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# CFO's Annual Report— Fiscal Year 2001

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## Chief Financial Officer's Message

I am pleased to present the Office of the Comptroller of the Currency (OCC) Fiscal Year 2001 Annual Report. The OCC received an unqualified opinion on its financial statements. This accomplishment exemplifies our continued commitment and resolve to sound financial management.

Each year, we further position ourselves to improve our resource management systems, business processes and internal controls. This fiscal year, we achieved significant results by successfully completing the implementation of our new Management and Accountability Reporting Tools system (\$SMART) and reengineering the related business processes. Launched on October 1, 2001, \$SMART replaces the OCC's legacy network of disparate accounting systems with a fully integrated, federally compliant financial and acquisition management system that produces reliable, real-time information. In addition, we converted to a new compensation system designed to better ensure that employees are compensated commensurate with their contributions to the agency. Also noteworthy are our enhancements to the OCC's Internet website. National banks can now access assessment forms and instructions, an assessment calculator, and notices of fees with ease. We also implemented a toll-free assessment hotline and group mailbox to facilitate communications with national banks.

With respect to internal controls, we developed and implemented our Management Accountability Program that helps protect the OCC's resources from waste, fraud, abuse and mismanagement. As a complement to the program, we are developing, publishing and implementing a comprehensive set of OCC financial management policies and procedures. For our Travel Charge Card program, we implemented a system of outreach efforts and internal control enhancements that enable us to effectively maintain accurate cardholder information, monitor accounts, prevent and detect unauthorized use, and ensure the timely resolution of disputed balances.

We are proud of our accomplishments and will continue our efforts to strengthen controls, modernize business processes, and provide accurate, reliable and timely information to our stakeholders.



Edward J. Hanley  
Senior Deputy Comptroller and  
Chief Financial Officer

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# I. Management's Discussion and Analysis

## Organizational Profile and Structure

### Profile

The Office of the Comptroller of the Currency (OCC) was established in 1863 as a bureau of the United States (U.S.) Department of the Treasury. The OCC is responsible for licensing, regulating, and supervising the nation's federally chartered banks.

Today, the OCC regulates and supervises more than 2,200 national banks and 56 federal branches of foreign banks in the U.S., accounting for more than 55 percent of the total assets of all U.S. commercial banks.

The OCC's operations are primarily funded by semiannual assessments levied on national banks and from various licensing fees. The OCC also receives interest revenue from its investments in U.S. Treasury securities.

### Structure

At the end of fiscal year 2001, the OCC had 2,867 employees in locations throughout the U.S. Headquartered in Washington, DC, the OCC also has six district offices in New York, Atlanta, Chicago, Kansas City, Dallas, and San Francisco. In addition to the district office sites, the OCC maintains a network of 63 field offices in cities throughout the U.S., maintains resident examiner teams in the 25 largest banks supervised, and an examining office in London, England.

The Comptroller receives advice on policy and operational issues from an Executive Committee comprised of the First Senior Deputy Comptroller and Chief Counsel, the Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner, the Senior Deputy Comptroller for Large Bank Supervision, the Senior Deputy Comptroller for Mid-Size/Community Bank Supervision, the Senior Deputy Comptroller for International and Economic Affairs, the Chief Information Officer, the Senior Deputy Comptroller for Management and Chief Financial Officer, the Ombudsman, and the Chief of Staff.

### Mission and Vision

Professionalism, responsiveness, and respect for others are the core values underlying the OCC's mission and vision.

### Mission

The OCC charters, regulates, and supervises national banks to ensure a safe, sound, and competitive national banking system that supports the citizens, communities, and economy of the U.S.

### Vision

The OCC helps ensure that national banks soundly manage their risks, comply with applicable laws, compete effectively with other providers of financial services, offer products and services that meet the needs of customers, and provide fair access to financial services and fair treatment of their customers.

## Strategies and Program Performance Measures

### OCC Strategic Goal 1: A safe and sound national banking system

The OCC works proactively to identify and mitigate risks in the national banking system. On an ongoing basis, the OCC assesses banking industry risks utilizing its examiners and other professional staff and through analyses developed by the OCC National Risk Committee, which is comprised of senior examiners, legal experts, economists, and technical experts, and the OCC National Credit Committee, which is comprised of OCC credit experts and economists. These two committees jointly serve as the focal point for communicating and evaluating risks to the national banking system and identifying areas that require further study and analysis.

The OCC is a leader in developing and using modern supervisory practices and readily adapts to the rapidly evolving and highly complex financial products and services offered by the banking industry. OCC examiners are provided a wide array of supervisory and economic predictive tools to assist in identifying potential risks to the national banking system as a whole, as well as to individual banks.

During fiscal year 2001, the tools available to the OCC examination staff continued to be refined, including significant enhancements to the OCC's "Canary" system, which provides early indication of potential banking problems, and "Examiner View," a bank supervision database that allows the collection and analysis of systemic and bank specific data.

During the fiscal year, the Comptroller announced a reorganization of OCC's structure to reflect distinctions between two lines of business. As a result, Bank Supervision Operations was reorganized into the Large Bank Supervi-

sion and Mid-Size/Community Bank Supervision departments, effective October 1, 2001. This new structure is intended to promote greater accountability in the supervision of problem banks and revise the OCC's enforcement policy to improve its effectiveness in directing banks in addressing weaknesses in their operations. In addition, the position of Senior Deputy Comptroller for Bank Supervision Policy was changed to Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner.

The OCC has also been active in combating money laundering. In addition to its supervisory and enforcement activities related to the Bank Secrecy Act and money laundering, the OCC participated in interagency efforts in these areas. The OCC works with law enforcement officials in combating money laundering and provides guidance to national banks concerning banking relationships with alleged terrorists.

OCC's examiners participate in a wide range of training initiatives to enhance their skills. Relevant training topics in fiscal year 2001 included problem bank supervision, liquidity/interest rate risk, Internet banking, credit, and combating money laundering. The OCC also lends its expertise to others by conducting training sessions on Internet banking and combating money laundering for other domestic and foreign supervisors and regulatory agencies.

