



NCUA
National Credit Union Administration

**OFFICE OF INSPECTOR
GENERAL**

**AUDIT OF THE NCUA'S
SCHEDULE OF INVESTMENTS AND
OTHER TAXES AND RECEIPTS
AS OF SEPTEMBER 30, 2023**

**Report #OIG-23-09
November 14, 2023**





National Credit Union Administration

Office of Inspector General

November 14, 2023

The Honorable Todd M. Harper, Chairman
The Honorable Kyle S. Hauptman, Board Vice Chairman
The Honorable, Rodney E. Hood Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314

Dear Chairman Harper, Board Vice Chairman Hauptman, and Board Member Hood:

I am pleased to transmit KPMG LLP's (KPMG) Independent Auditors' Report on its audit of the National Credit Union Administration's (NCUA's) schedule of investments and other taxes and receipts as of September 30, 2023, and the related notes (hereinafter referred to as the "schedule"). The NCUA prepared the schedule in accordance with the format and content guidance provided in Office of Management and Budget (OMB) Circular No. A-136 Revised, *Financial Reporting Requirements*, and subjected it to audit.

Under a contract monitored by the OIG, KPMG, an independent certified public accounting firm, performed an audit of the NCUA's schedule of investments and other taxes and receipts as of September 30, 2023. KPMG conducted the audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with OMB Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 24-01, require that KPMG plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

KPMG prepared the audit report for the purpose of providing financial information to the U.S. Department of Treasury and the U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*. The report includes: (1) an opinion on the schedule, (2) internal control over financial reporting specific to the schedule, and (3) compliance and other matters specific to the schedule. In its audit, KPMG found:

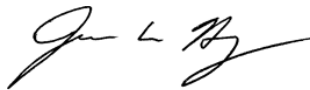
- The schedule presents fairly, in all material respects, the investments and other taxes and receipts of the NCUA as of September 30, 2023, in accordance with U.S. generally accepted accounting principles.
- There were no internal control deficiencies identified for the schedule considered to be material weaknesses; and

- There were no instances of noncompliance or other matters required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-01.

To ensure the quality of the audit work performed, we reviewed KPMG's approach and planning of the audit, evaluated the qualifications and independence of the auditors, monitored the progress of the audit at key points, and reviewed and accepted KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on NCUA's schedule or conclusions about the effectiveness of internal control or conclusions on compliance with laws and regulations, as it relates to the schedule. KPMG is responsible for the attached Independent Auditors' Report dated November 14, 2023, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

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

Respectfully,



James W. Hagen
Inspector General

cc: Executive Director Larry Fazio
Deputy Executive Director (Audit Follow-up Official) Rendell Jones
Chief Financial Officer Eugene Schied
General Counsel Frank Kressman
E&I Director Kelly Lay
AMAC President Corey Phariss
Chief of Staff Catherine Galicia
OEAC Director Elizabeth Eurgubian
Deputy Chief Financial Officer Melissa Lowden

National Credit Union Administration

Schedule of Investments and Other Taxes and Receipts
As of September 30, 2023, and
Independent Auditors' Report

NATIONAL CREDIT UNION ADMINISTRATION

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Washington, DC 20006

Independent Auditors' Report

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

Report on the Audit of the Schedule

Opinion

We have audited the Schedule of Investments and Other Taxes and Receipts of the National Credit Union Administration (NCUA) as of September 30, 2023, and the related notes (hereinafter referred to as the "Schedule").

In our opinion, the accompanying Schedule presents fairly, in all material respects, the Investments and Other Taxes and Receipts of the National Credit Union Administration as of September 30, 2023, in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-01 are further described in the Auditors' Responsibilities for the Audit of the Schedule section of our report. We are required to be independent of the NCUA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

We draw attention to Note 1 to the Schedule, which describes that the accompanying Schedule was prepared for the purpose of providing financial information to the U.S. Department of Treasury and the U.S. Government Accountability Office (GAO) to use in preparing and auditing the *Financial Report of the U.S. Government*, and is not intended to be a complete presentation of the assets, liabilities, revenues, or expenses of the National Credit Union Administration as of September 30, 2023. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the Schedule as a whole. The information other than the Schedule is presented in accordance with the requirements of the U.S. Department of the Treasury's *Treasury Financial Manual* (TFM) Volume 1, Part 2, Chapter 4700 (TFM Chapter 4700) and is not a required part of the Schedule. Such information has not been subjected to auditing procedures applied in the audit of the Schedule as of September 30, 2023, and accordingly, we do not express an opinion or provide assurance on it.



