



MID-STATES
CORPORATE FEDERAL CREDIT UNION

We're One of You

April 20, 2006

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Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314

Via e-mail: regcomments@ncua.gov

Dear Ms. Rupp:

Mid-States Corporate Federal Credit Union (Mid-States) appreciates your willingness to consider our comments on Part 715 ANPR, Supervisory Committee Audits (the ANPR). It should be noted that these comments represent our views and do not necessarily represent the views of our members or other corporate credit unions.

Whether to require credit unions to obtain an “attestation on internal controls” in connection with their annual audits

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?

Mid-States believes that the costs associated with implementing this rule would outweigh the additional benefits and, therefore, a separate attestation on internal controls should not be required.

Question 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?

Establishing the threshold at \$1 billion would be consistent with the current FDIC requirements.

Question 3 – Should the minimum asset size threshold be the same for natural person credit unions and corporate credit unions?

Yes, the same level should apply to corporate credit unions.

Question 4 – Should management’s assessments of the effectiveness of internal controls and the attestation by its external auditor cover all financial reporting or should it be more narrowly framed to cover only certain types of financial reports?

It should only apply to financial statements prepared in accordance with generally accepted accounting principles (GAAP). Call reports should then be structured to follow GAAP reporting requirements.

Question 5 – Should the same auditor be permitted to perform both the financial statement audit and the “attestation on internal controls” over financial reporting?

Yes, the same auditor should be allowed to provide both opinions. Requiring different auditors to issue each opinion would be inefficient for both the auditors and the credit union. However, NCUA should

consider prohibiting the same auditor from providing consulting services as management evaluates its internal controls and performs its tests of effectiveness.

Question 6 – Should the “attestation on internal controls” be required annually or less frequently?

Mid-States believes that the attestation should be performed annually to ensure that the work is maintained and updated. If the credit union does not experience significant changes in processes, people or systems, the second year costs should be less than the initial year costs.

Question 7 – If an “attestation on internal controls” were required, when should it become effective?

If the ANPR is adopted as presented, Mid-States believes that the NCUA should consider a phased implementation approach. Specifically, Mid-States recommends that the NCUA consider requiring corporate credit unions in excess of \$1 billion to first adopt the standard effective no earlier than December 31, 2008. The second phase would then require natural person credit unions in excess of \$1 billion to implement the standard two years later (or no earlier than December 31, 2010). This timeline should provide sufficient time for the entire network to understand the requirements and prepare for adoption of the rule. Corporate credit unions and the NCUA could learn from the corporate credit union implementation and develop training sessions to assist the natural person credit unions in their implementations.

Standards that should govern the assessment and attestation components of the engagement

Question 8 – Should credit unions follow the PCAOB’s AS 2 standard (public companies) or the AICPA’s revised AT 501 standard (non-public companies)?

Mid-States believes that AICPA AT 501 should be followed since credit unions are not publicly traded companies.

Question 9 – Should the NCUA mandate COSO’s Internal Control – Integrated Framework as the standard all credit unions must follow or should each credit union have its option to choose its standard?

The standard should be consistent, however, Mid-States would need to evaluate if the COSO framework is the correct model before providing further opinion.

Qualifications of Supervisory Committee Members

Question 10 – Should Supervisory Committee members of credit unions over a certain minimum asset size be required to have a minimum level of experience?

Yes, for credit unions over \$1 billion in assets, at least one Committee member should be qualified as a “financial expert.” A financial expert is one who:

1. Understands GAAP and financial statements;
2. Is able to access the application of GAAP in connection with the accounting for estimates, accruals and reserves;
3. Has experience in preparing, auditing, analyzing or evaluating financial statements of a breadth and complexity comparable to such credit union;
4. Understands internal controls and procedures for financial accounting; and;
5. Understands Supervisory Committee functions.

Question 11 – Should Supervisory Committee members have access to their own outside legal counsel?

Yes, the Supervisory Committee for all credit unions regardless of size should have access to outside legal or accounting counsel if deemed necessary.

Question 12 – Should Supervisory Committee members of a credit union above a certain size be prohibited from being associated with any large customer of credit unions other than the sponsor?

No, however, credit unions should consider adopting a code of conduct that would be signed annually by all Board members and prohibits self-dealing.

Other questions

Question 14 – Should an auditor be required to meet the AICPA's or the SEC's independence requirement?

An auditor should be required to meet the AICPA requirement as credit unions are not publicly traded companies.

Question 17 – Should part 715 require credit unions to forward a copy of the financial statement audit and the "attestation on internal controls" to the NCUA? If so how soon after period end?

Yes, and 180 days would appear reasonable given the additional work load associated with an attestation engagement.

Question 18 – Should part 715 require credit unions to provide the 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?

No, since the NCUA would already be receiving the audit report and the "attestation on internal controls" report. Any qualification or material internal control weakness would be described in these reports. The NCUA should consider requesting this other information, along with any internal audit reports, during field examinations.

Question 19 – If credit unions were required to forward auditors reports to the NCUA, should part 715 require the auditor to review those reports with the Supervisory Committee before forwarding them to the NCUA?

Yes, the credit union should present the reports first to the Supervisory Committee.

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 shortened or extended? Should sanctions be imposed?

Given the extra work associated with an "attestation on internal controls", auditors availability and the time to complete the Supervisory Committee review, the deadline should be extended to 180 days after period end. Sanctions should be imposed on a case by case basis.

Question 21 – Should part 715 require credit unions to notify NCUA in writing if they change auditors?

No, the Supervisory Committee should be responsible for hiring and monitoring the performance of the independent accountants. NCUA should review the decision process and minutes during field examinations.

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Question 22 – 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?

Supervisory Committees should not be allowed to waive auditor liability.

Mid-States thanks the NCUA for the opportunity to comment on this proposed regulation. Thank you for consideration of these comments and please contact me directly should you have any questions concerning any of the responses presented in this letter.

Sincerely,

A handwritten signature in black ink that reads "Todd M. Adams". The signature is written in a cursive style with a long horizontal flourish at the beginning.

Todd M. Adams
Chief Financial Officer
Mid-States Corporate Federal Credit Union