

## Management

The OCC's strategic goal of an expert, highly motivated and diverse workforce that makes effective use of OCC resources is closely aligned with the objectives of the President's Management Agenda (PMA). The OCC continued its efforts during FY 2004 to achieve the goals established by the OMB for each PMA initiative. A brief discussion of each initiative follows.

### Initiatives

#### ***Budget and Performance Integration***

The OCC further refined its planning, budgeting, and evaluation process for the FY 2005 budget cycle. For a second year, business units developed their budget requests based on staffing models to support their FTE needs and program plans to identify the activities to be accomplished with the expected objectives and performance measures. The budget and finance subcommittee played a key role in the budget reviews, bringing greater credibility and sustainability to the process. A new activity-based labor allocation structure was implemented for time reporting at the beginning of FY 2004. During FY 2005, business units will use the activity data to validate the labor estimates in their staffing models, which will enhance the FY 2006 budget formulation process. Beginning in January 2004, performance reporting was incorporated into the quarterly financial reports to senior management. To meet the standards for this initiative, the OCC evaluated several efficiency measures for external reporting. Although these measures were not adopted for FY 2005, the OCC will continue to evaluate methods to measure efficiency that will be meaningful internally and externally.

#### ***Competitive Sourcing***

To date, the OCC has completed streamlined A-76 studies for 30 percent of its commercial activity FTEs. During FY 2003, two competitions representing 65 FTEs were conducted within the Information Technology Services (ITS) function. One of these satisfied the OCC's FY 2004 PMA goal. These competitions resulted in retaining the activities in-house. The OCC has met all of its competitive sourcing goals and has no additional studies planned. The OCC will continue to evaluate the potential for further studies.

#### ***Expanded e-Government***

The OCC re-engineered its Capital Planning and Investment Control (CPIC) process to ensure that requests for information technology (IT) align with the OCC's mission, goals, and objectives, and support the delivery of OCC programs and services. In FY 2004, the OCC introduced portfolio management oversight disciplines in line with the Clinger-Cohen Act,

which requires federal agencies to treat IT as an investment, and developed disciplined repeatable processes to select, control, and evaluate IT in support of OCC goals and objectives.

The OCC's Investment Review Board established two scoring teams to review proposed investments for 1) mission alignment, 2) performance improvement, 3) risk management, 4) project management, and 5) enterprise architecture to ensure the selection of the best IT investments. Technology projects with business cases that totaled more than \$4.2 million were not pursued as a result of the vigorous review process this year. Approval of the FY 2005 IT portfolio by the technology and systems subcommittee and the Executive Committee demonstrated senior management's direct involvement in the selection of IT projects.

The OCC's capital planning process aligns with the Department of the Treasury's CPIC process and requirements. The OCC is recognized as a best practice leader in capital planning across the department. The re-engineered process has placed the OCC in a position to plan IT initiatives strategically and to monitor return on investments and other benefits derived from IT investments effectively.

At the end of FY 2004, the OCC had completed the security certification and accreditation for 73 percent of its information technology systems. The OCC is scheduled to complete the remaining certifications and accreditations by April 1, 2005.

The OCC is participating to varying degrees in government-wide technology initiatives including Integrated Acquisition, eAuthentication, eTraining, and Online Rulemaking. As part of the plan to retire existing mainframe platform technology, the OCC is considering implementing an e-Travel system during FY 2006.

### ***Improving Financial Performance***

The OCC meets all of the objectives for this PMA initiative. The OCC successfully issued its FY 2003 Annual Report before November 15 for the third consecutive year. The agency received an unqualified opinion with no material weaknesses on both the FY 2003 and FY 2004 financial statements. No material weaknesses have been identified since FY 1999 with the final corrective action completed in FY 2002. The OCC consistently closed its accounting records for month-end financial reporting on a timely and accurate basis. Financial reports are provided to the budget and finance subcommittee monthly and to the Executive Committee quarterly for timely operational decisions. In January 2004, performance reporting was incorporated into these quarterly reports to senior management.

