in an advisory capacity to the Administrator. The Board consists of a

Chairman, who serves at the pleasure of the President, and one member from each of the six Administration regions appointed by the President with the advice and consent of the Senate. Board members, except the Chairman, serve 6-year terms.

## EXAMINATION OF INSURED CREDIT UNIONS

### Federal credit unions

The Administration examines Federal credit unions to determine their financial condition and compliance with applicable laws and regulations. The Administration identifies potential problem areas in management and operations and assists in strengthening management. The examination is also the principal method used to determine if a Federal credit union continues to qualify for share insurance. In fiscal year 1974 the Administration conducted 12,052 examinations of Federal credit unions.

The Administration also has an early warning system which is designed to supplement its examinations; serve as a protective device for the insurance fund; and help identify Federal credit unions that might be verging on financial and management difficulties or that are, in fact, experiencing such differences.

The system also provides for the input of certain financial and management data obtained from examinations or reports submitted at required intervals by Federal credit unions. Subsequent data obtained by the examiners or submitted by the credit unions are then electronically compared with the previous data to determine if adverse trends have developed or persisted. If adverse trends have developed, the Administration will assist the credit unions in overcoming its problems.

### State-chartered credit unions

Although State-chartered credit unions are insured under the share insurance program, the Administration does not anticipate examining them nor are they included in the early warning system at present. Instead, the Administration uses, to the extent possible, the examination reports and other information furnished by State supervisory agencies or other organizations examining State-chartered credit unions.

In April 1974 the Administrator instituted a continued insurability program for federally insured State-chartered

credit unions. This program, a cooperative effort with State supervisory agencies, provides for the submission of information by State examiners concerning areas of noncompliance with Administration rules, regulations, and other data. The Administration intends to evaluate this data to determine if the State-chartered credit union continues to qualify for share insurance. At June 30, 1974, 40 of 44 State supervisory agencies had agreed to provide the information required.

## CHAPTER 2

### CONTINUED RESTRICTION ON ACCESS TO

#### REPORTS AND RECORDS ON CREDIT UNION EXAMINATIONS

During our audits of the Administration, we requested, but were denied, unrestricted access to the reports and related data on credit union examinations. In our opinion, this information was essential to our review and to the expression of an opinion on the Administration's statements.

After our initial audit, Administration officials said we would be granted access to the open section of the examination reports. This section contains financial data on the credit unions and a record which details the specific steps to be taken by the credit unions to correct any weaknesses or problems found during the examination. However, the officials said we would not be given access to the reports' closed section. This section contains the examiner's comments and views on the credit union's financial condition, insurability, management, prospects for future sound operations and growth, and recommendations for supervisory action.

The respective positions of GAO and the Administration on this matter are set forth in detail in our report to the Congress on the audit of the Administration for the periods ended June 30, 1971 and 1972 (B-164031(4), Sept. 18, 1973).

To fully discharge our audit responsibilities, we must have unrestricted access to such records which we believe are essential to expressing an opinion on the financial statements and to an independent and objective examination. We must have a comprehensive understanding of all important factors underlying the Administration's decisions and actions that may greatly affect its financial operations and condition.

Without unrestricted access to all sections of the examination reports of insured credit unions, we cannot evaluate important information affecting the Administration's financial operations and condition. Consequently, we cannot appraise the examinations' effectiveness in identifying insured credit unions whose failure could have an adverse effect on the share insurance fund's financial condition.

Although the Administration has granted us partial access to the examination reports, we believe that, to reach an informed and impartial opinion on the Administration's operations and financial condition, we must be granted unrestricted access to the reports. Since the closed section of the examination reports contains data pertinent to making an informed judgment regarding credit unions, we should be granted access to this section.

Because of the restrictions imposed by the Administration, we could not determine (1) whether the Administration took effective followup action on all findings disclosed by its examinations and (2) the possible adverse effects that problem credit unions could have on the financial position of the insurance fund.

The Administration believes that the closed section of the examination reports are confidential and that access is outside the scope of our audit authority. Both the Administration and GAO feel that the existing statutes support their respective positions.

In an April 23, 1975, letter, the Administrator told us that, in addition to examination reports, the Administration had implemented four control systems to enhance their abilities to identify problem credit unions and their impact on the financial condition of the share insurance fund. We believe, however, that these control systems do not replace the data contained in the examination reports but are used by the Administration to supplement its examinations. Therefore, we continue to believe that we must be granted unrestricted access to the examination reports.

