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The financial statements of the National Credit Union Administration (NCUA) present fairly its position at September 30, 1977, and the results of operations and changes in its financial position for the 15 months then ended.

Findings/Conclusions: The NCUA is an independent executive branch agency which charters, supervises, and examines Federal credit unions. It also insures member savings in Federal credit unions and qualified State-chartered credit unions. At September 30, 1977, there were 12,735 Federal credit unions and 3,794 federally insured State-chartered credit unions. While the NCUA examines the Federal credit unions each year, it relies on State supervisory agency information for federally insured State credit unions. The information received from some State supervisory agencies is sometimes incomplete or not current. As a result, the NCUA may not have the best possible information on which to make decisions such as whether to provide financial assistance to State credit unions with serious problems which could eventually result in payments from the share insurance fund. Recommendations: The Administrator of the NCUA should examine federally insured State credit unions and develop an early warning system to identify problems with these State credit unions. Initial experimental programs begun by NCUA to examine federally insured State credit unions which are experiencing problems in some States and to help some State agencies to develop early warning systems should be expanded to include federally insured State credit unions in all of the States. (Author/SC)

7351

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Examination Of Financial Statements Of The National Credit Union Administration For The 15 Months Ended September 30, 1977

The financial statements of the National Credit Union Administration present fairly its position at September 30, 1977, and the results of operations and changes in its financial position for the 15 months then ended.

GAO recommends the National Credit Union Administration examine federally insured State credit unions and develop an early warning system to detect federally insured State credit unions with problems.



FOD-78-2
AUGUST 14, 1978



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

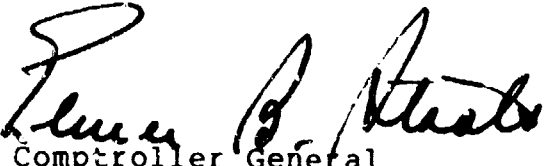
B-164031(4)

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

This report summarizes the results of our examination of the financial statements of the National Credit Union Administration for the 15 months ended September 30, 1977.

We made our examination pursuant to the Federal Credit Union Act, as amended (12 U.S.C. 1752a(f) and 1789 (1976)).

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.


Comptroller General
of the United States

D I G E S T

The Federal Credit Union Act, as amended, requires GAO to audit the National Credit Union Administration's operating fund and share insurance fund.

In GAO's opinion, the financial statements of the operating and share insurance funds present fairly the financial position of the National Credit Union Administration at September 30, 1977, and the results of its operations and the changes in its financial position for the period then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States. (See pp. 11 and 12.)

At September 30, 1977, there were 12,735 Federal credit unions and 3,794 federally insured State-chartered credit unions. The National Credit Union Administration examines Federal credit unions each year, but it relies on State supervisory agency information for federally insured State credit unions.

The information received from some State supervisory agencies is sometimes incomplete or not current. As a result, the National Credit Union Administration may not have the best possible information on which to make decisions, such as whether to provide financial assistance to State credit unions with serious problems, which could eventually result in payments from the share insurance fund.

GAO recommends that the Administrator, National Credit Union Administration, examine federally insured State credit unions and develop an early warning system to identify problems with these State credit unions. (See pp. 3 and 4.)

The Administrator said that in some cases it would be beneficial for the National Credit Union Administration to examine federally insured State credit unions which are experiencing problems and that it has begun an experimental program with two State supervisory agencies. The Administrator also said that the National Credit Union Administration has begun preliminary work to develop an early warning system and it has assisted some State supervisory agencies in developing early warning systems. (See p. 4.)

GAO believes that the National Credit Union Administration's actions are a good initial effort. However, GAO believes that the National Credit Union Administration should expand the scope of its corrective actions to include federally insured State credit unions in all of the States.

STATUS OF PREVIOUSLY REPORTED ITEMS

In last year's report, GAO stated that it could not express an opinion on the reasonableness of certain fiscal year 1976 account balances of the share insurance fund. GAO recommended that the Administrator complete efforts to identify and write off uncollectable items and base the allowance for doubtful accounts for assets acquired on program experience as soon as adequate experience is available. (FOD-77-6, May 23, 1977.)

This year the agency had taken or was taking satisfactory corrective actions. (See ch. 4.)

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Credit Union Administration respon-
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in this report

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ABBREVIATIONS

- GAO General Accounting Office
NCUA National Credit Union Administration
OEO Office of Economic Opportunity

CHAPTER 1

INTRODUCTION

The National Credit Union Administration (NCUA) is an independent executive branch agency which chartered, supervises, and examines Federal credit unions (12 U.S.C. 1751 et seq. (1976)). NCUA also insures member savings in Federal credit unions and qualified State-chartered savings credit unions. The maximum insurance on each member account is \$40,000, effective November 27, 1974.

NCUA's insurance functions are separated from its other functions of chartering, supervising, and examining credit unions. Insurance functions are financed principally by assessments against insured credit unions and from earnings on investments in U.S. Government interest-bearing securities.

At September 30, 1977, the share insurance fund had accumulated net income of \$90 million. This was equivalent to 0.3 percent of estimated insured savings of \$24.8 billion in Federal credit unions and \$10.7 billion in federally insured State-chartered credit unions at September 30, 1977. In addition, the fund has a \$100 million borrowing authority from the U.S. Treasury. No money has yet been borrowed.