OCC's examiners use these tools and their expertise to evaluate the safety and soundness of national banks primarily during bank examinations and as part of the OCC's ongoing supervisory monitoring program. These processes are crucial to promoting safety and soundness because they identify risks and enable the OCC to take prompt actions to minimize those risks. These actions include timely enforcement actions as well as coordination of failure resolution policies and procedures with the Federal Deposit Insurance Corporation (FDIC).

As part of the OCC's efforts to continually improve the quality of supervisory practices, the Ombudsman's findings on supervisory appeals along with information from banker and bank customer feedback are communicated throughout the agency. In addition, during fiscal year 2001, the OCC piloted a program to evaluate the supervision of community banks. This program seeks to better utilize risk assessment models and techniques, and technology to develop more effective and efficient supervision of mid-size/community and large banks.

The OCC's ability to ensure bank safety and soundness is accomplished through timely and effective bank examinations. The OCC measures performance as follows:

Performance Measure	2001 Target	2001 Actual
Percent of bank examinations conducted as scheduled.	95%	94%

The OCC's goal is to conduct 95% of examinations in compliance with the requirements of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), excluding approved exceptions related to conversions, pending mergers, system conversions, and the resource demands of problem bank examinations that impact the timeliness of low risk bank examinations. For fiscal year 2001, 94 percent of bank examinations were conducted on time. At the beginning of the fiscal year, the conversion and migration of data to a new examination monitoring and tracking system resulted in minor miscalculations of FDICIA examination due dates. Data validation improved the timeliness of examinations as the fiscal year progressed, with 95 percent of bank examinations conducted on time during the final quarter.

### **OCC Strategic Goal 2: A flexible legal and regulatory framework that enables the national banking system to provide a full competitive array of financial services**

The OCC fosters a competitive banking system by allowing banks to offer new financial products and services to consumers when risks are effectively managed and consumer protections are ensured. OCC's approval of new products and services (considering appropriate legal and policy factors) is timely and allows for appropriate flexibility. Bank safety and soundness concerns pertaining to new products, activities, corporate structures, and delivery systems are considered when licensing approvals and legal opinions are issued.

During fiscal year 2001, the OCC amended its legal lending limit regulation (12 CFR Part 32) to provide national banks greater parity with state banks that have a higher legal lending limit. This amendment establishes a three-year pilot program that creates special lending limits for residential real estate and small business loans. To use these special lending limits, eligible banks must apply and obtain approval. The objective of the program is to enable community banks to remain competitive with state-chartered institutions while maintaining safety and soundness protections.

The OCC's timely approval of corporate applications contributes to the nation's economy as national banks engage in corporate transactions and introduce new financial products and services. Effective and timely approval balances safety and soundness with the national banks' ability to operate efficiently and provide a competi-

tive array of financial services. In addition, the OCC's issuance of clear banking regulations and guidance allows banks to more effectively and efficiently conduct business operations. As a result, the OCC measures performance as follows:

Performance Measure	2001 Target	2001 Actual
Percent of regulations and handbooks drafted that incorporate plain language criteria.	100%	100%
Percentage of on-time performance for processing corporate applications.	95%	96%

### **OCC Strategic Goal 3: Fair access to financial services and fair treatment of bank customers**

The OCC endeavors to ensure fair access to financial services for all Americans by enforcing the Community Reinvestment Act (CRA) and fair lending laws, encouraging national bank involvement in community development activities, and promoting fair treatment of bank customers and compliance with the consumer protection laws. The OCC pursues initiatives that eliminate impediments to banking services for certain segments of the population, particularly small businesses, low-income individuals, and individuals and businesses located in rural areas.

The OCC conducts outreach programs to heighten awareness of fair access issues within the banking industry. The OCC also provides information and analyses to banks to increase their knowledge and awareness of available community development activities. Information on affordable housing, financing for minority small businesses, Native American initiatives, and other community and economic development activities is provided to the banking industry routinely. The OCC also continues to provide leadership in the development of sound policies and procedures with respect to customer information privacy.

The OCC also responds to complaints and inquiries from customers of national banks. The OCC's Customer Assistance Group captures, monitors, and analyzes data related to these complaints and inquiries to identify trends that are used in developing new policies and positions. Because complaints and inquiries provide critical feedback on banks, it is important that the OCC processes complaints and inquiries in a timely manner. As a result, the OCC measures performance as follows:

Performance Measure	2001 Target	2001 Actual
Average time to process consumer complaints and consumer inquiries (average days).	50	46

### **OCC Strategic Goal 4: An expert, highly motivated, and diverse workforce and efficient utilization of other OCC resources**

The OCC recognizes that effective management of its human, financial, and other resources can further enhance program results. As a result, the OCC places a high priority on resource management.

The OCC implemented a new compensation system in fiscal year 2001 designed to better ensure that employees are compensated commensurate with their contributions to the agency. In addition, the OCC provided training on a broad range of topics to its staff to ensure staff expertise in carrying out OCC's mission. The OCC also continued to monitor and address work-life issues raised by its employees. The OCC surveyed staff on a broad range of work-life issues and is in the process of analyzing the survey results. Also during the fiscal year, OCC developed a 5-year plan for creating and sustaining an expert, highly motivated, and diverse workforce. This plan will be implemented in three stages with the initial phase occurring over the next year.

OCC's information technology was expanded and upgraded to ensure that financial and supervisory data are available and easier to access agency-wide. For example, the OCC implemented phase I of a new Management and Accountability Reporting Tools system (\$SMART). \$SMART is an integrated financial management system that promotes the efficient use of resources by providing users with accurate, reliable, and timely financial information.

To ensure ongoing financial integrity, the OCC maintains and reviews internal controls to comply with the Federal Managers' Financial Integrity Act. The OCC also commissions an audit of its financial statements by an independent public accounting firm. Senior management is dedicated to ensuring the effectiveness of internal financial controls, continued compliance with accounting standards, and effective budgeting and reporting.