MATTER FOR CONSIDERATION  
BY THE CONGRESS

To more effectively carry out our audit responsibility, we recommend that the Congress amend the Federal Credit Union Act to clarify our authority to have unrestricted access to credit union examination reports.

For this purpose the following language should be added to the act:

"The representatives of the General Accounting Office shall have access to all books, accounts, records, reports, files, and all other papers, things, or property belonging to or in use by the Administration pertaining to its accounts

and operations and necessary to facilitate the audits required by the Act, including credit union examination reports and related records, and they shall be afforded full facilities for verifying transactions with the balances or securities held by depositaries, fiscal agents, and custodians."

CHAPTER 3

INSURANCE ACTIVITIES

PROBLEM CREDIT UNIONS

The Administration classifies Federal credit unions as unsatisfactory, weak, satisfactory, or good. An unsatisfactory credit union has critical problems requiring personal supervision by an examiner. A weak credit union has problems which could require further attention. A satisfactory credit union has certain factors present which could evolve into problems in the future. A good credit union has no major problems.

The number of Federal credit unions in each classification and the Administration's estimate of insured savings at June 30, 1973 and 1974, are shown below.

	Number of credit unions		Estimated insured savings	
	<u>6/30/74</u>	<u>6/30/73</u>	<u>6/30/74</u>	<u>6/30/73</u>
Good or satisfactory	8,534	8,988	\$12,266,815,501	\$11,064,711,637
Weak	3,641	2,734	1,226,333,898	883,629,226
Unsatisfactory	<u>638</u>	<u>1,029</u>	<u>158,850,601</u>	<u>149,659,137</u>
Total	<u>12,813</u>	<u>12,751</u>	<u>\$13,652,000,000</u>	<u>\$12,098,000,000</u>

TEMPORARY 2-YEAR INSURANCE PROGRAM

After the share insurance program began in January 1971, the Administration found that a number of Federal credit unions could not qualify for insurance and therefore would face involuntary liquidation and the loss of their charters.

Public Law 92-221, enacted December 23, 1971, to amend the Federal Credit Union Act, provided for 2 years' share insurance for those credit unions that did not qualify for regular share insurance. During the 2 years, however, the Administrator was directed to offer all possible assistance to help those credit unions obtain regular insurance.

The 2-year insurance program ended in September 1974. Below is a summary showing the actions taken among Federal credit unions under this program from January 3, 1972, through September 30, 1974.

Qualified for regular insurance	901
Merged with other Federal credit unions	12
Converted to or merged with State-chartered credit unions	7
Entered liquidation	<u>199</u>
Total	<u><u>1,119</u></u>

Of the 199 credit unions which entered liquidation, 63 were placed into involuntary liquidation by the Administrator under provisions of the Federal Credit Union Act (12 U.S.C. 1787(a)(1) (1970)). The members' shares of these 63 credit unions totaled about \$1,831,000 and was paid from the share insurance fund. Also included were 43 credit unions in liquidation on January 3, 1972, which voted to resume operations to obtain 2-year share insurance but subsequently reentered liquidation. The reasons for liquidation are shown below.

Unsatisfactory financial condition	117
Inability to retain officers	36
Loss of field membership	14
Lack of growth	10
Lack of membership interest	9
Reduction in potential membership	8
Credit union service otherwise available	<u>5</u>
Total	<u><u>199</u></u>

#### LIQUIDATION OF INSURED CREDIT UNIONS

##### Federal credit unions

During fiscal year 1974, 223 Federal credit unions entered into voluntary liquidation. To expedite the voluntary liquidation for 63 Federal credit unions, the Administrator guaranteed the purchase of their loans by other credit unions, credit union trade associations, and financial institutions under authority granted him by the Federal Credit Union Act (12 U.S.C. 1788 (1970), as amended (Supp. III, 1973)).

At June 30, 1974, 183 guarantee agreements created a contingent liability of \$3,271,126 on the insurance fund. The contingent liability at June 30, 1973, was \$3,909,506.

During the fiscal year, the Administrator placed 97 insured, insolvent Federal credit unions in involuntary liquidation. Payment of members' shares in these credit unions by the fund amounted to about \$2,263,000 in fiscal year 1974. As of June 30, 1974, the fund had recovered about \$466,000 from these liquidating credit unions.

The largest Federal credit union which was placed into involuntary liquidation had assets of \$335,289. Total members' shareholdings amounted to \$298,500; the fund had paid \$240,341 at June 30, 1974.

State-chartered credit unions

During 1974 the share insurance fund made its first payouts to members of two federally insured State-chartered credit unions. Both State-chartered credit unions had been placed into liquidation by their State supervisor because of insolvency. Total members' shareholdings of these two credit unions amounted to \$143,597; the fund had paid \$139,425 at June 30, 1974.

