



4450 Weaver Parkway • Warrenville, IL 60555 • www.membersunited.org
Phone: (630) 276-2600 • (800) 782-2431 • Fax: (630) 276-2626

Dear Member:

Recently, we have received a few inquiries from members regarding whether Members United Corporate Federal Credit Union (Members United) has a SAS 70 audit report available for their review.

Statement on Auditing Standards (SAS) No. 70, *Service Organizations*, is an internationally recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). A SAS 70 audit, or service auditor's examination, is widely recognized and signifies that a service organization has had its control objectives and control activities examined by an independent accounting and auditing firm. There are two types of Service Auditor's Reports, a Type I and Type II.

- Type I – This form of report describes the service organization's description of controls at a specific point in time (e.g., June 30, 2006). In a Type I report, the service auditor will express an opinion on (1) whether the service organization's description of its controls presents fairly, in all material respects, the relevant aspects of the service organization's controls that had been placed in operation as of a specific date, and (2) whether the controls were suitably designed to achieve specified control objectives.
- Type II – A Type II report not only includes the service organization's description of controls, but also includes detailed testing of the service organization's controls over a minimum six month period (e.g., January 1, 2006, to June 30, 2006). In a Type II report, the service auditor will express an opinion on the same items noted above in a Type I report, and whether the controls that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurances that the control objectives were achieved during the period specified.

A SAS 70 audit is performed on an individual service offered by an organization, not on the organization itself. Examples of services where you might find a SAS 70 audit include item processing (paper-based or electronic), branch capture, funds transfer or safekeeping services. To ensure a SAS 70 audit is properly assessing internal controls and or processes, it should be performed at least every three years.

At this time Members United does not have any SAS 70 audit reports available. The following factors influenced our decision not to conduct a SAS 70 audit on a particular service at this time:

- Significant changes have recently been made to products and infrastructure processes. A stable environment must be available to perform a SAS 70 audit, and where few changes are anticipated in the near future.
- Significant technological changes developing within payment products and services, which will likely influence current operating practices.
- Expenses associated with performing each SAS 70 audit would add significant overhead, thus impacting the competitiveness of a particular product or service.

While the cost associated with a SAS 70 audit (Type II report) can be high, Members United believes it demonstrates significant compensating controls to ensure proper operational processes and controls are identified and thoroughly tested. The following provide a high-level view of Members United's risk management infrastructure:

- As a corporate credit union, Members United must follow the National Credit Union Administration's (NCUA) Rules and Regulations Part 704, which requires a corporate to comply with the Standards of Professional Practices of Internal Auditing as established by the Institute of Internal Auditors (IIA).
- Members United's infrastructure includes an in-house internal audit function that includes a Chief Audit Executive and two full time Internal Auditors.
- Members United's Supervisory Committee contracts with an independent accounting firm to conduct an annual independent audit of the corporate's financial statement. Currently, the independent accounting firm is McGladrey and Pullen.
- Additionally, Members United's contracts with external parties to conduct audits and or assessment that require very specialized skill sets (e.g., internal/external vulnerability assessments, information systems penetration tests, code reviews, risk assessments, etc.).
- Due to Members United's asset size, NCUA maintains an examiner onsite, and the corporate must undergo an extensive examination annually.

We will continue to monitor the demand that our members express for SAS 70 audits. If you believe that a SAS 70 audit covering a particular product or service would add value, let me know. Obviously, we do not want to be in a position that jeopardizes our valued relationships.

I hope this response provides you a clear reason for Members United's decision not to fund SAS 70 audits at this time. Please contact me if you have any other questions or need additional information.

Sincerely,

A handwritten signature in black ink that reads "Todd M. Adams". The signature is written in a cursive, flowing style.

Todd M. Adams
Chief Financial Officer