At September 30, 1977, 12,735 Federal credit unions and 3,794 State-chartered credit unions were insured under the share insurance program.

NCUA'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 September 30, 1977, and June 30, 1976, the operating fund had accumulated retained earnings of \$3.9 million and \$3.2 million, respectively.

MANAGEMENT AND ADMINISTRATION

NCUA's Administrator 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 advises the Administrator. The Board consists of the Chairman, who serves at the pleasure of the President, and one member, appointed by the President with the advice and consent of the Senate, from each of the six NCUA regions. Board members, except the Chairman, serve 6-year terms.

CHAPTER 2

SUPERVISION AND EXAMINATION OF INSURED CREDIT UNIONS

FEDERAL CREDIT UNIONS

NCUA examines Federal credit unions to determine their financial condition and whether they comply with laws and regulations. It identifies potential management and financial problems and helps the credit unions managers resolve them. The examination is the principal method used to determine if a Federal credit union continues to qualify for share insurance. During the 15 months ended September 30, 1977, NCUA examined 14,765 Federal credit unions.

NCUA also has an early warning system designed to (1) supplement its examinations, (2) serve as a protective device for the insurance fund, and (3) help identify Federal credit unions that might be developing financial and management difficulties or do have such difficulties. Under the system certain financial and management data regularly submitted by Federal credit unions is obtained and used. Data obtained later by the examiners or submitted by the credit unions is then electronically compared with the previous data to determine if adverse trends have developed or persisted. In either case NCUA assists the credit unions in overcoming their problems.

STATE-CHARTERED CREDIT UNIONS

Over one-half of all State-chartered credit union savings is federally insured. NCUA does not examine these State-chartered credit unions, nor are they included in the early warning system. Instead, to monitor the condition of these State credit unions, it relies on examinations and information provided by State supervisory agencies. NCUA uses this information to determine whether it will continue to insure each credit union and, if necessary, what kind of financial assistance could be given to assist those with serious problems. Financial assistance can be given to prevent the closing of a credit union or to assist a voluntary liquidation. The purpose of financial assistance is to reduce the risk of or avert loss to the share insurance fund.

NCUA officials are not satisfied with some State supervisory agencies and have occasionally encountered problems. For example, some State supervisory agencies respond in an

untimely manner to routine NCUA information requests. Routine information requests are needed because some State supervisory agency examinations do not include enough information for NCUA to make an assessment of a credit union's condition. Difficulty in getting current information is one reason NCUA has not implemented an early warning system for State-chartered credit unions. Without an early warning system, some State credit unions could develop serious difficulties unknown to NCUA. These problems prevent NCUA from making informed decisions concerning financial assistance and termination of insurance.

Our review disclosed problems with some federally insured State-chartered credit unions.

In one case NCUA relied solely on the State supervisory agency to examine and supervise a State credit union which had problems that had persisted over several years. In 1977 this credit union was placed into involuntary liquidation by the State, and estimated share insurance fund losses are expected to be at least \$300,000. Before it liquidated, NCUA officials had found that the State examination reports were incomplete and that the reports did not give enough details of the credit union's problems or state what corrective action was being taken. In addition, NCUA received little information concerning State supervisory followup on the credit union's problems. In spite of repeated requests to the State supervisor for additional information, NCUA waited as much as 1 year to receive information needed to determine the continued insurability of the credit union. Although this credit union was considered a problem case for 2 years, NCUA made no examinations or supervisory contacts with the credit union, which was in accordance with NCUA policy at that time. We believe that, had NCUA received adequate information and taken effective action, liquidation may have been prevented and share insurance fund losses may have been minimized.

In another recent case, NCUA provided financial assistance to a State credit union by giving it a \$7.5 million loan and a line of credit of another \$2.5 million. This action was taken without a Federal examination or supervisory contact, although NCUA did review information obtained by the State supervisor. NCUA expects this credit union should recover from its problems.

However, we believe NCUA is taking unnecessary risks by not examining State-chartered credit unions. We recognize

that NCUA can examine only a limited number of credit unions, but we believe all credit unions that may need financial assistance should be monitored as closely as possible to minimize payments from the share insurance fund.

RECOMMENDATION

We recommend that the Administrator of NCUA examine federally insured State credit unions and develop an early warning system for these State credit unions. In addition, by examining State credit unions, NCUA can develop a closer working relationship with State supervisory agencies. This could help the State supervisory agencies perform more effective examinations.

AGENCY COMMENTS

The Administrator said that, although he disagrees with the conclusions reached in our specific examples, he believes it would be beneficial for NCUA to examine State credit unions which are experiencing problems. NCUA has already entered into agreements with two State supervisory agencies to make joint examinations on an experimental basis. The Administrator plans to develop a policy statement at the conclusion of the experiment.

The Administrator also said that NCUA has begun preliminary work to develop an early warning system for State credit unions. Further, NCUA has assisted some State supervisory agencies in developing State early warning systems similar to the Federal system.

