

April 24, 2006

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

Via E-mail: regcomments@ncua.gov

Re: Advance Notice of Proposed Rulemaking-Supervisory Committee Audits

Dear Ms. Rupp:

The Oklahoma Credit Union League appreciates the opportunity to comment on NCUA's Advance Notice of Proposed Rulemaking (ANPR) regarding Supervisory Committee Audits. League Services Corporation, a wholly-owned subsidiary of the Oklahoma Credit Union League, has provided various auditing-related services to Oklahoma credit unions for over 30 years and is currently providing some form of auditing assistance to over 50% of League-affiliated credit unions. The bulk of this assistance is directly to Supervisory Committees by performance of the "Supervisory Committee Guide audit" on behalf of the Supervisory Committee.

In addition to this annual engagement, League Services Corporation also provides compliance audit services, internal audit assistance, and various other related services such as loan reviews, cash verifications, member account verifications, bank reconciliation and accounting assistance. Supervisory Committee members can also receive training covering the Basic Duties and Responsibilities of the Supervisory Committee at no cost to the credit union.

Although we have already responded to this ANPR as part of the group response by the League Audit working group (response dated April 18, 2006), we would like to provide further comment on some of the specific issues.

The questions and proposed regulatory changes detailed in this ANPR would normally be expected as a result of or as a reaction to an identified pattern or series of incidents indicating the need for additional regulatory oversight. While we appreciate NCUA's position in responding to the 2005 GAO report, we are not aware of any such situations affecting the credit union industry as a whole or any losses to the insurance fund that would warrant these proposed changes. Sarbanes-Oxley (SOX) was implemented in response to a number of major corporate and accounting scandals which resulted in a loss of public trust in accounting and reporting practices by public companies. Because credit unions are member-owned (non-public) not-for-profit cooperatives and, therefore, do not have the financial reporting pressures experienced by most public companies, the implementation of SOX-like requirements for credit unions appears unnecessary.

Even for the majority of large credit unions, the accounting and financial reporting issues are relatively basic when compared with other industries. Credit union accounting practices are straightforward and the use of estimates in credit union financial reporting is minimal. In addition, credit unions are currently restricted by regulation from engaging in certain high-risk activities (i.e. certain investment options, types of lending and loan concentrations, etc.) which are permissible for other types of financial institutions. The requirement for an “attestation on internal controls” over financial reporting is only required for banks over \$1 billion in asset size. If an “attestation on internal controls” requirement must be implemented for credit unions, this requirement should be no more stringent than the similar requirement for other types of financial institutions, even though the organizational structure, financial reporting and regulatory environment of credit unions indicates that any such requirement should really be set at an even higher threshold for credit unions, if required at all.

Regardless of credit union size, the additional cost burden to obtain an “attestation on internal controls” over financial reporting would be significant. The experience of public companies has shown that compliance with SOX requirements has been expensive and time-consuming. A 2005 study by the Independent Community Bankers Association found that it cost banks more than 2,000 staff hours and over \$200,000 on average to comply with the SOX Section 404 requirements. The additional expense to credit unions would be both in engaging consultants to assist credit union management and the Board of Directors in the documentation and assessment of internal controls as well as the cost of the attestation engagement itself. Extensive time would be required by credit union management, staff, directors and supervisory committee members to implement and maintain this process on a regular basis. Both the direct engagement costs and the indirect expense of credit union staff time would result in credit union resources being designated toward regulatory compliance instead of for the benefit of credit union member-owners in the form of higher dividend rates, lower loan rates, and lower fees for financial services.

The audit options currently outlined in Section 715.7(c) of NCUA’s Rules and Regulations should be retained. Over 75% of Oklahoma credit unions (averaging approximately \$31 million in asset size) currently use the “Supervisory Committee Guide audit” option to meet the annual regulatory audit requirement. The elimination of this “Supervisory Committee Guide audit” option would force these small credit unions into one of the other audit options at a much higher audit engagement cost and would not necessarily provide any more assurance to the financial reporting process. Here again, limited credit union resources would have to be reallocated away from the benefit of members to cover these increased regulatory compliance costs. Ultimately, some of these smaller credit unions would not be able to support these higher audit fees and would be forced into mergers or possible closure.

Just as the “Supervisory Committee Guide audit” remains a viable option for credit unions, national banks with assets under \$500 million also have the option for a “directors’ examination” which is similar in scope to the “Supervisory Committee Guide audit” requirements. In fact, the current “Supervisory Committee Guide audit” requirements are, for the most part, more detailed in scope than the required directors’ examination procedures.

Thank you for this opportunity to express our comments. If you have any questions, please contact me at dkroutil@okleague.coop or at (800) 375-6285 ext. 240.

Sincerely,

Dana K. Kroutil, Vice President – Audit Division
League Services Corporation
Oklahoma Credit Union League