Effective training, sound financial information and leading edge information technology are critical to achieving OCC's mission. Performance in these areas is measured as follows:

Performance Measure	2001 Target	2001 Actual
Percent of planned training accomplished.	90%	90%
Statement of Reasonable Assurance under the Federal Managers' Financial Integrity Act (FMFIA) and Substantial Compliance under the Federal Financial Management Improvement Act (FFMIA).	Met	Not Met

Performance Measure	2001 Target	2001 Actual
Percent of capital projects for major systems meeting funding, schedule, and performance targets.	100%	100%

The OCC did not meet its goal of issuing statements of “reasonable assurance” under FMFIA and “substantial compliance” under FFMIA. The performance goal was established based on a 2001 calendar year reporting cycle. The OCC implemented its new JFMIP compliant financial management system, \$MART, on October 1, 2001, which was the final action needed. Because of the change from a calendar year to a fiscal year reporting cycle, the OCC could only issue a qualified assurance for FMFIA and a noncompliance for FFMIA for the fiscal year ended September 30, 2001. See page 18 for the assurance letter.

The OCC is committed to achieving its strategic goals and ensuring that they remain aligned with those of the U.S. Department of the Treasury. In fiscal year 2002, the OCC will continue to monitor and respond appropriately to rapidly changing circumstances in the banking industry, including the effects of a slowing economy. The OCC will also continue its anti-money laundering efforts in support of national and international efforts to combat terrorism.

## Core Processes

The OCC’s goals and objectives are met by day-to-day operations supporting the mission-critical core processes of:

- licensing national banks and their activities;
- establishing regulations and policies that apply to all national banks;
- supervising each national bank;
- addressing systemic risks and marketplace trends;
- managing OCC resources; and
- managing external relations.

## Licensing

Licensing involves ongoing activities that result in the chartering or liquidation of national banks as well as the evaluation of the permissibility of structures and activities of national banks and their subsidiaries.

## Rulemaking

Rulemaking consists of ongoing activities that result in the establishment of regulations, policies, operating guidance

and interpretations of general applicability to national banks.

## Supervision

Individual bank supervision consists of ongoing supervision and enforcement activities undertaken to ensure each national bank is operating in a safe and sound manner and is complying with applicable laws, rules and regulations relative to the bank and the customers and communities it serves. This core process includes bank examinations and enforcement activities, resolution of disputes through the Ombudsman process, and the ongoing monitoring of banks.

## Systemic Analysis

Systemic analysis consists of ongoing activities that identify, analyze, and respond to emerging systemic risks and market trends that could impact the safety and soundness of the national banks, the national banking system or groups of national banks, the financial services industry, or the economic and regulatory environment in which banks operate.

## Resource Management

Resource management consists of those ongoing activities related to prudently managing human, financial, physical, and technology resources in a manner designed to ensure that OCC programs achieve their intended results in an efficient manner. The management of human resources includes the recruitment, retention, recognition, and ongoing development of OCC staff.

## Managing External Relations

Managing external relations consists of the activities of discrete organizational functions that educate key agency stakeholders, facilitate their interactions with the OCC or its national bank clientele, or advance specific OCC policy interests to targeted external audiences.

## Key Factors Affecting the Achievement of Goals

### Economic Changes

Shifts in national and global economies may significantly impact the risk profiles of national banks and corresponding OCC supervisory strategies. Changes in business conditions, interest and exchange rates, inflation, and unemployment influence the lending and funding strategies of national banks. Longer-term structural changes in the

banking business, such as the shift to fee-based income, increased reliance on non-core deposit funding sources, and consolidated industries continue to change the dynamics of the banking business.

An economic downturn could slow asset growth, increase loan losses and reduce the profitability of national banks. All of these events could result in a greater amount of time spent on examinations. Rapid changes in the fabric of the financial services marketplace could outpace the OCC's ability to provide timely training to its staff and would place greater pressure on its systemic risk analysis function.

Since the preponderance of OCC funding comes from semiannual assessments levied on national bank assets, an economic downturn accompanied by a decline in national bank assets could reduce agency revenues at a time when OCC supervisory resource needs are the highest. An internal task team has been commissioned to analyze the OCC's long-term revenue options.

### **Changes in the Workforce**

Changing national and local economies may cause employment market variances that could impact the OCC's ability to attract and retain the technical expertise required to support supervisory efforts.

### **Legislative Changes**

Legislative changes are altering the lines of business permissible for national banks and may require revised supervisory initiatives to address new powers or business models. Legislative changes also affect the OCC's outreach programs with bankers, consumers, and community groups by creating the need for more outreach activities and the distribution of informational and educational materials.

### **Emerging Technology**

Emerging technology has introduced ways for banks to offer traditional products and services through new delivery channels and to develop innovative products and services. Examples include Internet banking, e-commerce initiatives, and stored-value card systems. Technology changes have influenced the operating strategies of many banks and non-banks as they seek to compete in the increasingly fast-paced and globally interdependent business environment. The OCC's rulemaking as well as its consumer compliance and the safety and soundness examination functions continue to evolve and adapt in order to appropriately address the new risks presented by technology.

## **Financial Management Discussion**

### **Financial Management Initiatives**

Training and testing were completed for the implementation of \$SMART, OCC's new Management and Accountability Reporting Tools system. \$SMART was designed to strengthen funds management and budgetary control as well as streamline many of the OCC's financial and acquisition processes through one central system that provides reliable, real-time information. This new system, launched on October 1, 2001, marks a major step forward in modernizing and integrating the OCC's financial and acquisition systems.

The OCC has made great strides in enhancing its revenue forecasting techniques. The OCC is now able to make multi-year projections. In addition, the OCC revised its assessment schedule to better match assessments with the costs of supervising different types of institutions.

In keeping with the reporting requirements of the U.S. Department of the Treasury and the Federal government, the OCC converted from a calendar to a fiscal year. This change eliminates the need for duplicative record-keeping, and allows the OCC to redirect resources to help strengthen controls and modernize business processes.

In recognizing the need to produce more outcome-based measures, the OCC established a strategic planning team within Financial Management for the purpose of enhancing Congress' and other stakeholders' understanding of how OCC's programs impact the viability of the national banking system.

