

December 6, 1996

Gayle Bartholomew
President/CEO
Jefferson Parish School Board
Employees' Credit Union
2025 Paxton Street
Harvey, Louisiana 70058

Re: Supervisory Audits (Your November 27, 1996, Letter)

Dear Ms. Bartholomew:

Karen Kelby in the NCUA Office of Examination and Insurance forwarded your letter to our office to respond to your inquiry. You ask whether a supervisory committee may seek proposals from an independent auditor to perform a year-end and financial statement audit, sign an engagement letter, and authorize the commencement of the audit without the knowledge or approval of the board of directors. Our response, set forth below, applies only to Federally Chartered Credit Unions ("FCUs"). You should also direct this question to the appropriate state credit union authority.

It is the duty of the supervisory committee to make or cause to be made an annual audit and such supplementary audits as it deems necessary. Under the FCU Act and the NCUA Rules and Regulations, the supervisory committee itself may perform an audit or if needed, may employ and use the services of an independent auditor. The selection of an auditor, as well as other decisions concerning the scope and nature of the audit, is left to the sole discretion of the supervisory committee. Thus, where the FCU's board of directors has already approved the supervisory committee's budget and the fee for the independent auditor is within that budget, the supervisory committee may proceed with an audit by seeking proposals, signing an engagement letter, and authorizing the commencement of the audit without the knowledge or approval of the board of directors. However, where there is not an established budget under which the supervisory committee operates, the FCU's board of directors must have knowledge of the audit and must authorized payment of the audit fees before the supervisory committee signs an engagement letter and the audit is begun.

Sincerely,

Michael J. McKenna
Acting Associate General Counsel

GC/NSW:bhs
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