

YOUNG, SHERON

From: _Regulatory Comments
Sent: Tuesday, April 25, 2006 9:34 AM
To: YOUNG, SHERON
Subject: FW: Community One FCU's Comments on Part 715 - Supervisory Committee Audits

From: Donald Turner [mailto:donalddt@communityonefcu.com]
Sent: Monday, April 24, 2006 7:57 PM
To: _Regulatory Comments
Cc: Alan Pughes
Subject: Community One FCU's Comments on Part 715 - Supervisory Committee Audits

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

Re: Supervisory Committee Audits

Ms. Rupp:

We appreciate the opportunity to provide our comments regarding NCUA's efforts to modify the rules regarding supervisory committee audits.

Community One Federal Credit Union believes the existing Part 715 of the NCUA's Rules and Regulations adequately provide for accurate reporting of a credit union's condition, from both a financial and regulatory focus. We do not believe the corporate structure of credit unions or the financial stability of the credit union industry merits the application of Sarbanes-Oxley type requirements to credit unions. NCUA's monitoring and review efforts have proved to be efficient in identifying and rectifying weaknesses within individual credit unions and trends within the industry which, if not handled appropriately, could have created significant impact.

Additional comments to the questions posed in the notice of proposed rulemaking follow.

Internal Control Assessment and Attestation

Question: Should part 715 require, in addition to a financial statement audit, an "attestation on internal controls" over financial reporting above a minimum asset size threshold?

Answer: We do not believe an attestation of internal controls should be required of any credit union, regardless of asset size. Sarbanes-Oxley was designed to address an issue of ethics which arose in publicly traded companies. These companies and individuals within the companies stood to reap great financial rewards by generating false statements regarding their organizations financial position. This potential "reward" is not present in the credit union industry due to the not-for-profit organization of each institution so there is not a reason for a misrepresentation of financial condition.

Question: What minimum asset size threshold would be appropriate for requiring an attestation on internal controls?

Answer: See above response

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

Answer: If NCUA decides an attestation is necessary for credit unions, it should be applied uniformly to both corporate and natural person institutions.

Question: Should management's assessment of the effectiveness of internal controls and the attestation by its external auditor cover all financial reporting?

Answer: If NCUA finds an attestation is necessary, it should be applied to those financial reports prepared in accordance with GAAP and those required for regulatory reporting.

Question: Should the same auditor be allowed to perform the audit and the attestation or should a credit union be allowed to engage separate entities to perform the functions?

Answer: The credit union should be allowed to decide which approach it will utilize. Even though the auditor conducting the review would probably be better able to attest to the adequacy of controls, a credit union may choose to have separate entities perform the functions as a further validation of controls.

Question: If an attestation were to be required, when should the requirement become effective?

Answer: No sooner than 2 years from NCUA's adoption of the requirement.

Standards Governing Internal Control Assessments and Attestations

Question: Should Supervisory Committee members for credit unions above a certain asset size be required to have a minimum level of expertise in credit union, banking or other financial matters? If so, what asset size?

Answer: As a Supervisory Committee has the same responsibility regardless of asset size, any expertise requirements should be applied unilaterally throughout the industry.

Question: Should Supervisory Committees of credit unions over a certain asset size be required to have access to outside counsel?

Answer: We believe access to outside counsel should be an option available to any supervisory committee, regardless of asset size.

Question: Should Supervisory Committee members be prohibited from being associated with large customers of the credit union?

Answer: We believe all credit union officials are required to conduct credit union business in an ethical manner. Although “large customer” was not defined, we do not see the need to disallow a relationship with one “category” of member above any other.

Question: If the qualifications outlined in the 3 previous questions were required of supervisory committee members would it create difficulty in recruiting and retaining competent individuals to serve?

Answer: Finding volunteers with the capacity and desire to serve an organization can be difficult. Adding additional criteria complicates the process further.

Independence of State-licensed, Compensated Auditors

Question: Should licensed, compensated auditors performing a financial statement audit and/or an attestation be required to meet just the AICPA’s “independence” standards or should they be required to also meet the SEC’s “independence” standards.

Answer: We believe the AICPA’s requirements are sufficient since credit unions are not publicly traded making the SEC’s requirements irrelevant.

Audit Options, Reports and Engagements

Question: Should credit unions that obtain a financial statement audit and/or an attestation be required to forward a copy of the auditor’s report to NCUA? If yes, how soon after the audit period end?

Answer: We do not believe the requirements for a financial statement audit or attestation should be different than for any other audit obtained by the credit union. They should be available to NCUA when they perform their regular examinations.

Question: Should credit unions be required to provide NCUA with a copy of any management letter, qualifications or other report issued by its external auditor in connection with services provided to the credit union? If yes, how soon after the credit union receives it?

Answer: See above answer.

Question: If credit unions were required to forward external auditor’s reports to NCUA, should the auditor be required to review those reports with the Supervisory Committee prior to forwarding them to the NCUA.

Answer: Yes. As the auditor is engaged on behalf of the supervisory committee, we believe the report should be made available to them and discussed before it is provided to any other outside parties.

Question: Existing rules require an 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 changed? What sanctions should be imposed against a credit union that fails to include the target delivery date with its engagement letter?

Answer: We believe the timeframe is adequate as prescribed. We do not believe sanctions should be imposed but, instead, items such as the failure to include a target date should be addressed during NCUA's regular examination of the credit union.

Question: Should credit unions be required to notify NCUA in writing when they either engage an auditor or when an engagement ends by reason of the auditor's dismissal or resignation?

Answer: No as these are decisions handled by the management and officials within the credit union.

Sincerely,

J. Alan Pughes
President/Chief Executive Officer
Community One Federal Credit Union