### ***Human Capital***

Over the past year, the OCC continued to address human resource issues that are critical to its long-term strategic priorities. Of primary concern is the growing number of retirements facing the OCC over the next five years, particularly among examiners in large banks and with specialty skills. The addition of mid-size and large institutions to the national banking system is creating an even greater need for experienced examiners.

The OCC is in the second year of its expanded recruitment program for entry-level bank examiners. The program has been highly successful in attracting a diverse pool of applicants with superior qualifications. To foster retention of new examiners, the OCC has returned to a pre-commission examiner training program that includes six to eight months on a training team and nearly 800 hours of classroom training and self-study. In addition, new hires are surveyed every six months to identify potential retention problems early and improve recruitment processes.

A second major recruitment initiative has been to encourage examiners to move between Mid-size/Community Bank and Large Bank Supervision. New incentive programs were created to encourage the best qualified

examiners to apply for rotational examiner-in-charge positions in Large Banks and other senior level Large Bank positions in New York City. An external recruitment strategy also has been implemented to target experienced prospects for Large Banks, particularly in New York City.

The OCC has identified critical bank supervision competencies as credit risk, risk management, capital markets, asset management, bank technology, mortgage banking, bank secrecy, and money laundering. Updated training programs for commissioned examiners and the Examiner Specialty Skills Program, which has 722 members, are contributing to the development of these competencies in the OCC's bank supervision staff. In addition, the OCC initiated a work team to strengthen its career management and leadership development programs. The OCC will create strategies and courses of action to identify and develop employees viewed as potential managers and further develop managers who are candidates to succeed senior management. The OCC also is developing a training curriculum for administrative professionals to ensure they get the training they need, particularly to keep pace with changes in technology.

A new affinity group was organized this year by a group of tenured women in the OCC who appreciate the opportunities that OCC has given to them and who want to give back to the organization by helping others. All four of the OCC's affinity groups have been involved in establishing mentoring programs for their constituents and in contributing to the OCC's internal and external recruitment efforts. The affinity groups also sponsor awareness and observance month programs. An annual forum of the affinity group leaders promotes an exchange of ideas on how affinity groups can contribute further to OCC's strategic goals and the needs of the OCC's workforce.

The OCC was named one of the best places to work in the federal government by the Partnership for Public Service and the Institute for the Study of Public Policy Implementation at American University, based on results of the Office of Personnel Management (OPM) survey of federal government employees. The OCC scored among the top 25 government organizations with its highest scores in teamwork, support for diversity, pay and benefits, training and development, strategic management, effective leadership, family-friendly culture, work-life balance, performance-based rewards, and career advancement. These scores reflect the OCC's strong commitment to cultivating an employee-focused and performance-based culture where employees are expected to develop their skills and knowledge continuously.

For more than two decades, the OCC's compensation program has awarded pay increases based solely on job performance and the increase in duties and responsibilities. Annual employee performance plans describe the objectives and how they relate to the accomplishment of the OCC's strategic priorities. Ongoing statistical analysis continues to show that these programs are working; high performers receive larger annual pay increases and are more likely to receive awards and promotions.

The OCC surveys other federal financial institution regulatory agencies annually to ensure that its compensation programs are comparable. The OCC also participates in interagency groups to exchange information on the comparability of benefit and work-life programs. The OCC's compensation and benefit programs are designed to support its mission and human capital goals and priorities.

Other management initiatives follow.

### ***Workplace Fairness and Alternative Solutions***

The OCC implemented an initiative to educate managers and employees on the prevention and early resolution of workplace conflicts and other EEO-related programs. As of September 30, 2004, about 50 percent of the OCC's workforce has received formal training led by the OCC's EEO counselors. The OCC has focused on reducing formal EEO complaints and promoting the OCC's Fair Alternative and Innovative Resolutions (FAIR) Program.