The OCC made significant progress towards capturing the full costs of its activities. This fiscal year, the OCC constructed a costing model that accumulates and reports full-time equivalency data by five major programs, as follows:

- Charter
  - Organizing
  - Licensing
- Regulate
  - Establishing Policy/Rulemaking
  - Representing/Defending
- Supervise
  - Examining
  - Enforcing
  - Ensuring Fair Access
- Analyze Risk
  - Addressing Systemic Risk
- General and Administrative

The plan for next fiscal year is to develop a schematic that aligns the OCC's costs not only with their programs but also with their strategic goals and objectives. The OCC looks forward to continuing to improve its cost accounting processes by capturing and reporting cost information that better serves the needs of OCC management.

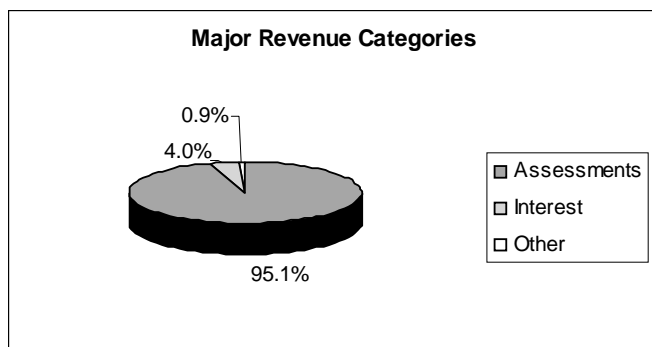
### Funding Sources

The OCC does not receive any appropriations from Congress. The OCC's operations are funded primarily by semiannual assessments from national banks and federal branches of foreign banks.

To carry out its responsibilities, the OCC may levy and collect assessments, fees, or other charges as necessary or appropriate (12 USC 482). Such assessments, fees, and other charges are set to meet OCC's expenses.

In fiscal year 2001, the OCC's revenues were \$415.9 million with semiannual assessments of \$395.5 million accounting for 95.1 percent. The other sources of revenue were interest income on investments at \$16.8 million or 4 percent and other income at \$3.6 million or .9 percent. The OCC's investment income comes from investing its operating funds in U.S. Treasury securities.

Other income primarily consists of revenue from corporate fees and publications.



Furthermore, the Office of Personnel Management (OPM) contributed an additional \$15.4 million towards the retirement benefits of OCC employees. The OCC recognized this contribution as an Imputed Financing Source as a result of not having to reimburse OPM.

In accordance with the Chief Financial Officers Act of 1990, OCC reviews its fee schedule annually to verify that its fees along with investment income and other miscellaneous income cover the full cost of the OCC's operations. The results of these reviews are incorporated in the annual notice of assessment fees. The OCC must provide

notice of its assessment fees no later than the first business day in December of each year for fees to be charged during the upcoming calendar year.

### Funding Uses

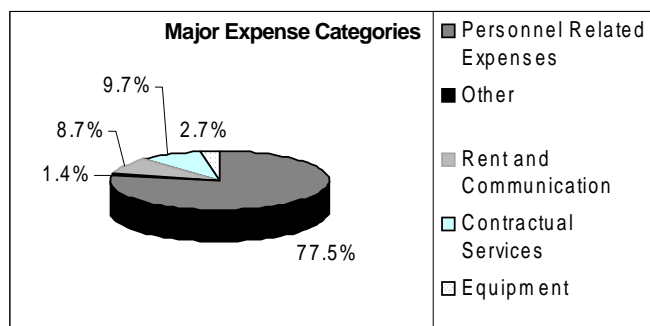
The OCC's operations are personnel-intensive. In fiscal year 2001, the OCC's expenses were \$420.1 million, with \$325.5 million, or 77.5 percent, of total expenses paying for personnel compensation and benefits, travel, education and employee relocation.

Contractual services were \$40.9 million and accounted for 9.7 percent of total expenses. A significant component of these expenses related to ongoing information technology services contracts.

Rent and communications expenses at \$36.5 million or 8.7 percent of total expenses supported the nationwide system of examiner offices and the headquarters location.

Office equipment and supplies at \$11.4 million or 2.7 percent of total expenses primarily consisted of major technology enhancements and upgraded office software.

The remaining OCC expenses at \$5.8 million represented 1.4 percent of total expenses and included costs for depreciation and amortization and printing and reproduction.



### Payments

The Prompt Payment Act and Office of Management and Budget (OMB) Circular A-125 require agencies to make payments on time, pay interest penalties when payments are late, and take discounts only when payments are made on or before the discount date. In fiscal year 2001, 98% of OCC's invoices were paid on time. The OCC processed nearly 29,037 invoices representing over \$94 million in purchases.

Using electronic funds transfer (EFT) for payments provides greater control over the timing of payments and



lower payment cost compared with paper checks. The Debt Collection Improvement Act of 1996 requires government agencies to issue all contractual, and employee payments by electronic funds transfer. During fiscal year 2001, 99% of OCC's travel reimbursements to employees and 80% of vendor payments were made using EFT.

### **Limitations of the Financial Statements**

The financial statements have been prepared to report the assets, liabilities, and net position of the OCC and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, pursuant to the requirements 31 USC 3535(b). While the statements have been prepared from the books and records of the OCC in accordance with the format prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without authorization that provides resources to do so.

## **Systems, Controls, and Legal Compliance**

The OCC evaluated its system of management control during fiscal year 2001. The results indicate that OCC's system of internal management, accounting and administrative control, taken as a whole, are sufficient and effective except for the matter noted below.

### **Financial Management Systems**

The OCC financial management systems that were in effect for fiscal year 2001 did not comply with Federal financial management system requirements and the U.S. Government Standard General Ledger at the transaction level. This instance of noncompliance was eliminated on October 1, 2001 with the successful implementation of an entirely new financial management system. Until converting to the new system, the OCC took the necessary steps to compensate for the limitations of the systems in effect for fiscal year 2001. The OCC ensured that the information reported was accurate, reliable, and timely, and that it was in accordance with accounting principles generally accepted in the United States of America for federal reporting entities (GAAP).

