

Independent Auditors' Report



CERTIFIED PUBLIC ACCOUNTANTS | MANAGEMENT CONSULTANTS

Independent Auditors' Report on Financial Statements

The Comptroller of the Currency:

We have audited the accompanying balance sheets of the Office of the Comptroller of the Currency (OCC) as of September 30, 2004 and 2003 and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity for the years then ended. These financial statements are the responsibility of the management of OCC. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OCC as of September 30, 2004 and 2003, and its net costs, changes in net position, budgetary resources, the reconciliation of budgetary obligations to net costs, and custodial activities for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information in the OCC at-a-Glance, Operations and Accomplishments, and Management sections of OCC's fiscal year 2004 Annual Report is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and accordingly, we express no opinion on it.

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Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in Appendices A and B is presented for purposes of additional analysis and is not a required part of the financial statements. We did not audit this information and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports dated October 22, 2004, on our consideration of the OCC's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and these reports should be read in conjunction with this report in considering the results of our audits.

Hardiner, Kamya & Associates, P.C.

October 22, 2004

Independent Auditors' Report on Internal Control over Financial Reporting

The Comptroller of the Currency:

We have audited the balance sheet of the Office of the Comptroller of the Currency (OCC) as of September 30, 2004, and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity for the year then ended, and have issued our report thereon dated October 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the OCC's internal control over financial reporting by obtaining an understanding of the OCC's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives describes in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the OCC's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of

inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

However, we noted a certain matter discussed in the following page involving the internal control over financial reporting and its operation that we consider to be a reportable condition. However, we do not consider the reportable condition to be a material weakness.

In addition, with respect to internal control related to performance measures determined by management to be key and reported in the OCC at-a-Glance, Operations and Accomplishments, Management, and Appendix A sections of the OCC's Annual Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We also noted other matters involving internal control and its operation that we have reported to the management of OCC in a separate letter dated October 22, 2004.

This report is intended solely for the information and use of the OCC's management, the Department of the Treasury Office of Inspector General, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is available as a matter of public record.

Gardiner, Kamyra & Associates, P.C.
October 22, 2004

REPORTABLE CONDITION

Obligations were not accurate and current for some undelivered orders.

Condition

For 27 out of 75 Undelivered Orders randomly selected for interim and year-end testing, we found that obligations were not accurate and current. We projected these test results to the total population of Undelivered Orders. As a result, OCC management reduced the balance of Undelivered Orders on the Statement of Budgetary Resources in the amount of \$5,816,463.04.

Criteria:

Office of Management and Budget (OMB) Circular A-11 (2004), 30.2(a)(1) "*Regular annual estimates* requires that regular annual estimates must reflect all requirements anticipated at the time of budget submission, and should cover:

- Continuing activities, including those that must be reauthorized for the budget year;
- Authorized activities that are proposed for the budget year;
- Amounts necessary to meet specific financial liabilities imposed by law; and
- Decreases for activities proposed for termination."

Cause:

Procedures were not adequate to ensure that obligations were accurate and current.

Effect:

The balance in Undelivered Orders is overstated.

Recommendations:

OCC management should implement policies and procedures to ensure that obligations are accurate and current.

Management Comments:

Management concurs with your finding and appreciates your recommendation for improvements. We will soon proceed to develop corrective action plans that address the condition you have identified.

In addition, we would like to point out the following actions that we have taken since you brought the finding to our attention:

Prior to September 30, 2004, we corrected all the exceptions that you identified as a result of your interim testing. We also deobligated all Undelivered Orders related to relocation and space leasing activities. We have also recorded the proposed adjustment and reflected it in the FY 2004 financial statements and footnotes.

Independent Auditors' Report on Compliance with Laws and Regulations

The Comptroller of the Currency:

We have audited the balance sheet of the Office of the Comptroller of the Currency (OCC) as of September 30, 2004, and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity, for the year then ended, and have issued our report thereon dated October 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the OCC is responsible for complying with laws and regulations applicable to the OCC. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the OCC's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the OCC. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the OCC's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the OCC's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of the OCC's management, the Department of the Treasury Office of the Inspector General, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is available as a matter of public record.

Hardiner, Kanya & Associates, P.C.

October 22, 2004