We believe that NCUA's actions are a good initial effort toward improving NCUA's capabilities to identify and monitor those State credit unions which may need financial assistance. However, we believe that NCUA should expand the scope of these corrective actions to include federally insured State credit unions in all of the States.

PROBLEM CREDIT UNIONS

NCUA classifies credit unions it insures 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. A good credit union has no major problems.

The number of Federal credit unions in each classification and NCUA's estimate of insured savings as of last examinations on September 30, 1977, and June 30, 1976, are shown below.

	Number of Federal credit unions		Estimated insured savings	
	Sept. 30, <u>1977</u>	June 30, <u>1976</u>	Sept. 30, <u>1977</u>	June 30, <u>1976</u>
	(000 omitted)			
Good or satisfactory	9,139	8,584	\$19,749	\$15,779
Weak	3,193	3,553	2,223	1,734
Unsatisfactory	<u>488</u>	<u>692</u>	<u>348</u>	<u>255</u>
Total	<u>12,820</u>	<u>12,829</u>	<u>\$22,320</u>	<u>\$17,768</u>

Reports received on insured State-chartered credit unions are evaluated using criteria similar to those applied to Federal credit unions. NCUA began classifying insured State-chartered credit unions by problem severity in fiscal year 1973. At February 3, 1978, there were 134 unsatisfactory State-chartered credit unions with estimated insured savings of \$310 million. Information on the other classifications is not available because NCUA has no early warning system for State-chartered credit unions.

We reviewed a sample of Federal credit union examination reports and insured State credit union examination records for fiscal year 1977. We assessed NCUA's examination classification procedures that identify problem credit unions.

We reviewed reports and related documents on a sample of credit unions in all four classifications, and we discussed the results with NCUA officials. We found problem Federal credit unions were being identified, the classification of credit unions appeared reasonable, and additional supervisory attention was being given to those credit unions having problems.

CHAPTER 3

LIQUIDATION OF INSURED CREDIT UNIONS

During the 15 months ended September 30, 1977, and fiscal year 1976, 108 and 198 Federal credit unions, respectively, entered into voluntary liquidation, which does not involve any payment of shareholder accounts by the share insurance fund. Solvency and a majority vote of credit union members are required to enter voluntary liquidation. For the 15 months ended September 30, 1977, and fiscal year 1976, the Administrator guaranteed the loans of 25 and 21 of these Federal credit unions, respectively, under authority of the Federal Credit Union Act (12 U.S.C. 1788 (1976)). These guaranteed loans were purchased by other credit unions, credit union trade associations, and financial institutions.

At September 30, 1977, a cumulative total of 116 guarantee agreements created a contingent liability of \$5,484,766 on the insurance fund. The contingent liability at June 30, 1976, was \$4,696,465 from all guarantee agreements.

The Administrator also placed 155 and 122 Federal credit unions in involuntary liquidation due to insolvency. Members' shareholdings in these credit unions totaled \$13.1 million and \$5.8 million for the respective periods.

For the 15 months ended September 30, 1977, and fiscal year 1976, 15 and 6 federally insured State-chartered credit unions, with total members' shareholdings of \$1,190,813 and \$90,587, were liquidated by their State supervisors because of insolvency.

Since its inception in 1970, the share insurance fund has paid the following amounts to insured shareholders whose credit unions were involuntarily liquidated due to insolvency.

<u>FY</u>	<u>Number of liquidations</u>	<u>Total annual payout</u>
1971	-	\$ -
1972	4	1,862
1973	50	1,365,671
1974	100	2,838,151
1975	153	5,542,265
1976	128	7,526,882
1977 (15 months)	170	16,644,657

Most involuntary liquidations involve small credit unions. During the 15 months ended September 30, 1977, almost 70 percent of all involuntary liquidations involved credit unions with assets of less than \$100,000.

The largest credit union which was placed into involuntary liquidation during the 15 months ended September 30, 1977, had assets of \$2,091,844. Most of these assets are loans that may not all be collectable or may take several years to collect. Total members' shareholdings in the credit union amounted to \$2,030,150, and the share insurance fund had paid \$1,679,380 through September 30, 1977.

The major reasons for the voluntary and involuntary liquidation of Federal and insured State credit unions during the 15 months ended September 30, 1977, and fiscal year 1976 were

- poor financial position,
- loss of membership, and
- inability to get officials.

CHAPTER 4

STATUS OF ITEMS PREVIOUSLY REPORTED TO THE CONGRESS

In our fiscal year 1976 report, we could not express an opinion on assets acquired from liquidating credit unions because of the poor response to our confirmation requests and the inclusion of a large number of uncollectable loans. We recommended that the Administrator

- complete efforts to identify and write off uncollectable loans,
- base the allowance for doubtful accounts for assets acquired on program experience, and
- expand the scope of the internal audit work.

We followed up on the above recommendations and proposed actions that were taken by the Administrator.

CONFIRMATION OF ASSETS ACQUIRED AND
ELIMINATION OF UNCOLLECTABLE LOANS

In our fiscal year 1976 report, we could not express an opinion on the reasonableness of the assets acquired from liquidating credit unions partly because of the limited response to our loan confirmation requests. The share insurance fund's statement of financial condition as of September 30, 1977, and June 30, 1976 (see sch. 4), included assets acquired from liquidating credit unions, with an allowance for doubtful accounts, as shown below.