## CHAPTER 4

### INTERNAL AUDIT

During our initial examination we recommended that an internal audit function be established within the Administration. The Administration recognized the need for such a function and established one which audited its financial affairs during fiscal year 1974.

The initial audit consisted of an examination of the Administration's financial transactions and statements for the period January 1 through December 31, 1973.

The internal audit report commented on the need to improve certain accounting procedures and internal controls and recommended that the project of writing an accounting manual be completed promptly.

We reviewed the internal audit work performed and relied to the extent practicable on it to define the scope of our examination.

## CHAPTER 5

### COMMENTS ON THE FINANCIAL STATEMENTS

#### ASSETS ACQUIRED FROM LIQUIDATING CREDIT UNIONS

The share insurance fund's statement of financial condition as of June 30, 1974 (sch. 4) included assets of \$1,493,530 acquired from liquidating credit unions. These assets consisted of loan portfolios purchased from liquidating credit unions under the Administration's loan guarantee program and direct purchase program described below.

#### Loan guarantee program

The Administrator is authorized by the Federal Credit Union Act (12 U.S.C. 1788(a)(2) (1970), as amended (Supp. III, 1973)) to guarantee the purchase of loans of liquidating credit unions to other organizations to expedite distributing the assets. Upon expiration of the guarantee agreement, the Administrator repurchases any guaranteed loans of the liquidating credit unions not collected by the organizations to which the Administrator made the guarantee. In fiscal year 1974 about \$138,000 was paid as a result of these guarantees.

#### Direct purchase program

The Administrator is authorized by the Federal Credit Union Act (12 U.S.C. 1787(i)(1) (1970)) to purchase the assets of insured credit unions which are closed for bankruptcy or insolvency. The act further provides that when the Administrator is acting as the liquidating agent he may not purchase assets without court approval.

The amount shown for assets acquired from liquidating credit unions under these programs may be overstated because the Administration has not established criteria to identify and write off any bad loans as uncollectible. Although an in-house collection activity was established late in January 1974, criteria for identifying uncollectible loans has not yet been established due to lack of experience in collecting these loans.

We were told that the Administration had not been able to contact the individual borrowers to verify the amounts due or to obtain correct addresses because of inadequate resources. Therefore, we could not follow the normal auditing procedures of confirming individual loans with borrowers or satisfy ourselves as to the validity of the individual

loan balances by other auditing procedures. Because the Administration has not identified loans which may be uncollectible, we were not able to satisfy ourselves as to the validity of the total amount shown for assets acquired from liquidating credit unions.

ALLOWANCE FOR DOUBTFUL ACCOUNTS AND  
BAD DEBTS EXPENSE

Because in-house collection activity was not established until January 1974, there has not been enough experience gained in collecting these loans acquired under the loan guarantee and direct purchase programs to reasonably estimate probable future losses for failure of the debtor to repay loan principal. Instead of establishing an allowance for doubtful accounts and charge to bad debts expense based on experience, the Administration used alternate methods for establishing the allowance and charge to expense. For those loans purchased under the loan guarantee program, the Administration estimated that 80 percent of these loans would probably be uncollectible. Estimates of uncollectible loan amounts purchased under the direct purchase program represent the difference between the unpaid balance and the corresponding fair market value of the loans at time of acquisition.

The absence of enough experience in collecting the loans prevented us from evaluating the reasonableness of the allowance for doubtful accounts and bad debts expense.

The Administration recognizes the need to initiate effective collection efforts on these loans and is currently developing procedures to collect from borrowers and facilitate the operation of its loan management program.

INSURANCE PAYMENTS TO CREDIT UNION  
SHAREHOLDERS AND ASSETS RECOVERED  
FROM CREDIT UNIONS

The Federal Credit Union Act (12 U.S.C. 1787(a)(2) and (d) (1970)) provides that the Administrator, upon payment to credit union shareholders of their insured accounts, acquires the rights these shareholders held against the assets of a closed credit union. Thus, the Administrator, in place of the original shareholders, acquires claims against the assets of an insured credit union and is entitled to receive a pro rata share of amounts realized from the liquidation of the credit union's assets.

It is the Administration's policy to charge insurance payments made to credit union shareholders to expense in the fiscal year the payment is made. In addition, the Administrator's share of amounts realized from the liquidation of an insured credit union's assets are recorded as income in the fiscal year received. We believe the Administration's accounting treatment for insurance payments to shareholders and asset recoveries from liquidating credit unions needs to be modified to provide for better financial disclosure of the results of the Administration's insurance activities.