Restriction on Use of the Report on the Schedule

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

Responsibilities of Management for the Schedule

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

Auditors' Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the Schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-01 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the Schedule.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-01, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Schedule, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Schedule.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NCUA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Schedule.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the Schedule as of and for the year ended September 30, 2023, we considered the NCUA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the NCUA's internal control. Accordingly, we do not express an opinion on the effectiveness of the NCUA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.



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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NCUA's Schedule as of and for the year ended September 30, 2023 is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the Schedule. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-01.

Purpose of the Reporting Required by Government Auditing Standards

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the NCUA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 14, 2023

NATIONAL CREDIT UNION ADMINISTRATION

**Schedule of Investments and Other Taxes and Receipts
As of September 30, 2023**

	<u>2023</u>
Federal Investments	\$ 22,937,832,351
Interest Receivable - Investments	109,380,537
Other Taxes and Receipts	(67,753,702)
Federal Securities Interest Revenue Including Associated Gains and Losses (non-exchange revenue)	388,333,272

The accompanying notes are an integral part of this statement.

NATIONAL CREDIT UNION ADMINISTRATION

NOTES TO THE SCHEDULE AS OF SEPTEMBER 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The National Credit Union Administration (NCUA) is the independent federal agency that regulates, charters and supervises federal credit unions. With the backing of the full faith and credit of the United States (U.S.) Government, the NCUA operates and manages the National Credit Union Share Insurance Fund (NCUSIF), insuring the deposits of over 138.8 million account holders in all federal credit unions and the majority of state-chartered credit unions. For purposes of the NCUA's annual submission into the Financial Report of the United States Government (Financial Report), the NCUA combined the NCUSIF, the Central Liquidity Facility (CLF), the Community Development Revolving Loan Fund (CDRLF), and the Operating Fund into the Schedule of Investments and Other Taxes and Receipts.

Basis of Presentation

A Significant Entity is an entity which is deemed material to the Financial Report if they report any financial statement line items or note disclosures that are equal to or greater than \$1 billion. A calendar year end entity's financial statement line items or note disclosures that contributes to the top 99% of the total data is considered material to the Financial Report. In accordance with the Treasury Financial Manual (TFM), Volume 1, Part 2, Chapter 4700, Federal Entity Reporting Requirements for the Financial Report of the U.S. Government, Significant Entities are required to submit audited financial statements on an annual basis. For calendar year end entities, audit assurance is required for the financial statement line items or note disclosures that are identified as material. The Schedule and related notes herein are not intended to represent the NCUA's entire Financial Report submission, nor be a complete presentation of the NCUA's assets, liabilities, revenues, or expenses. Line items presented are derived from the submission requirements to the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS).

The Schedule has been prepared from the NCUA's accounting records in accordance with the Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards (SFFAS) and the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The American Institute of Certified Public Accountants recognizes FASAB as the official accounting standards-setting body of the Federal Government. The format of the Schedule and notes is in accordance with the form and content guidance provided in Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised May 19, 2023.

The NCUSIF prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by FASAB. FASAB is the standards setting body for the establishment of GAAP with respect to the financial statements of federal entities. FASAB has indicated that financial statements

prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for federal entities that have issued financial statements based upon FASB standards in the past. The CLF, CDRLF, and Operating Fund prepare its financial statements in accordance with GAAP, based on standards issued by FASB, the private sector standards setting body.

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

Basis of Accounting

The NCUA maintains its accounting records for all funds in accordance with the accrual basis of accounting to record line items presented on the Schedule.

