YOUNG, SHERON

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General Comment:
In response to ?Advance Notice of Proposed Rulemaking -- Supervisory Committee Audits - 2/16/2006? please see the following:

The following are the more noteworthy questions I have chosen to address:

1. Should part 715 require, in addition to a financial statement audit, an ?attestation on internal controls? over financial reporting above a certain minimum asset size threshold? Explain why or why not.

As noted in various Sarbanes-Oxley documentation significant weaknesses have been identified only because of the new requirements. These requirements are providing additional controls in order to improve operations, ensure compliance and mitigate risk. There is no question that these items are beneficial to members, the only concern is the cost associated to implementation. There is a cost benefit analysis necessary to justify the expense that is where a minimum asset size would be considered. In lieu of any significant analysis and subjectivity the minimum asset size should be set at the level of FDIC to create consistently across the financial services sector.

2. What minimum asset size threshold would be appropriate for requiring, in addition to a financial statement audit, an ?attestation on internal controls? over financial reporting, given the additional burden on management And its external auditor? Explain the reasons for the threshold you favor.

Please see answer 2

3. Should the minimum asset size threshold for requiring an ?attestation on internal controls? over financial reporting be the same for natural person credit unions and corporate credit unions? Explain why.

Internal controls are dependent on the individual organization, using one set of criteria for natural person vs. corporate credit unions should not be considered. The only bases for determine whether there should be an attestation on internal controls is the cost benefit of implementation. Due to a lack of a quantifiable analysis the minimum standard should be consistent with the natural person credit union.

4. Should management?s assessments of the effectiveness of internal controls and the attestation by its external auditor cover all financial reporting, (i.e., financial statements prepared in accordance with GAAP and those prepared for regulatory reporting purposes), or should it be more narrowly framed to cover only certain types of financial reporting? If so, which types?

It should be used to cover all financial reporting. The basic premise of identifying and documenting internal controls would cover the majority of transactions prior to both GAAP and other reports prepared for regulatory reporting.

5. Should the same auditor be permitted to perform both the financial Statement audit and the ?attestation on internal controls? over financial reporting, or should a credit union be allowed to engage one auditor to perform the financial Statement audit and another to perform the ?attestation on internal controls?? Explain the reasons for your answer.

The main purpose of attestation on internal controls is to provide assurance on the internal control structure of the organization, the same auditor should be allowed to provide both services to its client without compromising objectivity or independence.

6. If an ?attestation on internal controls? were required of credit unions, Should it be required annually or less frequently? Why?

Every two years would be sufficient. As the debate of implementing attestation on internal controls continues the underlining principals for not implementing is cost, therefore a balance of a cost verse benefits should be considered. Understandably the significant cost of adopting the attestation would be in the beginning stages of documenting and testing the control structure. Every two years would reduce costs for external audits fees while still maintaining a focus on the organization control structure.
Internal controls are an ongoing process, regardless of when the attestations are required. The only requirement should be strong internal controls to mitigate risks and protect the member?s assets as well as provide a return on capital. In the form of reduced fees and member service

7. If an ?attestation on internal controls? were required of credit unions, when should the requirement become effective (i.e., in the fiscal period beginning after December 15 of what year)?

As evident in the Sarbanes-Oxley compliance efforts of publicly traded companies, documenting, testing and remediation of internal controls has been a costly exercise. Both in internal time and resources as well as external costs. This should be carefully considered in evaluating compliance requirements. It would be better to extend the compliance threshold in lieu of not requiring attestation on internal controls. A reasonable time frame would phase in the requirements from larger Credit Unions or more profitable credit unions to smaller or less profitable credit unions. Larger Credit Unions should be required to be compliant in 2 years after a final ruling, while smaller credit unions should be phased in over an addition 2 years. This would have additional benefits:
1) The larger credit unions should have the additional internal resources to begin compliance efforts, with a less of a financial impact those smaller credit unions. (Cost vs benefit consideration)
2) The smaller credit unions could work with larger unions in understating the compliance efforts necessary, working with their state?s Credit Unions Leagues. Although internal controls are dependent on the individual organization and process, understanding the fundamentals and problem area?s would be of assistance.
3) Problem could be identified early in the stage of compliance efforts and additional clarification and guidance could be presented before all credit union are required to comply.
4) As stated early if attestation on internal controls was required every 2 years and offset with requiring other credit unions to comply in year 3 others in year 4 and require attestation every 2 years would free up external resources and provide additional flexibility in using the external auditors. That is the first stage of Credit Unions required to be compliant in 2 years would require attestation every 2 years thereafter. Offset the attestation requirements with the smaller credit unions requiring compliance in year 3 or 4 would allow external resources to assist larger credit unions one year and smaller credit unions the following year. As one concern stands now, external resources will be scarce driving up fees, this process may provide some additional flexibility.

9. Should NCUA mandate COSO?s Internal Control ? Integrated Framework as the standard all credit union management must follow when establishing, maintaining and assessing the effectiveness of the internal control structure and procedures, or should each credit union have the option to choose its own standard?

This questions address two separate issues. Using one Framework to assessing the internal control structure and using one set of control standards across all Credit Unions.

While NCUA does impose two separate sets of standards for corporate credit unions and natural person credit unions as it relates to using the professional practices of Internal Auditing. As stated in part 704.15 regarding corporate credit unions over $400 million ? The internal auditor?s responsibility will, at a minimum, comply with the Standards and Professional Practices of Internal Auditing, as established by the Institute of Internal Auditors.? There are no standards for natural credit unions. A consistent standard should be imposed along all credit unions.

The COSO framework is the dominant guideline used by organization to assess internal controls. While the Institute of Internal Auditors recognized the COSO framework and in fact was one of the organizations to develop the framework, it does not mandate the use of it. I agree with this principle, a better direction would be to adopt Audit guidelines within the Credit Union industry and rely on the individual assessments of the organizational experts to establish the preferred standards while requiring the basic principles outlined in the Institute of Internal Auditors above a predefined asset threshold.

10. Should Supervisory Committee members of credit unions above a Certain minimum asset size threshold be required to have a minimum level of experience or expertise in credit union, banking or other financial matters? If so, what criteria should they be required to meet and what should the minimum asset size threshold be?

As the oversight of credit unions relies on the expertise of the Supervisory Committee, a minimum set of standards should be required to ensure oversight is effective. As for what threshold, it would depend on the outcome to what standards would be imposed in evaluating the internal control structure outlined in question 9.

11. Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be required to have access to their own outside counsel? If so, at what minimum asset size threshold?

When the needs arise they should have access to their own counsel at any level. In order to fulfill their responsibilities resources should be available when necessary and approved by the Board.

13. If any of the qualifications addressed in questions 10, 11 and 12 above were required of Supervisory Committee members, would credit unions have difficulty in recruiting and retaining competent individuals to serve in sufficient numbers? If so, describe the obstacles associated with each qualification.

Qualified volunteers are a difficult to recruit and retain before the additional requirements are proposed. An alternative is to have required training for Supervisory Committee Members who are not qualified under the proposed requirements to attend a formal program of study. This process would allow for current Supervisory Committee Members to remain while ensuring qualified candidates in the future. The number of qualified candidates within each committee would be left up to regulations while the funding or subsidizing of program should be consider to support the best interest of all Credit Unions. There are many options to provide the necessary training with all options should be evaluated. Qualified volunteers should not only be required they should be created to ensure the Credit Union industry is supported in its design to serve its members in every way possible.