The number of formal EEO complaints filed in FY 2004 decreased by 50 percent from FY 2003. FAIR offers alternative dispute resolution (ADR) techniques to encourage open dialogue and the early resolution of issues. The OCC has provided non-EEO workplace conflict services to 18 managers and employees during FY 2004.

### ***Workforce Effectiveness***

Recommendations from the FY 2003 headquarters office study were implemented during FY 2004. The restructuring objectives combined closely related functions, reduced layers of managers where appropriate, improved communication and coordination of work, and better ensured that work performed in headquarters advances the OCC's mission. Affected employees received the same benefits offered to employees affected by the district restructuring that was completed in FY 2003, including a buyout program with outplacement assistance.

### ***Continuing Education and Resource Alternatives***

The OCC's learning management system became fully operational in May 2004 with FY 2005 training planned and scheduled through the Automated Learning Information System (ALICE). The system provides employees with access to their training transcripts and individual development plan capabilities.

During FY 2004, the OCC re-instituted the Resource Group as a means of providing resources to agency projects and initiatives. Currently staffed with 14 employees, Resource Group members serve as supplemental staff in performing ongoing activities, or as technical experts, bank examination support, and internal consultants performing special projects.

### ***Information Technology***

- *Information Security.* During FY 2004, the OCC improved compliance with the Federal Information Security Management Act (FISMA); implemented a new secure messaging system that allows OCC examiners to exchange sensitive information securely with national banks; deployed intrusion detection sensors to identify possible compromises of network defenses; deployed spam blocking on OCC e-mail; blocked access to insecure and inappropriate Web sites; scanned all OCC Internet traffic; scanned the entire OCC network to identify security vulnerabilities; and avoided attacks by worms and viruses that crippled other public and private organizations.
- *Systems Development Life Cycle (SDLC).* The OCC completed the SDLC Framework in May 2004 and the SDLC methodology in September 2004. Following an independent assessment and subsequent pilot, the SDLC will be implemented for all FY 2006 projects. The SDLC provides a series of best practice standards that application developers will use to mitigate risks associated with each phase of software acquisition or development.
- *Mainframe Retirement.* This project will eliminate obsolete technology and address the related problem of obtaining vendor support for maintaining OCC systems that are housed on the mainframe. The OCC developed a project plan to retire the mainframe by September 2007. A project team was formed and business unit representatives were identified.
- *Supervisory Information System (SIS).* SIS is a suite of bank supervision applications that support bank examiners. The first phase, SIS-Office, the Web-based application designed to replace Office View in EV, was implemented in June 2004. SIS-Office ensures that work papers identified for deletion are routinely evaluated and acted upon, collects and stores data on deleted work papers in a records management repository, and improves response time of EV by reducing the size of the database.

- *National Credit Tool (NCT)*. This Web-based tool enhances the efficiency and quality of the loan portfolio examination process in community banks by automatically producing valid statistical samples for examination, automatically preparing worksheets previously completed manually, and generating standardized reports. In FY 2004, NCT added a credit concentrations report, a commercial real estate stress-testing worksheet, and a usage report. NCT also gained the ability to create a trial balance file and quarterly updates of credit analytics information for comparative analyses.
- *Examiner View*. This bank supervision system obtained enhanced controls for compliance with the Community Bank Supervision Handbook Procedures, an enhanced Interest Rate Risk segment to reduce examiner administrative burden, added data elements to track compliance with the Sarbanes-Oxley Act, and improved availability of current information.
- *Wireless Network Access*. The OCC deployed about 250 wireless cellular modems to examination teams across the country. The modems supplement dial-in access to the OCC network. The modems have been especially useful in locations where phone lines are not readily available or cost-effective.