	<u>9/30/77</u>	<u>6/30/76</u>
Assets acquired from liquidating credit unions	\$7,127,737	\$7,162,965
Allowance for doubtful accounts	<u>4,578,771</u>	<u>4,558,507</u>
Total	<u>\$2,548,966</u>	<u>\$2,604,458</u>

In accordance with generally accepted auditing procedures, we attempted to determine the reasonableness of the assets acquired from liquidating credit unions by direct confirmation with individual borrowers. For each year we selected a statistical sample of loans and requested borrowers to confirm the balance of their indebtedness as recorded on the NCUA records. Followup requests were sent

to those which had not responded to our initial request. The following table summarizes our confirmations.

	15 months ended <u>Sept. 30, 1977</u>	<u>FY 1976</u>
Number of loans in universe sampled	11,265	12,494
Number of loans in sample	450	436
Number responded	147	91
Responses indicating agreement	129	69

The remaining loan confirmations in our sample either were unanswered by borrowers or were undeliverable. Our confirmation responses were higher for our audit of the 15 months ended September 30, 1977, than for fiscal year 1976. For 1977 we also used alternative auditing procedures to confirm loans in addition to the 147 responses.

In our fiscal year 1976 report, we also could not express an opinion on assets acquired, partly because of the large number of uncollectable loans within that account. We recommended to the Administrator that uncollectable loans be eliminated. In 1976 NCUA began identifying and writing off uncollectable loans, and as a result almost 17,000 loans with balances of about \$5 million have been written off through September 30, 1977. At that time 3,412 loans were delinquent and may be considered uncollectable. NCUA predicts all uncollectable loans will be written off by December 31, 1978.

ESTABLISHMENT OF AN ALLOWANCE FOR LOSSES BASED UPON PROGRAM EXPERIENCE

The share insurance fund's statement of financial condition as of June 30, 1976 (sch. 4), includes, as a deduction from assets acquired from liquidating credit unions, an allowance for doubtful accounts of \$4,558,507. In addition, the share insurance fund's statement of income and expense for the period ended June 30, 1976 (sch. 5), includes \$723,963 for financial expenses which represent primarily NCUA's estimate of possible fiscal year losses on assets acquired from liquidating credit unions.

In the past NCUA used different methods to estimate its expected loss on loans acquired from liquidating credit unions under the loan guarantee program and the direct purchase program. Because neither method was based on program experience, we were unable to express an opinion on the

reasonableness of the allowance for doubtful accounts on assets acquired from liquidating credit unions or financial expenses for fiscal year 1976. We recommended that NCUA periodically evaluate the collectability of its loan portfolio and develop a more accurate method of estimating losses on loans acquired from liquidating credit unions. Using program experience as a guide, NCUA now estimates that all accounts in which no payment was made in the last 3 months are uncollectable. Periodically this estimate will be made and the allowance account adjusted. We reviewed this method and found it acceptable.

INTERNAL AUDIT

NCUA's internal audit work has in the past been restricted to field offices and an annual audit of NCUA's financial operations. To be most useful, internal audit work should not be restricted. It should extend to all headquarters activities and related management controls to determine whether they are functioning according to their design and functioning effectively.

We recommended that the Administrator expand the scope of internal audit work to include all headquarters activities and related management controls. During 1977 the internal audit staff began an operational audit of NCUA's Office of Administration. In 1978, audits of the Office of the Comptroller, the Automatic Data Processing Program, and the Examination and Supervision Program are planned. We were unable to evaluate their effectiveness because none of these audits had been completed at the time of our review.

CHAPTER 5

SCOPE OF AUDIT AND OPINION ON FINANCIAL STATEMENTS

SCOPE OF AUDIT

The National Credit Union Administration has an operating fund and an insurance fund. We examined the operating fund's statement of financial condition at September 30, 1977, and June 30, 1976, and the related statements of income and expense and changes in financial position for the periods then ended. We also examined the share insurance fund's statement of financial condition at September 30, 1977, and June 30, 1976; the related statements of income and expense and changes in financial position for the periods then ended; and the statements of retained earnings and analysis of the share insurance fund from the fund's inception through September 30, 1977.

Our examination was made in accordance with the Comptroller General's standards for auditing financial transactions, accounts, and reports of governmental activities. These standards include generally accepted auditing standards. Our examination included such tests of the accounting records and such auditing procedures as we considered necessary in the circumstances.

OPINION ON FINANCIAL STATEMENTS

We prepared the financial statements in this report (schs. 1 to 8) and the accompanying notes from NCUA's books and statements.

Public Law 93-344 (88 Stat. 321), approved July 12, 1974, changed the U.S. Government's fiscal year to October 1 through September 30. We combined the results of operations during the 3-month transition period with the results of fiscal year 1977 operations. Therefore, the September 30, 1977, financial statements cover 15 months.

Operating fund

In our opinion, the accompanying financial statements (schs. 1 to 3) present fairly the operating fund's financial position at September 30, 1977, and June 30, 1976, and the results of its operations and the changes in its financial position for the periods then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States, except for the change in accounting period, with which we concur.