Payments to credit union shareholders of their insured accounts result in the acquisition of assets in the form of claims against the assets of a closed credit union and should be recorded as such. Corresponding recoveries on these claims are reductions of the claims the Administrator acquired against the assets of the insured credit unions and should not be recognized as income.

#### Recommendation to the Administrator

We recommend that the Administrator record payments to credit union shareholders of their insured accounts as an asset. We also recommend that corresponding asset recoveries from credit unions be recorded as reductions of these assets.

#### Agency comments

In an April 23, 1975, letter (see app. I), the Administrator agreed with our recommendations and told us that the recommended changes in accounting had been made effective January 1975.

#### ESTIMATED LIABILITY FOR PROBLEM CREDIT UNIONS

The share insurance fund financial statements do not show an estimate of the liability which the Administration could incur as a result of problem conditions in insured credit unions. In an April 23, 1975, letter, the Administrator stated that:

"As a result of the constantly changing economic conditions, we are unable to predict or forecast the number of Federally insured credit unions that may fail in subsequent years. Accordingly, we do not believe there is a practical method to fairly estimate such a liability. The GAO \* \* \* report is

silent as to recommendations that we may pursue to acquire this information."

Because the Administration did not permit unrestricted access to examination reports on insured credit unions, we could not determine (1) the relationship which might exist between problem credit unions and the estimating of a liability or (2) the problems inherent in estimating such a liability.

## CHAPTER 6

### SCOPE OF AUDIT AND OPINION

#### ON FINANCIAL STATEMENTS

##### SCOPE OF AUDIT

We examined the operating fund's statement of financial condition at June 30, 1973 and 1974, and the related statements of income and expense for the years then ended, and the changes in financial position for the fiscal year ended June 30, 1974. We also examined the share insurance fund's statement of financial condition at June 30, 1973 and 1974, the related statements of income and expense for the years then ended, and the changes in financial position for the fiscal year ended June 30, 1974, and the statement of analysis of the share insurance fund from the fund's inception through June 30, 1974.

We made our examination in accordance with generally accepted auditing standards, with the exception of unrestricted review of credit union examination reports (see pp. 4 and 5) and confirmation of amounts due which are included in assets acquired from liquidating credit unions (see p. 11).

In addition, our examination included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances and appropriate in view of the effectiveness of the system of internal control and the work done by the internal audit staff.

##### OPINION ON FINANCIAL STATEMENTS

The Administration prepared the financial statements in this report (schs. 1 through 7). We prepared the notes to the financial statements.

##### Operating fund

In our opinion, the accompanying financial statements present fairly the operating fund's financial position at June 30, 1973 and 1974, and the results of its operations for the years then ended and the changes in its financial position for the fiscal year ended June 30, 1974, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

## Share insurance fund

The share insurance fund financial statements do not show an estimate of the liability which the Administration could incur as a result of problem conditions existing in insured credit unions. Because our access to examination reports on insured credit unions was restricted, we could not determine (1) whether the Administration had taken effective followup action on findings revealed by its examiners and (2) the possible adverse effects that problem credit unions could have on the financial position of the insurance fund.

Also, we cannot express an opinion on the reasonableness of:

- Assets acquired from liquidating credit unions because it was not practicable for us to verify by direct confirmation the validity of the amounts owed by individual borrowers on their loans.
- Allowance for doubtful accounts and bad debts expense because the reasonableness of the data used to compute the estimated losses was not determinable.

GAO also found the following are improperly classified:

- Insurance payments to shareholders are classified as an expense. However, insurance payments result in the acquisition of assets in the form of claims against closed credit unions, but they are not recorded as assets.
- Asset recoveries from closed credit unions are classified as income. However, they should be treated as a reduction of the asset representing claims against closed credit unions.

For reasons explained in the preceding paragraphs, we cannot express an overall opinion on the accompanying financial statements for fiscal years 1973 and 1974. However, except as noted above, the individual amounts shown in the financial statements are fairly stated as of June 30, 1973 and 1974, and for the fiscal years then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General of the United States.

