Think

Ms Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 2231-3428 April13, 2006

The National Credit Union Administration (NCUA) has requested public comments on whether and how to modify the Supervisory Committee audit rule in relation to issues detailed in the request.

Think Federal CU wishes to comment on certain aspects of the proposals. Following are our comments.

Question #	Think Federal CU response
1.	We believe the structural differences between credit unions and public companies are at the core of this question. The attestation on internal controls was put in place to protect shareholders from the fraudulent manipulation of earnings by management. In the case of a credit union, there are no shareholders to protect. There are few management compensations systems based upon earnings. The reasons with in credit unions to manipulate earnings are much less then within public companies. The members need protection of their deposits. There could be other methods to protect deposits, such as additional insurance. The initial and on-going costs associated with the attestation on internal controls from both the internal and external standpoint is quite large. Other alternatives need be explored.
2	We believe that suggesting the setting of a minimum asset size for requiring an attestation of internal controls unduly places the burden on only the large credit unions. We would also suggest that the larger credit unions normally maintain better internal controls as the size allows for more separation of duties and review of controls, processes and procedures. The non-public banks have set the minimums at $1 billion in asset size, which is probably as good a cutoff as any, if one must exist. We would suggest that we look to other means to accomplish the same thing such as with additional insurance. We would also suggest that if an attestation is required, it is not necessary to perform the entire assessment each and every year. Many processes and procedures do not change from year to year. A one year cutoff is arbitrary. The full attestation should be

	done every 3 years with updates in the other years.
3	We see no difference in the corporate credit unions and the natural persons credit unions.
4	For credit unions reporting under GAAP, the attestation should be for GAAP financial statements, which in turn are reported in the regulatory required reports.
5	To maximize the cost efficiencies, the same auditor should be allowed to perform both the financial statement audit and the attestation of internal controls. Duplicative work by credit union staff and duplicative costs harm the credit union and ultimately harms the members more then it helps.
6	As stated in # 2 above, we believe once every 3 years to be sufficient for a full review. More often could be dependant upon significant changes in critical systems or procedures.
7	We would need a phase in period to obtain the necessary training. We would suggest the earliest reasonable date would be for years beginning after December 31, 2007.
8	Adherence to AICPA's revised AT 501 would be appropriate since Credit Unions are not public companies.
9	COSO appears to be the standard that we would expect most to adopt. However, we do not believe there is a reason to mandate that particular standard. We would anticipate COSO would be the most cost effective standard to adopt.
10	No. Requiring Supervisory Committee members to have a minimum level of experience or expertise is fraught with problems. Defining the minimum levels would be "gray" at best. The fact that Supervisory Committee members cannot be compensated limits our field of choice. Many times, other, non-financial skills can be as important or more important in fulfilling their role. We would also suggest that asset size should not be a determining factor. It is our belief that it can be more important for a smaller credit union to have the expertise on the Supervisory Committee. Many smaller credit unions do not have the access to as many resources such as an internal audit department.
11	We see no issues with allowing Supervisory Committee member's access to outside counsel. We do not believe that asset size is a determining factor for the same reasons noted in question 10.
12	We believe that it is appropriate that Supervisory Committee members be seen as independent. We do not believe asset size is a determining factor.
13	The requirement for number 10 is the most difficult area to recruit as it immediately reduces the persons available. We do not see 11 as an issue.

	Requirement 12 becomes an issue if it is defined to narrowly. All supervisory committee members are customers of the credit union. They naturally are not totally independent.
14	We believe the SEC requirements would be overly restrictive. Limiting our abilities to recruit can have a damaging effect on our hiring, especially in smaller markets. Requiring partner rotations for the sake of rotation does not necessarily achieve better results. We believe it is best to have an audit partner on the job that is the best partner available versus the second best because of a rotation issue.
15	As a cost issue for smaller credit union, we believe a balance sheet only audit is reasonable.
16	No comment
17	We believe the attestation should be made available to the examiners at the time of an exam.
18	The management letter is available to the examiners at the time of the exam. Having them sent to the examiner could increase the political nature of the letter.
19	We believe the Supervisroy Committee should review any of these reports before they are given to NCUA. This method helps solidify the responsibility level of the Supervisory Committee.
20	The 120-day target is fine.
21	We believe this requirement only adds to the administrative overhead of the NCUA versus adding real value.
22	We believe this issue should be left to the Credit Union and the Audit Firm. The audit firm already have requirement in this manner. We believe if the Audit Firm is being unreasonable, the Credit Union should be the one to react.

Daniel E. Beck, Vice President, Controller
Think Federal CU
5200 Members Parkway NW
Rochester, MN 55903