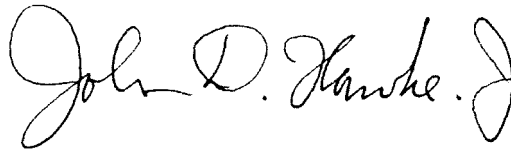
This was also reported in OCC's Annual Assurance Statement for the year 2001, which was signed by the Comptroller of the Currency in December 2001.

## Annual Assurance Statement

**Department of the Treasury  
Office of the Comptroller of the Currency**

**Annual Assurance Statement  
2001**

As the Comptroller of the Currency, I recognize the importance of management controls. I have taken the necessary measures to ensure that the evaluation of the system of management control at the OCC has been conducted in a conscientious and thorough manner during 2001. The results indicate that the OCC's system of internal management, accounting and administrative control, taken as a whole, is sufficient and effective. As a result, I can provide a reasonable assurance that FMFIA Section 2 objectives are being achieved and a qualified assurance that FMFIA Section 4 objectives have been met. OCC's financial management systems that existed through September 30, 2001 did not comply with Federal financial management systems requirements. This situation and its effect on FMFIA Section 4 assurance were remedied when our new financial management system became operational on October 1, 2001.

A handwritten signature in black ink that reads "John D. Hawke, Jr." with a stylized flourish at the end.

John D. Hawke, Jr.  
Comptroller of the Currency

## II. Auditor's Report



2001 M Street, N.W.  
Washington, DC 20036

### Independent Auditors' Report on Financial Statements

The Comptroller of the Currency:

We have audited the accompanying balance sheet of the Office of the Comptroller of the Currency (OCC) as of September 30, 2001, and the related statements of net cost, changes in net position, budgetary resources, and financing, for the year then ended. These financial statements are the responsibility of the OCC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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*. Those standards and OMB Bulletin No. 01-02 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 audit provides 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, 2001, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, the OCC adopted the provisions of Statement of Federal Financial Accounting Standards No. 10, *Accounting for Internal Use Software*, effective October 1, 2000.





The information in the Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board. 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.

In accordance with *Government Auditing Standards*, we have also issued reports dated January 4, 2002, on our consideration of the OCC's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

January 4, 2002



2001 M Street, N.W.  
Washington, DC 20036

## 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, 2001, and the related statements of net cost, changes in net position, budgetary resources, and financing, for the year then ended, and have issued our report thereon dated January 4, 2002. Our report refers to the OCC's change in accounting principles relating to accounting for internal use software costs. 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, determining whether internal controls had been placed in operation, assessing control risk, and performing 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 described 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. The objective of our audit was not to provide assurance on the OCC's internal control. 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 over financial reporting that, in our judgment, could adversely affect the OCC's ability to record, process, summarize, and report financial data consistent with the assertions by 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, 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.





We noted certain matters, discussed in Exhibit I, involving the internal control over financial reporting and its operation that we consider to be reportable conditions. However, none of these reportable conditions are considered to be material weaknesses. Exhibit II presents the status of prior year reportable conditions.

With respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section of the OCC's Annual Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

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We also noted other matters involving internal control and its operation that we have reported to the management of the OCC in a separate letter dated January 4, 2002.

This report is intended solely for the information and use of the OCC's management, the U.S. 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.

KPMG LLP

January 4, 2002

Office of the Comptroller of the Currency  
Reportable Conditions  
For the Fiscal Year Ended September 30, 2001

***1. Adequate controls over Time and Travel Reports (TTRS) disbursements were not in place***

We noted examples where OCC procedures related to TTRS disbursements processing were not followed. Internal controls over the TTRS disbursements process should be properly designed to achieve desired control objectives, and subsequently placed in operation. The nature of the OCC's operations require its personnel to travel considerably. As such, the controls surrounding the TTRS process should be operating effectively to ensure only accurately completed TTRS with appropriate supporting documentation and approvals are paid. In instances where TTRS disbursements controls are not operating effectively, potential accounting misstatements, irregularities, and other errors may occur.

During our audit, we identified 7 instances, out of a sample of 45 items, where the internal controls over disbursements were not functioning as designed. The exceptions included inadequate supporting documentation and missing supervisory approvals. In addition, we noted TTRS are not always submitted timely. The prior year findings in this area were similar.

**Recommendations**

In order to improve internal controls over TTRS disbursements, we recommend the OCC continue to take action to improve on its performance in monitoring and enforcing time and travel expense reporting procedures. Such actions should include increased supervisory and quality control reviews.

Office of the Comptroller of the Currency  
 Reportable Conditions  
 For the Fiscal Year Ended September 30, 2001

***2. Internal controls over timekeeping were not adequate***

The OCC did not consistently follow its timekeeping procedures relating to certifying rosters and applications for leave. We noted 7 exceptions out of 45 sample items tested. The nature of the errors included inadequate and untimely leave slip and certifying roster approvals, and inaccurate certifying rosters. The findings are similar to those reported in the prior year.

Untimely or inadequate review of certifying rosters increases the risk that errors, fraud, or omissions in reporting annual leave, sick leave, and comp time taken will go undetected. In the absence of adequate review and recording of annual leave slips, the risk of employees taking leave without their annual leave balances being charged is increased. Furthermore, annual leave slips may be processed with errors if not adequately reviewed by a supervisor.

**Recommendations**

We recommend the OCC:

- Implement procedures to enforce controls surrounding completion, submission, and accounting for annual leave and certifying rosters.
- Develop a periodic internal audit program for current employees related to certifying rosters and annual leave processing. The audits should be performed by personnel not responsible for entering leave data into the system.

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**OCC Management Response**

OCC management concurs with the findings and will address the reportable conditions.