## **Continuity of Operations**

The Contingency Planning Oversight Committee (CPOC) provides policy guidance and directs the preparation and implementation of the OCC's Continuity of Operations Plan (COOP). The CPOC has two mandates, to oversee the training, tabletop exercises, and other drills that are needed to perfect and implement the COOP continuously, and to ensure effective coordination with other components of the federal government in responding to emergencies that affect the operations of national banks and the national banking system.

During FY 2004, the OCC reorganized its security, critical infrastructure protection, and emergency management functions into a new business unit. A new position, national director for critical infrastructure protection & security, was established to direct COOP-related activities. The CPOC was also reorganized to create a new Continuity Planning Coordinating Committee to oversee eight functional working groups to focus on the following areas: 1) emergency processes and procedures, 2) communication processes, 3) orientation and annual training, 4) testing and exercises, 5) IT testing and exercises, 6) emergency facilities, 7) interagency coordination, and 8) administration and documentation.

Each of the OCC's COOP teams was reorganized to address changes in the OCC's recovery strategies and issues identified from the Testing, Training, and Exercise Program.

- *Testing, Training, and Exercises*. Testing of various elements of the OCC's COOP was completed during FY 2004, including a comprehensive Relocation/Tabletop Exercise involving staff throughout the country. The OCC also participated in the government-wide Forward Challenge 04 and other interagency exercises. Two evacuation drills and a shelter-in-place drill were conducted at OCC headquarters, and OCC field elements continued to test various aspects of their site-specific emergency plans. Alert and notification drills, interagency communications drills, and other interagency testing also took place during FY 2004. Testing of the OCC's IT recovery plan continues on a regular basis, focusing on recovering systems and applications needed to support the OCC's critical infrastructure. Training for the OCC's COOP and emergency teams will continue on a regularly scheduled basis.
- *Plan Maintenance*. The OCC recognizes that the COOP must remain a "living document" to be viable. The OCC COOP plan has been developed as an e-Redbook, which all COOP personnel and managers can access. The plan also resides on memory sticks that COOP personnel can carry

with them. Individuals have been assigned responsibility to update sections of the plan based on a maintenance schedule.

- *Emergency Preparedness.* Survival kits are issued to all OCC employees and contractors, and additional survival supplies have been stored at each office location. Emergency preparedness resources and information continue to be provided to all employees on a regular basis, with copies placed on the OCC's emergency preparedness Web site.

A new headquarters Emergency Operations Center (EOC) was built and was used for the shelter-in-place drill during FY 2004. The EOC ensures that the Executive Committee can continue to perform critical functions during shelter-in-place emergencies. During FY 2004, the OCC transitioned to a new COOP site that is shared with other federal agencies. The new site meets all federal regulations from the Department of Homeland Security, Federal Emergency Management Agency. An additional MOU has been signed with another federal agency for shared COOP relocation space within the District of Columbia, for emergencies that do not require an evacuation of the city.

The OCC participates in FBIIC activities to provide secure communications throughout the financial services regulatory community, coordinate emergency response efforts across agencies, and identify threats within the financial services industry. The OCC has established emergency communications protocols, purchased new secure communications equipment for its COOP sites, and participated in interagency communications tests.

- *Emergency Communication.* The OCC is working on new processes and procedures for communicating with and accounting for employees during and after an emergency. A new system, which utilizes an interactive automatic dialing system, an emergency information database, and the OCC's customer service call center in Houston, is under development. The OCC has also enhanced its ability to communicate with national banks during an emergency and continues testing, updating, and improving these procedures.

## Program Evaluations

At the direction of the Comptroller, the Program and Management Accountability Division evaluates the effectiveness and efficiency of programs and operations, and reviews resource requests and utilization to improve the management of the OCC. The Program Analysis Unit's (PAU) reviews in FY 2004 included FY 2005 staffing model development, capital planning process, grade and pay issues, real estate analysis, depot maintenance process, ITS data on potential for additional staff, ITS' mainframe exit strategy and cost estimates, Communications Division, human resource benchmarking, and outsourcing impact analysis. Other discussions of program reviews are dispersed throughout this report.

