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April 21, 2006

Main Office
2115 N. Broadway
P.O. Box 11547
Santa Ana, CA 92711-1547

714/258-4000
800/462-8328
www.octfcu.org

Tustin Operations Center
15442 Del Amo
Tustin, CA 92780

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Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Part 715 ANPR, Supervisory Committee Audits

Dear Ms. Rupp:

Thank you for the opportunity to comment on the Agency's ANPR regarding Supervisory Committee audits and whether credit unions should be required to obtain an attestation on internal controls in connection with their audits.

Orange County Teachers Federal Credit Union (OCTFCU) supports governance regarding integrity, transparency, and accountability, as we believe this increases Members' confidence in the credit union system.

However, additional requirements must be carefully weighed against the cost and relative value of such regulatory requirements.

Question #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?

We believe that an "attestation on internal controls" should not be required for credit unions. The current requirements in Part 715 provide adequate assurances over financial reporting.

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In addition, the NCUA examines its regulated credit unions and manages the NCUSIF. NCUA's excellent performance in these areas negates the need for additional regulatory burdens.

The financial burden associated with documenting the internal control structure, conducting internal testing, and then obtaining an opinion on the internal controls would be too burdensome. This process diverts resources, including staff and dollars, away from serving our Members.

The experience of public companies required to comply with SOX 404 has shown that the audit expense for the first year compliance could cost several hundred thousands of dollars for consultants' time and/or internal resources to document and test all of the controls in order to prepare for the audit. In addition, the annual expense, beyond the internal audit cost to perform testing, will likely be an additional couple hundred thousand dollars.

Implementing new requirements regarding "attestation on internal controls" will also prevent credit unions from being able to seek advice from their external auditors, as providing advice might compromise an auditor's independent status. This can result in credit unions incurring additional costs in getting important issues resolved.

Question #2: What minimum asset size threshold would be appropriate for requiring, in addition to a financial audit, an "attestation on internal controls" over financial reporting, given the additional burden on management and its external auditor?

OCTFCU opposes the requirement for credit unions to obtain an "attestation on internal controls." If NCUA does require this, we believe the threshold should be \$1 billion, the same as that for banks.

Question #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?

If NCUA requires an attestation, we believe the asset size threshold should be the same for natural person credit unions and corporate credit unions. We believe consistency in this matter is appropriate.

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Question #4: Should management’s assessment 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 purposes), or should it be more narrowly framed to cover only certain types of financial reporting?

For consistency purposes, we believe that management’s assessment and the attestation by its external auditor should apply to both financial statements prepared according to GAAP and those prepared for regulatory purposes.

Question #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"?

If an "attestation on internal controls" becomes a requirement, we believe that credit unions should be permitted to have the same auditor perform both functions. The auditors conducting the financial statement audit must attest to management’s assessment of internal controls. It would be a duplication of efforts if yet another party had to perform the "attestation on internal controls." Allowing a single auditor to perform both tasks would help to reduce the costs.

Question #6: If an "attestation on internal controls" were required of credit unions, should it be required annually or less frequently?

If NCUA requires an "attestation on internal controls" we believe that every three years would be sufficient. Credit unions are limited in complexity as compared to other financial institutions, and an assessment every three years, rather than annually, would be adequate. This would also help with limiting an annual expense estimated at a couple hundred thousand dollars.

Question #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?)

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Should credit unions be required to obtain an "attestation on internal controls," the requirement should not become effective until 36 months after the final rule is published. Companies regulated by SEC and their external auditors found it difficult to comply with the *Sarbanes Oxley Act* requirements within 24 months. Three years would enable credit unions to begin the complex process of documenting internal controls, and to plan for the internal and external audit expenses.

In addition, large accounting firms experienced such an increase in demand as a result of SOX that they are unable to take on new clients. Many credit unions utilize regional and local accounting firms that specialize in credit unions. A three-year effective date will allow accounting firms to gear up and plan for the additional credit union demand.

Question #8: If credit unions were required to obtain an "attestation on internal controls," should Part 715 require that those attestations adhere to PCAOB's AS2 standard that applies to public companies, or to the AICPA's revised AT501 standard that applies to non-public companies?

FDIC insured institutions follow auditing standards set by the AICPA's AT501. We believe that following the same standard as other financial institutions would be prudent.

Question #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?

The COSO standard was developed for public companies, and to have credit unions follow this standard would create additional and unnecessary burdens. We suggest that the NCUA develop a standard that is appropriate for credit unions. The credit union standard should provide details and examples so that credit unions can understand how to conduct a risk-based, cost-effective assessment of internal controls. We further suggest that NCUA release a draft of the standard for at least a 90-day comment period.

Questions #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

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financial matters? If so, what criteria should they be required to meet and what should the minimum assets size threshold be?

Supervisory Committee members of credits unions with \$1 billion or more in assets should have some level of expertise in credit union, banking, or other financial matters. The Board of Directors should determine the criteria.

Questions #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, what minimum asset size?

