Louisiana
Credit Union League

March 27, 2019

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Supervisory Committee Audits and Verifications

Dear Mr. Poliquin:

On behalf of the Board and 166 affiliated credit unions in the Louisiana Credit Union League (LCUL), I would like to take this opportunity to formally comment on NCUA's proposed rule dealing with Supervisory Committee audits and verifications as submitted for public comment by the NCUA Board in February 2019.

The Louisiana Credit Union League is supportive of NCUA in any efforts that it can make to bring about more reasonableness and appropriate flexibility for credit unions – particularly the smaller credit unions where the audit burden is greatest for both cost and disruption considerations – in the guidelines applicable to them by regulation for their annual Supervisory Committee audits. We believe that this proposal is a step in the right direction and will, hopefully generate more analysis within the agency for ways NCUA can make the audit process more reasonable for credit unions without sacrificing safety and soundness in any way.

The provision in the proposed rule to amend Section 715.7 to replace reference to the NCUA Supervisory Committee Guide with a more flexible set of minimum standards that any Supervisory Committee audit must meet if the credit union is not required to have a CPA opinion audit is a commendable one. The tendency of examiners to recommend and, in effect through that recommendation, essentially require a more costly audit at times in order to have a third party validate items already reviewed by the examiners themselves needs to have a balance in regulation that would allow credit unions to know what audit items are essential. This clarity, as an alternative to the much more restrictive approach of the Supervisory Committee Guide, is welcome for Louisiana credit unions of which many are smaller in nature.

That said, we are concerned about the potential for unintended consequences that could result from including in the proposed Appendix A the ability of the Supervisory Committee to question the pay of staff or board members. Absent some specific instance or allegation of abuse or fraud, we do not feel that this sensitive information should be routinely shared or audited under the scope of the Supervisory Committee.

In addition, the provision to further amend Section 715.9 to replace the rigid 120-day timing requirement for delivery of a written Supervisory Committee audit is also deserving of support and will result in a more efficient streamlined approach that will remove unnecessary steps not only for credit unions, but for NCUA staff as well. While the agency already has the supervisory authority through its examination regime to bring an end to any unwarranted and non-justifiable delays to securing the required Supervisory Committee audits on an annual basis, we see no reason why any arbitrary number of days should be specified in regulation. There are a number of reasons, many of them totally justifiable, why an audit may not be able to be provided in writing within 120 days. We specifically recall the difficulty of many credit unions and CPA firms, as well as other entities engaging in more limited scope Supervisory Committee audits, had in complying with the 120-day timetable in the aftermath of Hurricane Katrina in 2005 and 2006. With its recognized ability to utilize its supervisory authority to prevent in appropriate delays that might bring the safety and soundness of the credit union into question, NCUA has the ability to monitor the Supervisory Committee audit process and timetables at any federally-insured credit union without setting arbitrary completion and delivery dates in regulation.

For these reasons, the Louisiana Credit Union League supports this proposed rule on Supervisory Committee Audits and Verifications. We hope that the agency will, as it further considers this issue in the future, consider more flexibility in the scope of audits for credit unions with a CAMEL rating of 1 or 2 for the past three exam cycles, with stable management in place over years with a consistent Management component rating of 1 or 2 and with capital in excess of 9%. We can see some wisdom in allowing credit unions with this earned level of performance to have a more limited scope engagement for their Supervisory Committee audit every other year and a broader scope in the between years. This seems consistent with the risk-based and expanded examination cycle and a proposal worthy of consideration.

In closing, we would like to once again thank you for the opportunity to comment on this proposed rule which we feel is very important to our Louisiana credit unions and the credit union industry as a whole. Please do not hesitate to contact us if we can provide additional information or perspective on this matter.

Sincerely,

Bob Gallman

Bob Gallman
President/CEO
Louisiana Credit Union League