Office of the Comptroller of the Currency  
Status of Prior Year Reportable Conditions

<b>2000 Reportable Conditions</b>	<b>2001 Status</b>
<i>Adequate controls over Time and Travel Reports (TTRS) disbursements were not in place. (OCC did not consistently follow procedures related to TTRS disbursements.)</i>	Current year status: Reportable condition.
<i>Internal controls over timekeeping were not adequate (OCC did not consistently follow timekeeping procedures.)</i>	Current year status: Reportable condition.



2001 M Street, N.W.  
Washington, DC 20036

## Independent Auditors' Report on Compliance with Laws and Regulations

The Comptroller of the Currency:

We have audited the balance sheet of the Comptroller of the Currency (OCC) as of September 30, 2001, and the related statements of net cost, changes in net position, budgetary resources, and financing, for the year then ended, and have issued our report thereon dated January 4, 2002. 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 OCC's 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 the 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.

Additionally, as a bureau within the U.S. Department of the Treasury, the OCC reported one instance in which its financial management systems did not substantially comply with FFMIA in its fiscal year 2001 annual assurance statement submitted to Treasury. This instance of noncompliance relates to Federal financial management systems requirements.





On October 1, 2001, the OCC implemented a new financial management system which management anticipates will eliminate this instance of noncompliance.

This report is intended solely for the information and use of the OCC's management, the U.S. 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.

KPMG LLP

January 4, 2002

### III. Financial Statements

**Office of the Comptroller of the Currency  
Balance Sheet  
September 30, 2001**

**Assets:**

Intragovernmental:	
Fund balance with Treasury	\$ 546,160
Investments and related interest (Note 3)	349,923,315
Advances and prepayments	<u>256,185</u>
Total intragovernmental	350,725,660
Cash	26,092
Accounts receivable, net	293,127
Property and equipment, net (Note 4)	18,860,398
Advances and prepayments	<u>1,971,573</u>
<b>Total assets</b>	<b><u><u>\$ 371,876,850</u></u></b>
<b>Liabilities:</b>	
Intragovernmental:	
Accounts payable	\$ <u>1,905,591</u>
Total intragovernmental	1,905,591
Accounts payable	7,544,602
Accrued payroll and employee benefits	19,993,142
Deferred revenue (Note 5)	100,244,784
Accrued annual leave	20,855,576
Post retirement benefits (Note 8)	<u>7,563,945</u>
<b>Total liabilities</b>	<b>158,107,640</b>
<b>Net position (Note 7)</b>	<b><u>213,769,210</u></b>
<b>Total liabilities and net position</b>	<b><u><u>\$ 371,876,850</u></u></b>

**The accompanying notes are an integral part of these financial statements**

**Office of the Comptroller of the Currency  
Statement of Net Cost  
For the Year Ended September 30, 2001**

Program Costs:	
Regulate and Supervise National Banks	
Intragovernmental	\$ 58,011,797
With the public	<u>362,107,646</u>
Total Program Costs (Note 9)	420,119,443
Less: Earned revenues	<u>(415,875,984)</u>
Net Cost of Operations	<u><u>\$ 4,243,459</u></u>

**The accompanying notes are an integral part of these financial statements**

**Office of the Comptroller of the Currency  
Statement of Changes in Net Position  
For the Year Ended September 30, 2001**

Beginning Balance	\$ 213,992,812
Change in Accounting Principle (Note 4)	(11,419,731)
Financing Source	
Imputed financing from costs absorbed by others (Note 8)	15,439,588
Net Cost of Operations	<u>(4,243,459)</u>
Ending Balance	<u><u>\$ 213,769,210</u></u>

**The accompanying notes are an integral part of these financial statements**

**Office of the Comptroller of the Currency  
Statement of Budgetary Resources  
For the Year Ended September 30, 2001**

**Budgetary Resources:**

Unobligated balance, Beginning of Period	\$ 268,658,850
Spending Authority from collections	<u>419,154,401</u>
<b>Total Budgetary Resources</b>	<b><u><u>687,813,251</u></u></b>

**Status of Budgetary Resources:**

Obligations incurred	406,334,021
Unobligated balance available	<u>281,479,230</u>
<b>Total Status of Budgetary Resources</b>	<b><u><u>\$ 687,813,251</u></u></b>

**Relationship of Obligations to Outlays:**

Obligated Balance, net, beginning of year	59,749,322
Less: Obligated Balance, net, end of year	(63,078,883)
Obligations incurred	406,334,021
Less: Offsetting collections	<u>(419,154,401)</u>
<b>Net Collections in Excess of Outlays</b>	<b><u><u>\$ (16,149,941)</u></u></b>

**The accompanying notes are an integral part of these financial statements**

**Office of the Comptroller of the Currency  
Statement of Financing  
For the Year Ended September 30, 2001**

<b>Resources Used to Finance Activities</b>	
Obligations Incurred	\$ 406,334,021
Less: Spending authority from offsetting collections	(419,154,401)
Imputed financing from costs absorbed by others (Note 8)	<u>15,439,588</u>
<b>Total resources used to finance activities:</b>	<b>2,619,208</b>
<b>Resources Used to Finance Items not Part of the Net Costs of Operations</b>	
Change in resources obligated for goods, services and benefits ordered but not yet provided	397,749
Change in Accounts Receivable	(169,054)
Resources that finance the acquisition of assets	<u>(6,045,753)</u>
<b>Total resources used to finance items not part of the net cost of operations</b>	<b><u>(5,817,058)</u></b>
<b>Total resources used to finance the net cost of operations</b>	<b>(3,197,850)</b>
<b>Components of the Net Cost of Operations that will not Require Resources:</b>	
Loss on Disposition of Assets	60,681
Depreciation	<u>3,285,844</u>
<b>Total Components of Net Cost of Operations that will not require resources</b>	<b>3,346,525</b>
<b>Components Generating Resources in Future Periods:</b>	
Change in Deferred Revenue	<u>4,094,784</u>
<b>Total Components of Net Cost of Operations</b>	<b><u>7,441,309</u></b>
<b>Net Cost of Operations</b>	<b><u><u>\$ 4,243,459</u></u></b>

**The accompanying notes are an integral part of these financial statements**



# Office of the Comptroller of the Currency

## Notes to the Financial Statements

### As of September 30, 2001

#### **Note 1— Organization**

The OCC was created as a bureau within the U.S. Department of the Treasury by an act of Congress in 1863. The OCC was created for the purpose of establishing and regulating a system of federally chartered national banks. The National Currency Act of 1863, rewritten and reenacted as the National Bank Act of 1864, authorized the OCC to supervise national banks and to regulate the lending and investment activities of federally chartered institutions.