We do not believe that Supervisory Committee members should be required to have access to their own outside counsel. Instead, Supervisory Committee members should have the option to seek outside counsel if they have a need or they so choose. This should be true for all Supervisory Committees, regardless of asset size.

Questions #12: Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be prohibited from being associated with any large customer of the credit union other than its sponsor? If so, at what minimum asset size threshold?

We are unsure of NCUA's definition of "large customer" in this context. We assume NCUA is using it in a similar way as under FDIC's regulations at 12 CFR 363 Appendix A, Guideline 33. If using this definition, we believe that most credit unions do not have "large customers" However, we do believe that Supervisory Committee members should not have any conflicts of interest with the credit union operations, vendors, or Members.

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

We do not believe that the requirements in questions 10 and 11 would be burdensome for credit unions over \$1 billion. The requirements of question 12, no conflict of interest, should apply to all credit unions and would not be burdensome.

Question #14: Should a State-licensed, compensated auditor who performs a financial statement audit and/or "internal control attestation" be required to meet just the AICPA's "independence" standards, or should they be required to also meet SEC's "independence" requirements and interpretations? If not both, why not?

We believe that credit union auditors should be required to meet the AICPA's independence standards. The SEC requirements apply to public companies; therefore, we do not think they are appropriate or necessary for credit union auditors.

Question #15: Is there value in retaining the "balance sheet audit" in existing Part 715.5(a) as an audit option for credit unions with less than \$500 million in assets?

We believe this asset size threshold should be increased to \$1 billion. The complexity of credit unions less than \$1 billion does not warrant additional audit requirements and additional costs.

Question #16: Is there value in retaining the "Supervisory Committee Guide audit" in existing Part 715.5(c) as an audit option for credit unions with less than \$500 million in assets?

Yes, we believe NCUA should retain this option, and that it is appropriate for credit unions less than \$500 million in assets.

Questions #17: Should Part 715 require credit unions that obtain a financial statement audit and/or an "attestation on internal controls" (whether as required or voluntarily) to forward a copy of the auditor's report to NCUA? If so, how soon after the audit period-end? If not, why not?

No, there should be no requirement for credit unions to send the audit reports to NCUA. We believe NCUA should continue to review the reports during the regular examination. This process would be more efficient for both the NCUA and credit unions.

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Questions #18: Should Part 715 require credit unions to provide NCUA with a copy of any management letter, qualification, or other report issued by its external auditor in connection with services provided to the credit union? If so, how soon after the credit union receives it? If not, why not?

No, there should be no requirement for credit unions to forward such reports to NCUA. Again, we believe NCUA should continue to review this information during the regular examination. This process would be more efficient for both the NCUA and credit unions.

Questions #19: If credit unions were required to forward external auditor's reports to NCUA, should Part 715 require the auditor to review those reports with the Supervisory Committee before forwarding them to NCUA?

We believe that the Supervisory Committee should review all audits and other reports performed by external auditors prior to forwarding them to the NCUA. While this is good business practice, it is not necessary to specifically require it of the auditors by regulation.

Question #20: Existing Part 715 requires a credit union's engagement letter to prescribe a target date of 120 days after the audit period-end for delivery of the audit report. Should this period be extended or shortened? What sanctions should be imposed against a credit union that fails to include the target delivery date within its engagement letter?

We believe that the 120 days is sufficient. While the "target date" should be included in the engagement letter, credit unions and auditors should have some flexibility in meeting the target dates should justifiable, extenuating circumstances arise.

Question #21: Should Part 715 require credit unions to notify NCUA in writing when they enter into an engagement with an auditor, and/or when an engagement ceases by reason of the auditor's dismissal or resignation? If so in cases of dismissal or resignation, should the credit union be required to include reasons for the dismissal or resignation?

No, we do not believe that it is necessary to notify NCUA, and that it would be more efficient for NCUA to review for any changes in auditor engagements during their regular exam.

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Question #22: NCUA recently joined in the final Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Engagement Letters, 71 FR 6847 (Feb. 9, 2006). Should credit union Supervisory Committees be prohibited by regulation from executing engagement letters that contain language limiting various forms of auditor liability to the credit union? Should Supervisory Committees be prohibited from waiving the auditor's punitive damages liability?

We support regulations that prohibit Supervisory Committees from executing engagement letters that contain language limiting various forms of auditor liability. We believe that credit union Supervisory Committees should be able to waive the auditor's punitive damages liability, if they disclose the nature of the arrangement in their annual report.

In closing, OCTFCU supports governance regarding integrity, transparency, and accountability. However, we oppose implementing regulations that require credit unions to obtain an "attestation on internal controls" as the costs associated with compliance significantly outweigh the benefits for credit unions.

Thank you again for the opportunity to express our views on the ANPR for Supervisory Committee Audits.

Sincerely,



Rudy Hanley
President, CEO

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cc: Jose Lara, SVP, Organizational Planning & Development
Sharon Lindeman, Director, Audit & Compliance