



April 26, 2019

Gerald Poliquin, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Comments of Proposed Rule Supervisory Committee Audits and Verifications

We respectfully submit these comments regarding the Proposed Rule on Supervisory Committee Audits and Verifications. We support the NCUA's effort to update guidance to supervisory committees. We do wish to share our concerns that additional clarification and guidance may be needed to ensure that the rules do not adversely affect the viability of small credit unions.

At Inclusiv, we believe that true financial inclusion and empowerment is a fundamental right. We dedicate ourselves to closing the gaps and removing barriers to financial opportunities for people living in distressed and underserved communities. Inclusiv is a national network representing 266 credit unions in 48 states including DC and Puerto Rico, Inclusiv members serve over eight million residents of low-income urban, rural and reservation-based communities across the U.S. and hold over \$92 billion in community-controlled assets. Our strength is in the diversity of our members ranging in size from less than \$1 million in assets to more than \$10 Billion assets.

Inclusiv supports member credit unions to grow and thrive by providing capital, technical assistance and training and supportive programs to increase impact in their communities. We provide webinars, trainings and in-depth assistance in accounting and compliance including offering training and direct support in conducting supervisory audits.

With this extensive background, we recognize that the Supervisory Committee Guide for Federal Credit Unions (December 1999) is in need of updating and simplification to provide relevant guidance for Supervisory Committees in conducting and overseeing supervisory audits and to monitor internal controls necessary for credit unions to safeguard members' money.

NCUA has stated that the "proposed rule will provide relief to small credit unions by clarifying and simplifying requirements related to supervisory committee audits." The proposed rule elaborates:

Under this framework, credit unions and outside parties hired to conduct audits for credit unions would only need to refer to the streamlined Appendix A to determine the



minimum audit requirements, rather than needing to refer to the current Supervisory Committee Guide, which, at over 350 pages, is overly specific, burdensome, and outdated.

Given the varying level of experience and time in volunteer supervisory committees (and the need to rely on outside audits), we agree and support this effort to simplify, clarify and establish greater documentation on how to conduct effective audits, including the provision of specific steps, sample documents and control procedures to help guide the process. We similarly support the removal of the 120-day language in engagement letters to outside compensated auditors regarding the required written report.

Inclusiv is sharing our concerns that the recommendations may actually increase cost and burden for smaller CUs and therefore may violate the intent of the rule is a reasonable comment. There are areas where the proposed rule could add time and burden to small credit unions or where we believe other procedures may be better suited for accomplishing the end result desired by the NCUA and credit union to protect members' funds.

We support the recommendation that all balance sheet accounts are traced to supporting schedules, reconciliations or subsequent clearing. We believe that this procedure should be added as the first item to Appendix A. By performing this procedure, the supervisory committee and/or its auditor can determine which balance sheet accounts are out of balance, not reconciled or do not timely clear. More importantly by performing this procedure, several tests and confirmations of material asset, liability and equity accounts would not be required.

The current confirmation requirements for member share and loan accounts testing and confirmation procedures of mailing and tracking down confirms from members is arduous and outdated. Written verifications are becoming less and less reliable. Members increasingly distrust 3rd party contact about their financial information and the majority of these letters are discarded. Credit unions often end up having to pursue multiple means to contact members, non-members, investors and to provide alternate verification/ documentation when positive sampling confirmations are not returned. This time consuming practice does not give a good return on investment as the return rate is low and attempts at follow-up add substantial hours for the auditor leading to more expenses for the CU.

We recognize the importance of verifying loan data to safeguard against fraud. For this reason, we recommend supporting schedule and reconciliations tracking payments to balances over confirms. In short, when confirmations are not returned then alternate procedures need to be acceptable.



To address this issue and others that may arise, we urge that NCUA consider convening focus groups of small CUs and auditors of small credit unions to review and provide specific practical procedures to ensure a streamlined audit process.

Small credit unions are often meeting untapped and unmet needs that other financial institutions do not or cannot serve. The strength of our industry lies in its diversity and the ability of the model to be applied within communities and populations otherwise disregarded. We acknowledge the work that NCUA has taken in providing this updated and simplified process and encourage the agency to take the next step in converting this into actionable tools and training opportunities that will continue to support and strengthen the operations of small credit unions.

Thank you for your time and the opportunity to share our thoughts.

Sincerely

A handwritten signature in black ink that reads "Cathleen A. Mahon". The signature is fluid and cursive, with a long horizontal stroke at the end.

Cathleen A. Mahon
President & CEO