OCC's revenue is derived primarily from assessments and fees paid by national banks and income on investments in U.S. government securities. The OCC does not receive Congressional appropriations to fund any of its operations.

By federal statute 12 USC § 481, OCC's funds are maintained in a U.S. government trust revolving fund. The funds remain available to cover the annual costs of the OCC's operations in accordance with policies established by the Comptroller of the Currency.

The OCC collects Civil Monetary Penalties (CMP) due to the Federal government that are assessed through court enforced legal actions against a national bank and/or its officers. CMP collections transferred to the Department's General Fund amounted to \$159,016 during fiscal year 2001. Current outstanding CMP amount to \$785,258.

Departmental Offices (DO), another entity of the U.S. Department of Treasury, provides certain administrative services to the OCC. The OCC pays DO for services rendered pursuant to established interagency agreements. Administrative services provided by DO totaled \$2,765,467 for fiscal year 2001.

The OCC converted from a calendar to a fiscal year for its fiscal year 2001 financial statement presentation. This change was made to conform to the requirements of the U.S. Department of the Treasury and the Federal government.

#### **Note 2— Significant Accounting Policies**

##### ***Basis of Accounting***

The OCC's financial statements have been prepared from the OCC's accounting records in conformity with accounting principles generally accepted in the United States of America (GAAP). These financial statements consist of the

balance sheet, and the statements of net cost, changes in net position, budgetary resources, and financing. These financial statements are presented on the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to cash receipt or payment.

##### ***Fund Balance with Treasury***

The OCC's cash receipts and disbursements are processed by the U.S. Treasury. Sufficient funds are maintained in a U.S. Government trust revolving fund and are available to pay current liabilities. The OCC invests all the funds that are not immediately needed in U.S. Government securities (Note 3).

##### ***Accounts Receivable, net***

Accounts receivable represent monies owed to the OCC for services and goods provided. At fiscal year-end, accounts receivable amounted to \$312,171 less an allowance for doubtful accounts of \$19,044.

##### ***Advances and Prepayments***

Advances and prepayments to other government agencies represent amounts paid to the DO prior to the receipt of goods and services. Advances and prepayments to the public consist of rent and insurance paid. The amounts are recorded as prepaid expenses at the time of payment and are expensed when related goods and services are received.

##### ***Liabilities***

Liabilities represent the amount of monies that are likely to be paid by the OCC as the result of a transaction or event that has already occurred. Liabilities represent the amounts owing or accruing under contractual or other arrangements governing the transactions, including operating expenses incurred but not yet paid. Payments are made in a timely manner in accordance with the Prompt Payment Act. Interest penalties are paid when payments are late. Discounts are taken when cost effective and the invoice is paid by the discount date.

##### ***Annual, Sick, and Other Leave***

Annual leave is accrued and funded by the OCC as earned, and the accrual is reduced as leave is taken or paid. Each year, the balance in the accrued annual leave

account is adjusted to reflect current pay rates. Sick leave and other types of leave are expended as taken.

### **Use of Estimates**

The preparation of financial statements, in accordance with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

### **Note 3— Investments and Related Interest**

Investments are U.S. Government securities stated at amortized cost and the related accrued interest. The OCC

plans to hold these investments to maturity. Discounts are amortized over the term of the investment using the straight-line method, which approximates the effective yield method. The fair market value of investment securities was \$350,441,058 at September 30, 2001.

Investments and related interest receivable as of September 30, 2001, are as follows:

Cost	\$ 344,722,000
Unamortized Discount	105,534
Net Amortized Value	<u>344,827,534</u>
Interest Receivable	5,095,781
Investments and Related Interest	<u>\$ 349,923,315</u>

Maturity	Par Value	Interest Rate
Overnight	\$ 90,722,000	5.990%
During 2001	\$149,000,000	5.875%
During 2002	\$ 80,000,000	5.750%
During 2006	\$ 25,000,000	6.875%

### **Note 4— Property and Equipment, Net**

Property and equipment purchased with a cost greater than or equal to the noted thresholds below and useful lives of two years or more are capitalized at cost and depreciated or amortized, as applicable.

Leasehold improvements are amortized on a straight-line basis over the lesser of the terms of the related leases or their estimated useful lives. All other property and equipment are depreciated or amortized, as applicable, on a straight-line basis over their estimated useful lives. The following table summarizes property and equipment balances as of September 30, 2001:

Class of Asset	Capitalization Threshold/Useful Life	Cost	Accumulated Depreciation	Net Book Value
Leasehold Improvements	\$ 50,000      5-20	\$22,164,561	\$11,776,363	\$10,388,198
ADP Software	\$ 50,000      5-10	2,022,472	2,021,763	709
Equipment	\$ 50,000      5-10	11,369,857	8,331,805	3,038,052
Furniture and Fixtures	\$ 50,000      5-10	1,723,156	1,230,193	492,963
Internal Use Software	\$500,000      5-10	3,036,657	—	3,036,657
Internal Use Software-Dev	\$500,000      5-10	1,903,819	—	1,903,819
		<u>\$42,220,522</u>	<u>\$23,360,124</u>	<u>\$18,860,398</u>

The OCC adopted the provisions of Statement of Federal Financial Accounting Standards No. 10, *Accounting for Internal Use Software*, effective October 1, 2000, which represents a change in accounting principle. The OCC followed the U.S. Department of Treasury's guidance for the implementation of the standard. The effect of this change is a write-off of \$11,419,731 of costs capitalized in prior years. Costs incurred during fiscal year 2001 will be amortized once the software has been successfully tested.