## Management Challenges and High-Risk Areas

The Treasury's Office of the Inspector General (OIG) has identified the following management challenges: linking resources to results, information security, duplicative or wasteful practices, and AML/BSA. The last, AML/BSA, has implications for the OCC in that the OIG plans to conduct follow-up work on previously identified supervisory weaknesses. Actions that the OCC has taken on this and the other challenges are discussed elsewhere in this report. The Government Accountability Office (GAO) has not identified high-risk areas specific to the OCC.

## Letter from the Chief Financial Officer

I am pleased to present the OCC's financial statements as an integral part of the FY 2004 Annual Report and am pleased to say that for FY 2004, our independent auditors rendered an unqualified opinion with no material weaknesses. In addition to our significant achievements during the fiscal year, we have laid the groundwork for operational excellence and a process of continued improvement.

Highlights of some of our significant accomplishments during the past year, include:

- The OCC has again received a “green” rating under the President’s Management Agenda from the Department of the Treasury for improving financial performance and has met all core criteria for each component of the measure.
- For the second year, business units developed program plans and staffing models to justify their budget requests for FY 2004, eliminating “maintain current level” budget formulation. This year the budget and finance subcommittee of the Executive Committee played a key role in the review of unit budgets adding greater credibility to the process.
- During FY 2004, the OCC re-engineered its Capital Planning and Investment Control process. The revised process helps ensure that requests for information technology are aligned with the agency’s mission, goals, and objectives and that the process is in line with the Clinger-Cohen Act. Technology projects with business cases that totaled more than \$4.2 million were not pursued as a result of the vigorous review process used this year.
- The OCC continues to progress toward full implementation of its reserve policy, whereby funds are earmarked for rare events that could potentially disrupt ongoing operations.
- The OCC has made great progress in updating its emergency preparedness plans and is playing an increasing role in the financial services sector critical infrastructure support.
- The auditors have determined that the corrective actions taken to address last year’s report effectively resolved the two reportable conditions.
- To provide better business management, the Office of Management is striving to become a strategic-based, metrics-driven, customer-focused organization. As a foundation, we are implementing a balanced scorecard to measure our progress toward the business goals of the Office of Management. This effort will help us ensure that we deliver the right services to our customers in the most efficient and effective manner. As we build on our considerable FY 2004 accomplishments, we are beginning to address the following challenges:
  - Reviewing our internal controls and making adjustments where necessary to better meet the OCC’s needs.
  - Enhancing our cost accounting capabilities to better serve management’s needs.
  - Managing the OCC as an evolving organization to respond better to structural changes in the national banking system.



Thomas R. Bloom

# Financial Management Discussion

## **Strategic Focus**

Financial management in today's environment presents challenges as we respond to increasing needs for strong financial reporting, responsible internal controls, and accountability for results. In FY 2004, the Office of Management's Financial Management department (FM) confirmed its dedication to these principles by updating its strategic business unit plan and identifying a strategic focus on operational excellence.

Consistent with the OCC's mission and vision, FM stresses the importance of and our commitment to:

- Fiscal responsibility and stewardship.
- Meeting the needs of our customers.
- Our dedicated staff.
- Efficient and effective financial management operations.

The near term goals of our strategic focus include:

- Improved understanding of customer needs and expectations.
- Re-engineered business processes that take advantage of our technological capabilities.
- Projects and programs that are managed effectively.

Additionally, as part of an Office of Management initiative, FM has adopted best business practices designed to accomplish those goals. The best practices include the Balanced Scorecard and Lean Six Sigma. The Balanced Scorecard is a framework that allows us to translate our strategy into measurable results. Lean Six Sigma incorporates the voice of the customer into our processes as we make them more effective and efficient.