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

Other Taxes and Receipts

National Credit Union Share Insurance Fund Capitalization Deposits

The *Credit Union Membership Access Act of 1998*, Public Law 105–219 (CUMAA), mandates that the amount of each insured credit union’s deposit is adjusted as follows, in accordance with procedures determined by the NCUA Board, to reflect changes in the credit union’s insured shares: (i) annually, in the case of an insured credit union with total assets of less than \$50.0 million; and (ii) semi-annually, in the case of an insured credit union with total assets of \$50.0 million or more. The annual and semi-annual adjustments are based on insured member share deposits outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. Each insured credit union shall pay to and maintain with the NCUSIF a capitalization deposit in an amount equaling 1.00% of the credit union’s insured shares. The NCUSIF reports the capitalization deposits from member credit unions as contributed capital when received. The 1.00% contribution is returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the NCUSIF are transferred from the NCUA Board.

Central Liquidity Facility Capital Stock

Membership in the CLF is open to all credit unions that purchase a prescribed amount of capital stock. The CLF capital stock is non-voting and shares have a par value of \$50. The capital stock account represents subscriptions remitted to the CLF by regular and agent member credit unions. Members’ required subscription amounts equal one-half of one percent of their paid-in and unimpaired capital and surplus, one-half of which is required to be remitted to the CLF. Member credit unions are required to hold the remaining one-half in assets subject to call by the NCUA Board. These unremitted subscriptions are not reflected in the CLF’s financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions’ paid-in and unimpaired capital and surplus. Dividends are non-cumulative, and are declared and paid on the required portion of capital stock.

Investments, Net

National Credit Union Share Insurance Fund

The *Federal Credit Union Act*, Section 203(c), 12 U.S.C. § 1783(c), as amended, provides guidance regarding U.S. Treasury security investments. The NCUSIF maintains an investment portfolio comprised of both market-based (available-for-sale) U.S. Treasury securities of varying maturities and non-marketable (held-to-maturity) U.S. Treasury daily overnight securities. All marketable securities are carried as available-for-sale in accordance with FASB ASC 320, *Investments – Debt and Equity Securities*. All non-marketable U.S. Treasury overnight securities are purchased and reported at par value, which are classified as held-to-maturity. All of the NCUA’s U.S. Treasury securities held by the NCUSIF are issued by the U.S. Government.

Interest earned and unrealized holding gains and losses on U.S. Treasury securities are excluded from net costs and reported as components of non-exchange revenue on NCUA’s Annual Financials. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

Premiums and discounts are amortized over the life of the related available-for-sale security as an adjustment to yield using the effective interest method.

Central Liquidity Facility

By statute, the CLF investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. All investments are classified as held-to-maturity under FASB ASC topic 320-10-25-1, *Classification of Debt Securities*, as the CLF has the intent and ability to hold these investments until maturity. Accordingly, the CLF reports investments at amortized cost. Amortized cost is the face value of the securities plus the unamortized premium or less the unamortized discount.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity investment as an adjustment to yield using the effective interest method.

2. OTHER TAXES AND RECEIPTS

The NCUSIF contributed capital consists of the 1.00% capitalization deposit of insured shares collected from federally insured credit unions. The CLF capital stock account represents subscriptions remitted to the CLF by regular and agent member credit unions. The CDRLF loan interest is to be paid on a semiannual basis beginning six months after the initial distribution of the loan and every six months thereafter until maturity, and interest on loans is recognized when earned.

<u>Fund</u>	<u>Description</u>	<u>FY2023 Activity</u>
NCUSIF	Contributed Capital	\$ 324,750,903
CLF	Capital Stock	(392,532,404)
CDRLF	Loan Interest	27,799
Other Taxes and Receipts		<u>\$ (67,753,702)</u>

3. CONTINGENCIES

NCUA operates and manages the NCUSIF, insuring the deposits of over 138.8 million account holders in all federal credit unions and the majority of state-chartered credit unions. Deposits insured by the NCUSIF are backed by the full faith and credit of the United States. As of September 30, 2023, the aggregate outstanding insured shares of all federally insured credit unions were estimated at \$1.7 trillion. This amount represents the maximum potential future guarantee payments that the NCUSIF could be required to make under the share insurance program, without consideration of any possible recoveries.