Share insurance fund

We cannot express an opinion on assets acquired from liquidating credit unions as of June 30, 1976, because of the insufficient response to our confirmation requests. (See p. 8.) In addition, the data used to estimate uncollectable assets (loans) acquired from liquidating credit unions as of June 30, 1976, was not based on experience (see p. 9); therefore, we cannot express an opinion on the allowance for doubtful accounts and related financial expenses for fiscal year 1976.

In our opinion, except for assets acquired from liquidating credit unions and the related allowance for doubtful accounts and financial expenses for fiscal year 1976, the accompanying financial statements (schs. 4 to 8) present fairly the share insurance fund's financial position of September 30, 1977, and June 30, 1976, and the results of its operations and the changes in financial position for the periods then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General of the United States, except for the change in accounting period, with which we concur.

FINANCIAL STATEMENTS

NATIONAL CREDIT UNION ADMINISTRATIONOPERATING FUNDSTATEMENT OF FINANCIAL CONDITIONFOR THE PERIODS ENDEDSEPTEMBER 30, 1977, and JUNE 30, 1976 (note 1)

ASSETS	<u>Sept. 30, 1977</u>	<u>June 30, 1976</u>
CURRENT ASSETS:		
Cash:		
With the U.S. Treasury, in transit, and on hand	\$ 516,907	\$ 185,972
Accounts receivable	2,024	839
Accrued fees:		
Supervision fees	2,022,750	1,202,500
Examination fees	520,303	338,302
Employee travel advances	86,042	114,235
Prepaid expenses	<u>8,389</u>	<u>5,592</u>
Total current assets	<u>3,156,415</u>	<u>1,847,440</u>
FIXED ASSETS:		
Furniture and equipment	791,096	695,587
Less accumulated depreciation	<u>276,126</u>	<u>172,035</u>
Net furniture and equipment	<u>514,970</u>	<u>523,552</u>
OTHER ASSETS:		
Reimbursements due from share insurance fund	<u>2,368,905</u>	<u>2,446,254</u>
Total assets	<u>\$6,040,290</u>	<u>\$4,817,246</u>
LIABILITIES AND RETAINED EARNINGS		
CURRENT LIABILITIES:		
Trade accounts payable:		
Non-Federal agencies	\$ 126,583	\$ 158,264
Federal agencies	253,834	73,427
Accrued personnel compensation and benefits	705,936	351,276
Accrued employee travel	112,779	101,949
Accrued annual leave	<u>928,741</u>	<u>905,088</u>
Total current liabilities	<u>2,127,873</u>	<u>1,590,004</u>
OTHER LIABILITIES:		
Liability for agency cashier funds	<u>500</u>	<u>500</u>
Total liabilities	<u>2,128,373</u>	<u>1,590,504</u>
RETAINED EARNINGS:		
Current and prior years' unreserved earnings	3,611,917	2,926,742
Reserve for claims	<u>300,000</u>	<u>300,000</u>
Total retained earnings	<u>3,911,917</u>	<u>3,226,742</u>
Total liabilities and retained earnings	<u>\$6,040,290</u>	<u>\$4,817,246</u>

GAO's notes following schedule 3 are an integral part of this statement.
GAO's opinion on this statement appears on page 11.

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND
STATEMENT OF INCOME AND EXPENSES

FOR THE PERIODS ENDED

SEPTEMBER 30, 1977, AND JUNE 30, 1976 (note 1)

	<u>Sept. 30, 1977</u>	<u>June 30, 1976</u>
INCOME:		
Charter fees	\$ 10,335	\$ 9,140
Supervision fees (note 2)	3,255,526	2,528,977
Examination fees	<u>12,587,320</u>	<u>8,929,347</u>
Total income	<u>\$15,853,181</u>	<u>\$11,467,464</u>
OPERATING EXPENSES:		
Personnel compensation and benefits	10,958,614	7,836,740
Travel	1,591,908	1,132,929
Transportation of things	76,570	66,916
Rent and communications	1,230,312	774,553
Other contractual services	612,634	233,037
Supplies and materials	236,209	164,774
Depreciation	209,854	59,406
Annual leave	25,653	143,685
Other administrative expenses	<u>228,252</u>	<u>136,424</u>
Total expenses	<u>15,168,006</u>	<u>10,548,464</u>
Net income	<u>\$ 685,175</u>	<u>\$ 919,000</u>

GAO's notes following schedule 3 are an integral part of this statement.
 GAO's opinion on this statement appears on page 11.

NATIONAL CREDIT UNION ADMINISTRATIONOPERATING FUNDSTATEMENT OF CHANGES IN FINANCIAL POSITIONFOR THE PERIODS ENDEDSEPTEMBER 30, 1977, AND JUNE 30, 1976 (note 1)

	<u>Sept. 30, 1977</u>	<u>June 30, 1976</u>
FUNDS PROVIDED:		
Income from charter, supervision, and examination fees	\$15,853,181	\$11,467,464
Decrease in amount due from insurance fund	<u>77,349</u>	<u>-</u>
Total funds provided	<u>\$15,930,530</u>	<u>\$11,467,464</u>
FUNDS APPLIED:		
Operating expenses, excluding depreciation	\$14,958,152	\$10,489,058
Purchase of furniture and equipment	201,272	192,617
Increase in amount due from insurance fund	-	471,465
Increase in net working capital	<u>771,106</u>	<u>314,324</u>
Total funds applied	<u>\$15,930,530</u>	<u>\$11,467,464</u>

GAO's notes following this schedule are an integral part of the financial statements.