## NATIONAL CREDIT UNION ADMINISTRATION

## OPERATING FUND

## COMPARATIVE STATEMENT OF FINANCIAL CONDITION

JUNE 30, 1974, AND JUNE 30, 1973

## ASSETS (notes 1, 2, and 3)

	<u>June 30, 1974</u>	<u>June 30, 1973</u>
<b>CURRENT ASSETS:</b>		
Cash:		
With the U.S. Treasury and in transit	\$ 94,388	\$ 992,023
On hand	<u>500</u>	<u>500</u>
	\$ 94,888	\$ 992,523
Accounts receivable	163	3,584
Accrued fees:		
Supervision fees	937,591	971,864
Examination fees	<u>158,685</u>	<u>124,680</u>
	1,096,276	1,096,544
Travel advances	66,816	42,181
Estimated receivables for examinations in process	<u>110,925</u>	<u>98,619</u>
Total current assets	1,369,068	2,233,451
<b>FIXED ASSETS:</b>		
Equipment	398,098	380,027
Less accumulated depreciation	<u>90,449</u>	<u>112,043</u>
	307,649	267,984
<b>OTHER ASSETS:</b>		
Reimbursements due from share insurance fund	<u>1,882,710</u>	<u>965,253</u>
Total assets	<u>\$3,559,427</u>	<u>\$3,466,688</u>
<b>LIABILITIES AND RETAINED EARNINGS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 208,259	\$ 180,320
Accrued liabilities	325,979	534,429
Liability for advances from other agencies	65,909	65,909
Liability for accrued annual leave	<u>704,913</u>	<u>683,152</u>
Total current liabilities	\$1,305,060	\$1,463,810
<b>OTHER LIABILITIES:</b>		
Liability for agency cashier funds	<u>500</u>	<u>500</u>
Total liabilities	1,305,560	1,464,310
<b>RETAINED EARNINGS:</b>		
Reserve for claims	300,000	300,000
Current and prior years' earnings	<u>1,953,867</u>	<u>1,702,378</u>
Total liabilities and retained earnings	<u>\$3,559,427</u>	<u>\$3,466,688</u>

The notes following schedule 3 are an integral part of this statement.

GAO's opinion on these statements is set forth on page 15.

## NATIONAL CREDIT UNION ADMINISTRATION

## OPERATING FUND

## COMPARATIVE STATEMENT OF INCOME AND EXPENSE

## FOR THE FISCAL YEARS ENDED

JUNE 30, 1974, AND JUNE 30, 1973

	<u>Fiscal year 1974</u>	<u>Fiscal year 1973</u>
INCOME (notes 1 and 4):		
Charter fees	\$ 9,705	\$ 7,765
Supervision fees	2,022,900	2,072,100
Examination fees	<u>7,217,278</u>	<u>7,337,336</u>
Total income	\$9,249,883	\$9,417,201
OPERATING EXPENSES:		
Personnel compensation and benefits	7,154,386	7,021,159
Travel	976,101	942,956
Transportation of things	26,268	53,651
Rent and communications	254,390	443,656
Printing and reproduction	129,458	134,331
Other contractual services	317,234	397,268
Supplies and materials	87,909	83,559
Depreciation of equipment	34,983	35,023
Annual leave	<u>17,665</u>	<u>23,514</u>
Total expenses	<u>8,998,394</u>	<u>9,135,117</u>
Net income	\$ <u>251,489</u>	\$ <u>282,084</u>

The notes following schedule 3 are an integral part of this statement.

GAO's opinion on these statements is set forth on page 15.

NATIONAL CREDIT UNION ADMINISTRATION  
 OPERATING FUND  
 STATEMENT OF CHANGES IN FINANCIAL POSITION  
 FOR FISCAL YEAR 1974

FUNDS PROVIDED:	
Income from charter, supervision, and examination fees	\$9,249,883
Decrease in net working capital	<u>705,633</u>
	<u>\$9,955,516</u>
FUNDS APPLIED:	
Operating expenses, excluding depreciation	\$8,959,315
Purchase of equipment	78,744
Increase in amounts due from the share insurance fund	<u>917,457</u>
	<u>\$9,955,516</u>

The notes following schedule 3 are an integral part of this statement.

GAO's opinion on these statements is set forth on page 15.

NOTES TO FINANCIAL STATEMENTS

OPERATING FUND

1. Accounting policies:

--Supervision fees applicable to the second half of a fiscal year are not received by the Administration until the following fiscal year. Accordingly, the Administration estimates a portion of the fees which is based on management forecasts of Federal credit union growth.

--Fixed assets are depreciated on a straight-line basis using a composite useful life of 10 years.

--The basis for allocating costs to the share insurance fund is based on the actual examiner time spent on supervision activity.

2. These statements do not include accountability for the funds held in trust for unpaid shareholders of liquidated credit unions. These funds, which amounted to \$251,456 and \$470,853 at June 30, 1973 and 1974, respectively, were held by the U.S. Treasury.

