

April 26, 2019

National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: 12 CFR Part 715 - Notice of proposed rulemaking and request for comment

The National Credit Union Administration (NCUA) is seeking comment regarding its proposal to amend its regulations governing the responsibilities of a federally insured credit union (FICU) to obtain an annual supervisory committee audit of the credit union. Specifically, the NCUA is proposing changes to Sections 715.7 and 715.9 of its regulations.

Doeren Mayhew appreciates the opportunity to comment on these proposed changes. Our comments are noted below:

Proposed Amendment – Section 715.7

Section 715.7 of the NCUA Regulations outlines the alternatives a credit union, that is not required to obtain a financial statement audit, may elect to fulfill its supervisory committee responsibilities. One of those options includes the performance of an audit in accordance with the *Supervisory Committee Guide*, which was published by the NCUA in 1999. The NCUA Board is proposing to remove the reference to the NCUA's *Supervisory Committee Guide* in Section 715.7(c) and replace it with certain minimum requirements, which would be incorporated into a proposed new Appendix A to Part 715. The minimum procedures outlined in Appendix A are intended to reflect common industry practices for testing accounts and controls over financial institution financial statements.

Doeren Mayhew Comments:

We concur with the NCUA's proposal to remove the reference to the NCUA's *Supervisory Committee Guide* in Section 715.7(c) and replace it with certain minimum requirements. Clearly, the procedures outlined in the *Supervisory Committee Guide* are outdated, ineffective, and excessively burdensome.

With respect to the proposed areas of review identified in Appendix A, we generally agree with these test areas. The following are a few ideas for additional consideration:

1. Require additional procedures and provide guidance on specific tests that should be performed regarding the allowance for loan and lease loss accounts, beyond testing for the mathematical accuracy.

2. Require additional procedures and provide guidance on testing for unrecorded and/or understated liabilities that would not otherwise be subject to testing based on the materiality definition described in this proposal. A few examples would be unrecorded and/or understated liabilities associated with credit card/debit card reward points; post-retirement benefits other than pensions; deferred compensation arrangements; etc.
3. Require additional procedures and provide guidance on testing for merger activity and the calculation of net worth ratios (book value equity at time of merger, minus any bargain gains recognized) after the merger.

We believe that Appendix A should address specific procedures to address material loans to insiders and pay/benefits to volunteers (members of the Board and Supervisory Committee). At a minimum, Appendix A should require testing to ensure that compensation and/or travel expenses paid by the credit union on behalf of a volunteer are reported to the official on a Form 1099-MISC as required by the Internal Revenue Service.

We believe that Appendix A should not require testing for regulatory compliance or the Bank Secrecy Act as part of this audit engagement. Instead, we recommend that these complex regulatory compliance audits be conducted by people and/or organizations that have appropriate experience and credentials to undertake these engagements. We do believe that Appendix A should include a requirement to make inquiries with credit union management and/or the Supervisory Committee to ensure that required regulatory compliance audits have been conducted by people/organizations with appropriate skills during the audit period.

Proposed Amendment – Section 715.7

As noted above, Section 715.7 of the NCUA Regulations outlines the alternatives a credit union, that is not required to obtain a financial statement audit, may elect to fulfill its supervisory committee responsibilities. One of those options is to obtain a report on examination of internal controls over call reporting. The NCUA Board is proposing to eliminate this option. In addition, as of September 30, 2018, less than 1 percent of FICUs used this option to fulfill the annual audit requirement.

Doeren Mayhew Comments:

We concur with the NCUA's proposal to remove this option to fulfill the annual audit requirement. Since this option became available to credit unions, our firm has not received one proposal request asking for this service.

Proposed Amendment – Section 715.7

As noted above, Section 715.7 of the NCUA Regulations outlines the alternatives a credit union, that is not required to obtain a financial statement audit, may elect to fulfill its supervisory committee responsibilities. One of those options is to obtain a "balance sheet audit." The NCUA Board is seeking comment on if the "balance sheet audit" should also be removed as an option to fulfill the annual audit requirement.

Doeren Mayhew Comments:

A balance sheet audit has significant limitations in that it does not audit revenues and expenses during a stated period of time. However, it is sometimes used effectively when a credit union is transitioning from a supervisory committee audit (Agreed-Upon Procedures) to a financial statement audit. The “balance sheet audit” enables the CPA firm to rely on the accuracy of the balance sheet accounts for the effective date of the audit and then expand the audit to a full scope audit the year following the “balance sheet audit.” We do not have a strong opinion on whether the “balance sheet audit” should also be removed as an option to fulfill the annual audit requirement.

Proposed Amendment – Section 715.9

Section 715.9 of the NCUA Regulations requires that an engagement letter specify a target date of delivery of written reports “not to exceed 120 days from the date of the calendar or fiscal year-end under audit.” The NCUA Board is proposing to eliminate the 120-day time frame in favor of language that provides enhanced flexibility free of any deadline articulated in a specific number of days. The new standard would only require a credit union specify in the engagement letter a target delivery date that enables the credit union to timely meet its annual audit requirements as articulated in Section 715.4 of the NCUA’s Regulations.

Doeren Mayhew Comments:

We concur with the NCUA’s proposal to amend this regulation as outlined above.

Proposed Amendment – Sections 715.9(c)(3), 715.9(d), 715.9(e)

The NCUA Board is proposing to remove references to the *Supervisory Committee Guide* and replace them with references to the minimum requirements of proposed new Appendix A.

Doeren Mayhew Comments:

We concur with the NCUA’s proposal to amend this regulation as outlined above.

We appreciate the opportunity to comment on the proposed changes to 12 CFR Part 715. If anyone has any questions or would like additional input, please do not hesitate to contact me.

Sincerely,

Douglas J. Orth

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