GAO's opinion on this statement appears on page 11.

GAO NOTES TO FINANCIAL STATEMENTS--OPERATING FUND

1. Significant accounting policies.

--Supervision fees applicable to the last three quarters of a fiscal year cannot be computed by NCUA until the following fiscal year because the fee for each credit union depends on its assets as of December 31 of the following year. Therefore, NCUA must estimate a portion of the fees. The estimate is based on management forecasts of Federal credit union growth.

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

--Allocation of costs to the share insurance fund is based on the actual amount of examination time used for supervision activities.

2. By action of the Administrator in calendar years 1977 and 1976, credit unions were charged the greater of 60 percent of the supervision fee or \$10. The Federal Credit Union Act requires a minimum fee of \$10.

NATIONAL CREDIT UNION ADMINISTRATIONSHARES INSURANCE FUNDSTATEMENT OF FINANCIAL CONDITIONFOR THE PERIODS ENDEDSEPTEMBER 30, 1977, AND JUNE 30, 1976 (note 1)

ASSETS	<u>Sept. 30, 1977</u>	<u>June 30, 1976</u>
CURRENT ASSETS:		
Cash with U.S. Treasury and in transit	\$ 453,488	\$ 539,435
Accounts receivable	47,052	49,462
Interest receivable	1,735,671	322,205
Assets acquired from liquidating credit unions (note 2)	\$7,127,737	\$7,162,965
Less allowance for doubtful accounts	<u>4,578,771</u>	<u>4,558,507</u>
Subrogated assets receivable	<u>4,285,858</u>	<u>2,705,158</u>
Total current assets	<u>9,071,035</u>	<u>6,220,718</u>
INVESTMENT IN U.S. GOVERNMENT SECURITIES	<u>90,894,609</u>	<u>71,120,401</u>
OTHER ASSETS:		
Other investments	855,000	750,000
Loans to insured credit unions	76,803	122,302
Less allowance for doubtful accounts	<u>-</u>	<u>85,997</u>
Total other assets	<u>931,803</u>	<u>786,305</u>
Total assets	<u>\$100,897,447</u>	<u>\$78,127,424</u>
LIABILITIES AND RETAINED EARNINGS		
CURRENT LIABILITIES:		
Trade accounts payable	\$ 26,654	\$ 20,709
Shareholders payable (note 3)	<u>1,883,688</u>	<u>1,113,577</u>
Total current liabilities	<u>1,910,342</u>	<u>1,134,286</u>
DEFERRED CREDITS:		
Insurance premiums	6,359,772	10,915,542
Other deferred credits	<u>10,432</u>	<u>40,241</u>
Total deferred credits	<u>6,370,204</u>	<u>10,955,783</u>
OTHER LIABILITIES:		
Due to the operating fund	2,368,905	2,446,255
Liability for advances from another agency (note 4)	<u>378,017</u>	<u>383,480</u>
Total other liabilities	<u>2,746,922</u>	<u>2,829,735</u>
Total liabilities	<u>11,027,468</u>	<u>14,919,804</u>
CONTINGENT LIABILITIES (note 5)		
RETAINED EARNINGS:		
Current and prior years' earnings (sch. 7)	<u>89,869,979</u>	<u>63,207,620</u>
Total liabilities and retained earnings	<u>\$100,897,447</u>	<u>\$78,127,424</u>

GAO's notes following schedule 8 are an integral part of this statement.
GAO's opinion on this statement appears on pages 11 and 12.

NATIONAL CREDIT UNION ADMINISTRATION

SHARE INSURANCE FUND

STATEMENT OF INCOME AND EXPENSE

FOR THE PERIODS ENDED

SEPTEMBER 30, 1977, AND JUNE 30, 1976 (note 1)

	<u>Sept. 30, 1977</u>	<u>June 30, 1976</u>
INCOME:		
Share insurance premiums	\$30,104,685	\$18,432,893
Income from U.S. Government securities	6,539,040	3,999,083
Other interest income	333,956	264,275
Miscellaneous income	<u>53,370</u>	<u>65,687</u>
Total income	<u>\$37,031,051</u>	<u>\$22,761,938</u>
OPERATING EXPENSES:		
Personnel compensation and benefits	4,555,359	3,468,016
Travel	437,523	352,728
Other administrative expenses	1,059,840	984,002
Financial expenses	<u>916,922</u>	<u>723,963</u>
Total operating expenses	<u>6,969,644</u>	<u>5,528,709</u>
Liquidation expenses	<u>3,399,048</u>	<u>1,222,012</u>
Total expense	<u>10,368,692</u>	<u>6,750,721</u>
Net income	<u>\$26,662,359</u>	<u>\$16,011,217</u>

GAO's notes following schedule 8 are an integral part of this statement.