3. At December 31, 1974, there were three legal actions pending where the Administration was named as defendant involving claims that had an estimated maximum liability of about \$3 million. The Administration's General Counsel is of the opinion that the actions are without merit but if successful the Administration's actual liability would be substantially less than \$3 million. The Administration's contingent liability on these claims is not included in these statements.

4. By action of the Administrator, supervision fees for calendar year 1974 were reduced 35 percent, except when the minimum fee was still required by the Federal Credit Union Act.

NATIONAL CREDIT UNION ADMINISTRATION  
 SHARE INSURANCE FUND  
 COMPARATIVE STATEMENT OF FINANCIAL CONDITION  
 JUNE 30, 1974, AND JUNE 30, 1973

ASSETS	June 30, 1974	June 30, 1973
<b>CURRENT ASSETS:</b>		
Cash with U.S. Treasury and in transit	\$ 206,908	\$ 254,723
Accrued interest receivable	207,277	198,654
Accounts receivable	122	-
Loans to insured credit unions	265,000	200,000
Assets acquired from liquidating credit unions (note 3)	\$1,493,530	
Less: Allowance for doubtful accounts	<u>544,353</u>	<u>949,177</u>
Total current assets	1,628,484	653,377
<b>INVESTMENTS IN U.S. GOVERNMENT SECURITIES (note 1)</b>	39,987,764	26,881,001
<b>OTHER ASSETS:</b>		
Assets acquired from liquidating credit unions	-	\$ 25,090
Loans to insured credit unions (note 6)	144,017	83,738
Advances to liquidating credit unions	<u>8,173</u>	<u>152,190</u>
Total assets	<u>\$41,768,438</u>	<u>\$27,643,206</u>
<b>LIABILITIES AND RETAINED EARNINGS</b>		
<b>CURRENT LIABILITIES:</b>		
Deferred share insurance premiums (note 1)	\$ 6,859,052	\$ 5,870,411
Amounts due to liquidating agents of insured credit unions	573,531	-
Unapplied receipts	<u>49,877</u>	<u>-</u>
Total current liabilities	7,482,460	5,870,411
<b>OTHER LIABILITIES (note 4)</b>		
Liability to the operating fund	\$1,882,710	\$965,253
Liability for advances from another agency (note 5)	435,190	480,864
Liability for funds held in trust	<u>-</u>	<u>2,317,900</u>
Total liabilities	9,800,360	7,363,132
<b>RETAINED EARNINGS:</b>		
Current and prior years' earnings (sch. 7)	<u>31,968,078</u>	<u>20,280,074</u>
Total liabilities and retained earnings	<u>\$41,768,438</u>	<u>\$27,643,206</u>

The notes following schedule 7 are an integral part of this statement.

GAO's opinion on these statements is set forth on pages 16.

## NATIONAL CREDIT UNION ADMINISTRATION

## SHARE INSURANCE FUND

## COMPARATIVE STATEMENT OF INCOME AND EXPENSE

## FOR THE FISCAL YEARS ENDED

JUNE 30, 1974, AND JUNE 30, 1973

	<u>Fiscal year 1974</u>	<u>Fiscal year 1973</u>
<b>INCOME:</b>		
Share insurance premiums (note 1)	\$12,870,790	\$10,722,687
Income from U.S. Government securities	2,259,470	1,089,255
Assets recovered from liqui- dating credit unions (note 2)	887,244	500,884
Other interest income	<u>18,497</u>	<u>-</u>
Total income	\$16,036,001	\$12,312,826
<b>OPERATING EXPENSES (note 1):</b>		
Salaries and personnel benefits	1,373,691	1,088,369
Travel	136,217	125,118
Other administrative expenses	<u>361,549</u>	<u>143,451</u>
Total operating expenses	1,871,457	1,356,938
Insurance payments to credit union shareholders and expenses (note 2)	<u>2,476,540</u>	<u>1,365,706</u>
Total expenses	<u>4,347,997</u>	<u>2,722,644</u>
Net income	<u>\$11,688,004</u>	<u>\$ 9,590,182</u>

The notes following schedule 7 are an integral part of this statement.

GAO's opinion on these statements is set forth on page 16.

