



April 26, 2019

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

*Submitted electronically
to regcomments@ncua.gov*

RE: Proposed Rule – Supervisory Committee Audits and Verifications; RIN 3133-AE91

Dear Mr. Poliquin,

The Credit Union Association of the Dakotas (CUAD), which represents state and federally chartered credit unions in the states of North Dakota and South Dakota, appreciates the opportunity to provide comment to the National Credit Union Administration (NCUA) regarding its proposed rulemaking concerning Supervisory Committee Audits and Verifications.

Part 715 of the NCUA rules and regulations sets forth the responsibilities of the Supervisory Committee to obtain an annual audit of the credit union according to its charter type and asset size, and to conduct a verification of members' accounts. This proposed rule focuses on aspects relating to the audit function of the Supervisory Committee.

Section 715.7 provides the Supervisory Committee audit alternatives when a credit union is not required to obtain a financial statement audit. Specifically, "A credit union which is not required to obtain a financial statement audit may fulfill its supervisory committee responsibility by any one of the following engagements:

(a) *Balance sheet audit.* A balance sheet audit, as defined in §715.2(a), performed by a person who is licensed to do so by the State or jurisdiction in which the credit union is principally located; or

(b) *Report on Examination of Internal Control over Call Reporting.* An engagement and report on management's written assertions concerning the effectiveness of internal control over financial reporting in the credit union's most recently filed semiannual or year-end call report (NCUA Form 5300), as defined in §715.2(j), performed by a person who is licensed to do so by



the State or jurisdiction in which the credit union is principally located, and in which management specifies the criteria on which it based its evaluation of internal control; or

(c) *Audit per Supervisory Committee Guide*. An audit performed by the supervisory committee, its internal auditor, or any other qualified person (such as a certified public accountant, public accountant, league auditor, credit union auditor consultant, retired financial institutions examiner, etc.) in accordance with the procedures prescribed in NCUA's *Supervisory Committee Guide*. Qualified persons who are not State-licensed cannot provide assurance services under this subsection." 12 CFR 715.7

With regard to subsection (a) above, specifically, the balance sheet audit. "It has been the NCUA's experience that the balance sheet audit alternative is utilized only by a small number of credit unions (approximately 2.5 percent) and provides limited value, as it does not include an audit of a credit union's income statement." 84 FR 5958 In reference to subsection (b) "*Report on Examination of Internal Control over Call Reporting*" the NCUA is proposing to remove this alternative. As explained, "The NCUA believes this option has limited value in serving as an audit of the credit union's financial reports of condition as it does not necessarily involve any review of balances reported. As of September 30, 2018, less than 1 percent of FICUs used this option to fulfill the annual audit requirement." *Id.*

While neither option is being utilized by a vast majority of credit unions, CUAD is hesitant to support removal as it would limit options for small credit unions. Fewer options also would decrease the flexibility they have in meeting their obligation to obtain an audit. This also might increase their costs to meet this statutory requirement, therefore, to ensure credit unions, especially small credit unions, have the most flexibility in meeting their statutory obligations we encourage the NCUA to maintain as many viable options as possible.

The proposed rule also would remove references to NCUA's Supervisory Committee Guide in 715.7(c) *Audit per Supervisory Committee Guide* and decommission the outdated Supervisory Committee Guide. The proposal would replace this option with a new Appendix A to Part 715. In the proposed rule, the NCUA notes that it would issue reference material on how to conduct procedures that would meet the minimum requirements of the new Appendix A.

New Appendix A would provide the minimum procedures which a supervisory committee, its internal auditor, or other qualified person must complete when a credit union chooses the Other Supervisory Committee Audit option for completing its annual audit requirements under the revised §715.7(c). As proposed, the following are the minimum procedures:

- Test and confirm material asset and liability accounts including, at a minimum: Loans; Cash on deposit; Investments; Shares; Borrowings.
- Test material equity, income, and expense accounts.



- Review key internal controls including, at a minimum: Bank reconciliation procedures; Cash controls; Dormant account controls; Wire and ACH transfer controls; Loan approval and disbursement procedures; Inside account controls; Other real estate owned; Foreclosed and repossessed assets.
- Test the mathematical accuracy of the allowance for loan and lease loss account and ensure the methodology is properly applied.
- Test loan delinquency and charge-offs.

CUAD supports streamlined process that targets only the minimum necessary procedures that must be included in the audit. Therefore, CUAD supports this revision to simplify the audit process as it will benefit small credit union with noncomplex services and products. These credit unions will benefit greatly from the targeted and less burdensome process.

As far as decommissioning the NCUA's *Supervisory Committee Guide*, it is outdated, however; CUAD is concerned credit union Supervisory Committees will be losing a good resource and would encourage the NCUA to update this guide and make it relevant to today's Supervisory Committee instead of getting rid of it altogether.

The Federal Credit Union (FCU) Act §115 requires that the Supervisory Committee, "make or cause to be made such supplementary audits as it deems necessary." Thus, another major responsibility of the Supervisory Committee's is to perform random audits throughout the year. While there are no specific requirements as to how many times per year these interim audits need to be reviewed, the more interim audits that are done, the better the internal controls will be and the sooner mistakes will be detected. As discussed in the NCUA *Supervisory Committee Guide*, "The supervisory committee serves a very important function in smaller credit unions in particular, because of limited internal controls. Smaller credit unions have fewer staff members and they cannot segregate job responsibilities well. Supervisory committee functions help to compensate for limited controls." (page 4-3)

Supervisory Committee members, especially those at small credit unions, benefit greatly from the resources to assist them in their roles at the credit union, including the *Supervisory Committee Guide*, but it needs to be updated. Therefore, CUAD would encourage the NCUA that in lieu of completely decommissioning this guide it be updated and targeted to the Supervisory Committee's additional roles in responding to member complaints and interim audit requirements. Sample work papers and instructions for completing, documenting and reporting interim audit duties would be very beneficial.

Finally, the NCUA proposes to revise section 715.9(c)(6) of the NCUA's regulations. Currently, this section provides, "(6) Specify a target date of delivery of the written reports, such target date not to exceed 120 days from date of calendar or fiscal year-end under audit (period covered), unless the supervisory committee obtains a waiver from the supervising NCUA Regional Director." As



proposed, it would provide, “(6) Specify a target date of delivery of the written reports, so that such target date will enable the credit union to meet its annual audit requirements;” thus removing the 120-day requirement and the accompanying waiver requirement should it have been necessary. As explained by the NCUA, “the new standard would only require a credit union to specify in the engagement letter a target delivery date that enables the credit union to timely meet its annual audit requirements as articulated in §715.4 of the NCUA’s regulations.” 84 FR 5958

CUAD fully supports this amendment to section 715.9(c)(6) as it will provide additional flexibility to credit unions.

Thank you for this opportunity to share our comments and concerns.

Respectfully,

A handwritten signature in black ink that reads "Jeffrey Olson".

Jeffrey Olson
CEO/President

A handwritten signature in black ink that reads "Amy Kleinschmit".

Amy Kleinschmit
Chief Compliance Officer