GAO's opinion on this statement appears on pages 11 and 12.

NATIONAL CREDIT UNION ADMINISTRATIONSHARE INSURANCE FUNDSTATEMENT OF CHANGES IN FINANCIAL POSITIONFOR THE PERIODS ENDEDSEPTEMBER 30, 1977, AND JUNE 30, 1976 (note 1)

	<u>Sept. 30, 1977</u>	<u>June 30, 1976</u>
FUNDS PROVIDED:		
Insurance premiums	\$ 30,104,685	\$ 18,432,893
Investment income less amortized net discounts	5,312,843	831,737
Other interest and miscellaneous income	387,326	329,962
Matured U.S. Government investments	79,899,000	51,020,000
Increase in deferred share insurance premiums	-	2,554,189
Increase in amount due operating fund	-	471,466
Decrease in loans to credit unions	-	139,017
	-----	-----
Total funds provided	<u>\$115,703,854</u>	<u>\$73,779,264</u>
FUNDS APPLIED:		
Operating expenses	\$ 6,969,644	\$ 5,528,709
Liquidation expenses	3,399,048	1,222,012
Purchases of U.S. Government investments	98,447,010	65,802,472
Share deposits made in Federal credit unions	105,000	-
Decrease in insurance premiums and other deferred credits	4,585,579	-
Decrease in amount due operating fund	77,350	-
Payments to liquidate OEO-related credit unions (note 4)	5,464	43,738
Increase in loans to credit unions	40,498	-
Increase in net working capital	2,074,261	1,182,333
	-----	-----
Total funds applied	<u>\$115,703,854</u>	<u>\$73,779,264</u>

GAO's notes following schedule 8 are an integral part of this statement.

GAO's opinion on this statement appears on pages 11 and 12.

NATIONAL CREDIT UNION ADMINISTRATIONSHARE INSURANCE FUNDSTATEMENT OF RETAINED EARNINGSFOR THE PERIOD ENDED SEPTEMBER 30, 1977 (note 1)

Retained earnings--June 30, 1976	\$63,207,620
Add:	
Net income for the 15-month period ended September 30, 1977	<u>26,662,359</u>
Retained earnings--September 30, 1977	<u>\$89,869,979</u>

GAO's notes following schedule 8 are an integral part of this statement.

GAO's opinion on this statement appears on pages 11 and 12.

NATIONAL CREDIT UNION ADMINISTRATIONANALYSIS OF SHARE INSURANCE FUNDFROM JANUARY 1, 1971, TO SEPTEMBER 30, 1977 (note 1)

INCOME:

Insurance premiums	\$ 98,795,123
Income from U.S. Government securities	17,691,214
Other interest income	801,805
Miscellaneous income	<u>131,845</u>
Total income	<u>117,419,987</u>

EXPENSES:

Operating expenses	20,613,944
Liquidation expenses	<u>7,155,540</u>
Total expenses	<u>27,769,484</u>

Share insurance fund, unadjusted net income accumulated since January 1, 1971	89,650,503
Prior period adjustment due to change in accounting policy	<u>219,476</u>
Share insurance fund, net income accumulated since January 1, 1971	<u>\$ 89,869,979</u>

GAO's notes following this schedule are an integral part of the financial statement.

GAO's opinion on this statement appears on pages 11 and 12.

GAO NOTES TO FINANCIAL STATEMENTS--

SHARE INSURANCE FUND

1. Accounting policies.

--U.S. Government securities are presented at cost, 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.

--Costs allocated from the operating fund are based on the actual time spent on share insurance activities.

--Share insurance premiums are paid by insured credit unions during the first quarter of the calendar year for which they are applicable. Therefore, until calendar year 1977 NCUA deferred one-half of the share insurance premiums received to the fiscal year following receipt of the premiums. In 1977, because of the change in fiscal year, NCUA began deferring one-fourth of the share insurance premiums received to the fiscal year following receipt of the premiums.

--The financial statements do not show an estimate of the liability NCUA could incur as a result of problem conditions of insured credit unions.

2. The Administrator is authorized by the Federal Credit Union Act (12 U.S.C. 1787(i)(1) (1976)) to purchase the assets of insured credit unions liquidated because of bankruptcy or insolvency. When the Administrator is the liquidating agent, assets may be purchased only with court approval.

3. When a credit union closes, the Administrator is required by the Federal Credit Union Act (12 U.S.C. 1787(a)(2) and (h) (1976)) to notify each of the credit union shareholders so that the shareholder can claim his insured account. The liability of the share insurance fund to pay the full amount of unclaimed shares ends 18 months after the liquidating agent is appointed. After this 18-month period, unclaimed amounts are placed in a trust fund. NCUA's statements do not include funds held in trust for unpaid shareholders of liquidated credit unions. These funds, which amounted to \$620,706 and \$848,561 at September 30, 1977, and June 30, 1976, respectively,

are held by the U.S. Treasury. Unclaimed shares in closed insured credit unions amounted to \$1,883,688 and \$1,113,577 at September 30, 1977, and June 30, 1976, respectively. Of the \$1,883,688 at September 30, 1977, \$324,598 had been held over 18 months and will be deposited in the Treasury trust fund in the near future.