## NATIONAL CREDIT UNION ADMINISTRATION

## SHARE INSURANCE FUND

## STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR FISCAL YEAR 1974

FUNDS PROVIDED:	
Insurance premiums	\$12,870,790
Increase in deferred share insurance premiums	988,641
Investment income less amortized net discounts	1,072,696
Matured U.S. Treasury investments	24,486,966
Increase in amounts owed to the operating fund	917,457
Recovery of assets from liquidating credit unions	887,244
Other income	<u>18,497</u>
	<u>\$41,242,291</u>
FUNDS APPLIED:	
Operating expenses	\$ 1,871,457
Purchase of U.S. Treasury investments	36,406,954
Insurance payments to credit union shareholders	2,476,540
Loans and advances to insured credit unions	68,452
Payments to OEO liquidating credit unions	45,675
Transfer of funds to the trust accounts	46,604
Increase in net working capital	<u>326,609</u>
	<u>\$41,242,291</u>

The notes following schedule 7 are an integral part of this statement.

GAO's opinion on these statements is set forth on page 16.

## NATIONAL CREDIT UNION ADMINISTRATION

## ANALYSIS OF SHARE INSURANCE FUND

FROM JANUARY 1, 1971, to JUNE 30, 1974

## INCOME:

Insurance premiums	\$34,798,034
Income from U.S. Government securities	3,946,130
Assets recovered from liquidating credit unions	1,388,128
Other interest income	<u>18,497</u>
Total income	<u>40,150,789</u>

## EXPENSES:

Operating expenses	4,339,691
Share insurance payments to credit union shareholders	<u>3,843,020</u>
Total expenses	<u>8,182,711</u>
Share insurance fund, net income accumulated since January 1, 1971	<u>\$31,968,078</u>

The notes following schedule 7 are an integral part of this statement.

GAO's opinion on these statements is set forth on page 15.

## NOTES TO FINANCIAL STATEMENTS

### SHARE INSURANCE FUND

#### 1. Accounting policies:

--U.S. Government securities are presented at amortized cost, which is the purchase price of the securities less the amortized premium or plus the amortized discount. Premiums and discounts are amortized on a straight-line basis from the acquisition date to the maturity date.

--The basis for costs allocated from the operating fund is based on the actual examiner time spent on supervision activity.

--Share insurance premiums are paid by insured credit unions on a calendar-year basis but are applicable to 2 fiscal years. Accordingly, the Administration defers one-half of the share insurance premiums received to the fiscal year following receipt of the premiums.

--Insurance payments to credit union shareholders of their insured accounts are treated as an expense when paid. Corresponding asset recoveries from liquidating credit unions are recognized as income when received.

2. In prior fiscal years, recoveries of assets from liquidating credit unions were treated as a reduction of the payments made to shareholders during the fiscal year. In fiscal year 1974, the accounting treatment was changed so that asset recoveries received during the year are treated as income rather than as a reduction of the payments to shareholders. The effects of this change are an increase of \$887,244 and \$500,884 in both total income and total expenses in fiscal years 1974 and 1973, respectively. Net income for fiscal year 1973 remained unchanged.

3. The Administrator is authorized by the Federal Credit Union Act (12 U.S.C. 1787(i)(1) (1970)), to purchase the assets of insured credit unions which are closed for liquidation on account of bankruptcy or insolvency. In these cases where the Administrator is acting as the liquidating agent, the purchase of the assets may not be made without court approval.

At June 30, 1974, about \$1,317,508 of the assets acquired from liquidating credit unions were awaiting court approval.

4. Contingent liabilities:

Guarantee agreements

The Administrator is authorized by the Federal Credit Union Act (12 U.S.C. 1788(a)(2) (1970), as amended (Supp. III, 1973)) to guarantee the purchase of loans of liquidating credit unions to other organizations to expedite the distribution of assets of the liquidating credit unions. These guarantees create a contingent liability on the share insurance fund that is not included in these statements as follows:

June 30, 1973	\$3,909,506
June 30, 1974	3,271,126

During fiscal year 1974, a number of the agreements expired and the Administrator repurchased the loans specified in the contracts. At June 30, 1974, the Administration had \$169,152 of these loans.

Unclaimed shares in insured credit unions

The Administrator is required by the Federal Credit Union Act (12 U.S.C. 1787(a)(2) and (h) (1970)) to notify each shareholder of a closed credit union account. Unclaimed shares in closed insured credit unions amounted to \$171,100 and \$549,754 at June 30, 1973 and 1974. These amounts are not recorded in the financial statements. The liability of the share insurance fund to pay these unclaimed shares ends if after 18 months from the date of appointment of the liquidating agent for the closed credit union the shareholder fails to claim the insured account.