## Note 5— Deferred Revenue

OCC activities are principally financed by assessments on assets held by national banks and the federal branches of foreign banks. These assessments are due January 31 and July 31 of each year based on asset balances as of call dates on December 31 and June 30, respectively. Assessments are paid in advance and are recognized as earned revenue on a straight-line basis over the six months following the call date. The unearned portions are recorded as deferred revenue until earned.

## Note 6— Leases

The OCC leases office space for headquarters operations in Washington, D.C., and for the district and field operations through the General Services Administration of the U.S. government. The lease agreements expire at various dates through 2008. These leases are treated as operating leases. Future lease payments are as follows:

Year	Amount
2002	\$ 23,425,454
2003	20,417,635
2004	17,245,985
2005	15,178,776
2006	9,541,736
2007 and Beyond	932,790
Total	<u>\$ 86,742,376</u>

## Note 7— Net Position

The OCC sets aside a portion of its Net Position as Special and Contingency Reserves to be used at the discretion of the Comptroller.

The Special Reserve supplements revenue from assessments and other sources that are made available to fund the OCC's annual budget. The Special Reserve serves to reduce the impact on operations of unforecasted revenue shortfalls or unbudgeted and unanticipated requirements or opportunities.

The Contingency Reserve supports the OCC's ability to accomplish its mission in the case of unforeseeable but rare events. Unforeseeable but rare events are beyond the control of the OCC such as a major change in the National Bank System or a disaster such as a fire, flood, or significant impairment of its information technology systems.

Net Position availability as of September 30, 2001, is as follows:

Contingency Reserve	\$ 166,234,445
Special Reserve	15,000,000
Available to Cover Consumption of Assets	22,222,956
Available to Cover Undelivered Orders	10,311,809
Net Position	<u>\$ 213,769,210</u>

## Note 8— Retirement Plans and Other Benefits

### Retirement

OCC employees are eligible to participate in one of two retirement plans. Employees hired prior to January 1, 1984 are covered by the Civil Service Retirement System (CSRS) unless they elected to join the Federal Employees Retirement System (FERS) and Social Security during the election period. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. For employees covered by CSRS, the OCC contributes 8.51 percent of their adjusted base pay to the plan. For employees covered by FERS, the OCC contributes 10.7 percent of their adjusted base. The OCC contributions totaled \$20,551,397 in fiscal year 2001.

Furthermore, the Office of Personnel Management (OPM) contributed an additional \$15,439,588 towards these retirement plans during the fiscal year. The OCC recognized these contributions as "Imputed Costs Absorbed by Others" and an offset in equal amount to "Imputed Financing from Costs Absorbed by Others" as a result of not having to reimburse OPM.

The OCC does not report in its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, are presently the responsibility of the OPM.

### Other Benefits

OCC employees are eligible to participate in the Federal Thrift Savings Plan (TSP). For those employees under FERS, a TSP account is automatically established, and the OCC contributes a mandatory 1 percent of adjusted base pay to this account. In addition, the OCC matches employee contributions up to an additional 4 percent of pay, for a maximum OCC contribution amounting to 5 percent of adjusted base pay. Employees under CSRS may participate in the TSP, but do not receive the OCC automatic (1 percent) and matching employer contributions. OCC contributions for the TSP totaled \$5,304,214 in fiscal year 2001. The OCC also contributed a total of \$10,558,496 for Social Security and Medicare benefits for all eligible employees.

Employees can elect to contribute up to 10 percent of their adjusted base salary in the OCC 401(K) Plan, subject to Internal Revenue regulations. Prudential Securities Incorporated currently administers the plan. The OCC contributes a fixed 1 percent of the adjusted base salary to the Plan for all of participating employees. Approximately 2,400 employees are enrolled in the plan. The OCC 1 percent matching contribution amounted to \$1,863,769 during fiscal year 2001.

The OCC sponsors a life insurance benefit plan for current and former employees. This plan is a defined benefit plan. Premium payments made during fiscal year 2001 totaled \$110,595.

The following shows the accrued post-retirement benefit cost and the net periodic post-retirement benefit cost for this plan at September 30, 2001:

Accumulated Post Retirement Benefit Obligation	\$ (7,303,739)
Unrecognized Transition Obligation	1,901,219
Unrecognized Net Gain	<u>(2,161,425)</u>
Accrued Post-Retirement Benefits	<u>(7,563,945)</u>
Service Cost	\$ 294,498
Interest Cost	496,830
Amortization of Gain	(139,829)
Amortization of Transition Obligation	<u>172,837</u>
Net Periodic Post-Retirement Benefit Cost	<u>\$ 824,336</u>

The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 7.5 percent. Gains or losses due to changes in actuarial assumptions are amortized over the service life of the plan.

Employees and retirees of the OCC are eligible to participate in the Federal Employees Health Benefits (FEHB) plans and Federal Employees Group Life Insurance

(FEGLI) plan, which are cost sharing employee benefit plans administered by the OPM. Total OCC contributions for active employees who participate in the FEHB plans were \$10,103,674 for fiscal year 2001. OCC contributions for active employees who participate in the FEGLI plan were \$184,792 for fiscal year 2001.

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for OCC employees under FECA are administered by the Department of Labor (DOL) and later billed to the OCC. The OCC accrued \$4,111,801 of workers' compensation costs as of September 30, 2001. This amount includes unpaid costs and an actuarial estimated liability for unbilled costs incurred as of year-end calculated by DOL.

### Note 9— Expenses by Budget Object Classification

Personnel Compensation	\$ 223,923,416
Personnel Benefits	58,352,700
Benefits to Former Employees	2,112,678
Travel and Transportation of Persons	24,741,781
Travel and Transportation of Things	1,019,015
Rent, Communication & Utilities	36,484,468
Printing and Reproduction	1,074,570
Other Contractual Services	40,858,089
Supplies and Materials	3,528,000
Equipment	7,830,554
Land and Structures	608,371
Insurance Claims and Indemnities	197,731
Depreciation	3,948,482
Imputed costs	<u>15,439,588</u>
Total	<u>\$ 420,119,443</u>