4. The liability of \$378,017 to other agencies arose from an agreement between NCUA and the Office of Economic Opportunity (OEO) which provided NCUA with funds to make selected Federal credit unions qualified for insurance. During the periods ended September 30, 1977, and June 30, 1976, \$5,464 and \$43,738, respectively, had been paid from the funds to liquidate OEO-related Federal credit unions included under the agreement.
5. The Administrator is authorized by the Federal Credit Union Act (12 U.S.C. 1788 (a)(2) (1976)) to give special assistance to avoid liquidation or to assist in the voluntary liquidation of credit unions by guaranteeing the loans of credit unions which are purchased by other organizations. These guarantees create a contingent liability on the share insurance fund that is not included in these statements. The contingent liability follows:

--September 30, 1977, \$5,484,766.

--June 30, 1976, \$4,696,465.

During the periods ended September 30, 1977, and June 30, 1976, the Administrator purchased some of these loans from the other organizations. At September 30, 1977, and June 30, 1976, NCUA owned 676 and 1,663, respectively, of these loans totaling \$625,476 and \$1,313,988. One of the methods used by the Administrator to assist credit unions in avoiding liquidation is allowing the credit union to use a portion of its reserves and guaranteeing replacement of the reserves, if necessary. These guarantees also create a contingent liability on the share insurance fund that is not included on these statements.

The contingent liability follows:

--September 30, 1977, \$1,002,372.

--June 30, 1976, \$587,741.

APPENDIXES



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D. C. 20456

OC/DJS:jc
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Office of the Administrator

June 15, 1978

Mr. Stewart D. McElyea
Director
Field Operations Division
U. S. General Accounting Office
441 G Street, N. W.
Washington, D. C. 20548

Dear Mr. McElyea:

I am writing in response to your letter of June 1, 1978, concerning the GAO report for the fifteen month period ended September 30, 1977.

Since the enactment of share insurance in 1970, the National Credit Union Administration (NCUA) has experienced significant growth in the size and number of programs it manages. In this period of time, your staff has consistently provided this agency with audits that have proven to be very beneficial in strengthening the management of our operations. The current GAO Report exemplifies your staff's constructive efforts in that this is the first audit since the inception of share insurance that contained no qualifying comments concerning NCUA's financial statements and only one program recommendation. I wish to express my appreciation for the efforts of your staff.

The paragraphs that follow address this year's recommendation that the National Credit Union Administration examine federally insured State credit unions and develop an early warning system to detect federally insured State credit unions with problems.

I agree that in some cases it would be beneficial for NCUA staff to perform on-site evaluations of federally insured State chartered credit unions that are experiencing problems. I do not believe that the examples in the report are supportive of the recommendation, as I do not agree with the conclusions reached in these specific examples. I have, in fact, entered into agreements with two State supervisory agencies to perform joint examinations on an experimental basis. I believe that these joint efforts will result in mutual benefits to the State supervisory agencies and NCUA, as well as the credit unions involved. At the conclusion of the experiment, I will develop an appropriate policy statement.

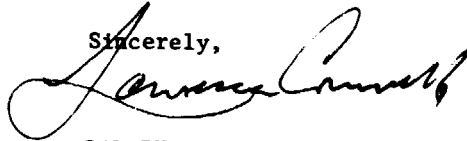


I also concur with the recommendation to develop an early warning type system for federally insured State chartered credit unions. NCUA has already begun preliminary work to develop such a system. In addition, I have assisted some State supervisory agencies in developing an early warning system, on a State level, that is patterned after the system we have already in operation for our Federal credit unions.

I believe, however, that the report overstates the degree of the problem in obtaining information from State supervisory agencies. NCUA has developed, over the years, an excellent working relationship with the State supervisory agencies. We have, in the past, and continue to receive cooperation from these agencies in obtaining necessary financial information on a timely basis. In only isolated instances have we encountered difficulty in this area.

The above comments are requested for consideration to be incorporated in your report to Congress. Should further information be desired, please feel free to contact me at your convenience.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lawrence Connell".

LAWRENCE CONNELL
Administrator

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

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
ADMINISTRATOR:		
Lawrence Connell, Jr.	Aug. 1977	Present
C. Austin Montgomery	June 1976	Aug. 1977
DEPUTY ADMINISTRATOR:		
Lorena C. Matthews	July 1974	Present
ASSISTANT ADMINISTRATOR FOR MANAGEMENT AND PLANING (note a):		
Paul Trylko	Sept 1976	Apr. 1977
Ray Motsenbocker	Apr. 1976	Sept. 1976
ASSISTANT ADMINISTRATOR FOR ADMINISTRATION:		
Louis P. Acuna	June 1977	Present
Paul Trylko	Apr. 1977	June 1977
ASSISTANT ADMINISTRATOR FOR FISCAL AFFAIRS (note b):		
Harvey J. Baine III	Apr. 1976	July 1977
COMPTROLLER:		
Harvey J. Baine III	July 1977	Present

a/In April 1977 the Office of Management and Planning was redesignated the Office of Administration.

b/In July 1977 the Office of Fiscal Affairs was redesignated the Office of the Comptroller.

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