5. The liability of \$435,189 to other agencies arose from an agreement with the Office of Economic Opportunity which provided the funds to make selected Federal credit unions insurable. During fiscal year 1974, \$45,675 had been paid to liquidating OEO-related Federal credit unions included under the agreement.
6. Subsequent to June 30, 1974, the Administration estimated that about \$79,017 of the loans to insured credit unions classified as other assets may not be collectible and have accordingly established an allowance for losses on loans.



NATIONAL CREDIT UNION ADMINISTRATION  
Washington, D.C. 20456

Office of the Administrator

April 23, 1975

Mr. J. E. Thornton, Director  
Field Operations Division  
United States General Accounting Office  
Washington, D. C. 20548

Dear Mr. Thornton:

I am pleased to respond to your letter of April 3, 1975 and draft report covering the financial statements of this agency for fiscal year 1974. I am providing comments which address major areas of concern highlighted in your report. Those items requiring mechanical changes to the draft have been commented on in the enclosure.

Before commenting on these major areas of concern, however, I wish to express my appreciation for the efforts of your staff. Our management staff within the Division of Financial Management is relatively new and your recommendations, briefings, and positive attitude during the audit were educational as well as productive in improving the effectiveness of our operations.

OPINION ON FINANCIAL STATEMENTS - NATIONAL CREDIT UNION SHARE INSURANCE FUND

"...The financial statements do not reflect an estimate of the liability which the Administrator may incur as a result of future credit union failures..."

As a result of the constantly changing economic conditions, we are unable to predict or forecast the number of Federally insured credit unions that may fail in subsequent years. Accordingly, we do not believe there is a practical method to fairly estimate such a liability. The GAO draft report is silent as to recommendations that we may pursue to acquire this information.

CONTINUED RESTRICTION ON ACCESS TO REPORTS ON CREDIT UNION EXAMINATIONS

"...During our prior audits of the Administration, we requested, but were denied, unrestricted access to the reports and related data on credit union examination (sic). In our opinion,

## APPENDIX I

this information was essential to our review and to the expression of an opinion on the Administration's statements..."

It is our opinion that the GAO auditors were provided those portions of the examination report that permit determination as to corrective action taken on problem areas identified during examinations. In addition to examination reports, we have developed and implemented the following control systems that enhance our abilities to identify problem credit unions and what their impact may be on the financial condition of the insurance fund: Early Warning System, Liquidation Alert System, Cash Alert System and the MIS Liquidation Reporting System. The aforementioned reporting systems are available to the auditors for review.

### DIRECT CONFIRMATION OF THE AMOUNTS OWED BY INDIVIDUAL BORROWERS ON THEIR LOANS

"...Also, we cannot express an opinion on the reasonableness of assets acquired from liquidating credit unions because it was not practicable for us to verify by direct confirmation the validity of the amounts owed by individual borrowers on their loans..."

We believe this paragraph needs to be qualified. "It was not practical" for you to verify the accounts because the Loan Management System was in operation for only two months at the time of your audit. The system was still in process of being developed, refined and implemented at that time.

### INSURANCE PAYMENTS CLASSIFIED AS EXPENSES

"...Insurance payments to shareholders are improperly classified as an expense. Insurance payments result in the acquisition of assets in the form of claims against closed credit unions but are not recorded as assets..."

The accounting for this activity has been changed effective January 1975, based upon your recommendations.

### ASSET RECOVERIES CLASSIFIED AS INCOME

"...Asset recoveries from closed credit unions are improperly classified as income. They should be treated as a reduction of the asset representing claims against closed credit unions..."

The accounting for this activity, as well, has been changed effective January 1975, based upon your recommendations.

The above comments represent the major areas of concern which we request consideration for incorporation in your report to Congress. Their intent is to qualify statements made in your draft report and show where corrective action has already been implemented. If incorporation of this information into your final report is not feasible, we request that a copy of this letter be submitted with the report. Should further information be desired, please feel free to contact me.

Sincerely,

  
HERMAN NICKERSON, JR.  
Administrator

Enclosure

APPENDIX II

PRINCIPAL OFFICIALS OF THE  
 NATIONAL CREDIT UNION ADMINISTRATION  
 RESPONSIBLE FOR THE ACTIVITIES  
 DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
ADMINISTRATOR: Herman Nickerson, Jr.	Sept. 1970	Present
DEPUTY ADMINISTRATOR: Lorena C. Matthews	July 1974	Present
Carroll Smith (acting)	Jan. 1974	June 1974
J. Deane Gannon	Sept. 1970	Dec. 1973
ASSISTANT ADMINISTRATOR FOR ADMINISTRATION:		
Ray Motsenbocker	Oct. 1974	Present
Carroll Smith	Mar. 1970	Oct. 1974

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