## **Major Accomplishments**

Our FY 2004 performance demonstrates that our new strategy provided a solid foundation for improving OCC financial management this year and in the future. The OCC's FY 2004 financial management accomplishments and future challenges include:

### **Financial Accountability**

The OCC continues to place a high priority on providing accurate and reliable financial data to its customers. Toward that end, the OCC successfully resolved all prior year audit findings, identified improvements to internal control processes, consistently met the Department's deadline for a three-day close for producing financial statements, achieved "green ratings" for data quality, and implemented new and updated policies and procedures.

### **Customer Service Initiatives**

Using valuable input received from OCC customers, we have begun to improve the reporting capabilities of the OCC's financial management system. The OCC made a concerted effort to resolve outstanding system, reporting, and performance challenges resulting from the prior year upgrade. The OCC upgraded the integrated



financial management and acquisition system with the latest PeopleSoft service and maintenance packages and performed a hardware upgrade to improve performance and system response time. The OCC also implemented the Aperture Space Management software to better track asset management details.

In a continuing effort to modernize its financial systems, the OCC moved forward with the development of e-Time, a Web-based, self-service time and labor system. The e-Time system replaces the OCC's legacy time entry system and is scheduled for deployment in FY 2005. The OCC is considering the implementation of an e-Travel system, which would support the PMA. The proposed e-Travel system is an end-to-end solution that supports the entire travel process, which includes planning and authorizing travel, making reservations, delivering electronic tickets, calculating and approving reimbursements, and archiving data. This e-Travel system would replace the OCC's legacy travel reporting system and is tentatively scheduled for deployment in FY 2006.

### **Improvements to Processes**

We made a concerted effort to attain our goal of operational excellence by reviewing internal processes for efficiency and effectiveness, incorporating the voice of the customer as an integral part of our analysis.

The OCC enhanced and accelerated its reporting production cycle for disseminating financial information to its internal and external customers. This streamlined approach allowed the OCC to produce its Annual Report and respond to other financial information inquiries ahead of deadlines.

Significant improvements to the OCC-wide budget process for FY 2005 included direct oversight by the budget and finance subcommittee and the shortening of the appeals phase of its formulation process. These improvements resulted in a reduction of the time expended by executives to reach budget decisions.

Looking ahead, a Lean Six Sigma project on disbursements is expected to improve internal processes from requisition through payment.

### **Enhancements to Internal Controls**

Throughout the fiscal year, the OCC resolved prior year audit findings. Moreover, we identified improvements to our control processes. Additionally, through partnering with ITS to more effectively manage contractor support, we began to transfer systems knowledge to the FM staff. The OCC implemented stronger detection and prevention controls for duplicate payments. We also issued new or revised policies and procedures relating to general ledger maintenance, travel programs, and assessment and payment certification processes. We also built ongoing analysis and follow-up corrective actions into the new processes.

### ***Funding Sources and Uses***

#### **Funding Sources**

The OCC does not receive appropriations. The Comptroller, in accordance with 12 USC 482, establishes budget authority for a given fiscal year. The total budget authority available for use by the OCC in FY 2004 was \$476.9 million and \$436.0 million in FY 2003. The OCC's operations are primarily funded by assessments collected from national banks and other income, including interest on investments in U.S. Treasury securities.

Total revenue recognized for FY 2004 amounted to \$497.8 million compared to \$466.1 million in FY 2003. The increase of \$31.7 million in total revenue recognized is due mostly to increased assessments (\$30.1 million) as a result of the more than 10 percent growth in bank assets during the period. Table 9 depicts the components of total revenue recognized for FY 2004 and FY 2003.

**Table 9: Components of Total Revenue, FY 2004 and FY 2003 (in millions)**

	FY 2004	FY 2003	Change
Assessments	\$482.3	\$452.2	\$30.1
Investment Income	11.3	10.2	1.1
Other Sources [1]	4.2	3.7	0.5
Total Revenue	\$497.8	\$466.1	\$31.7

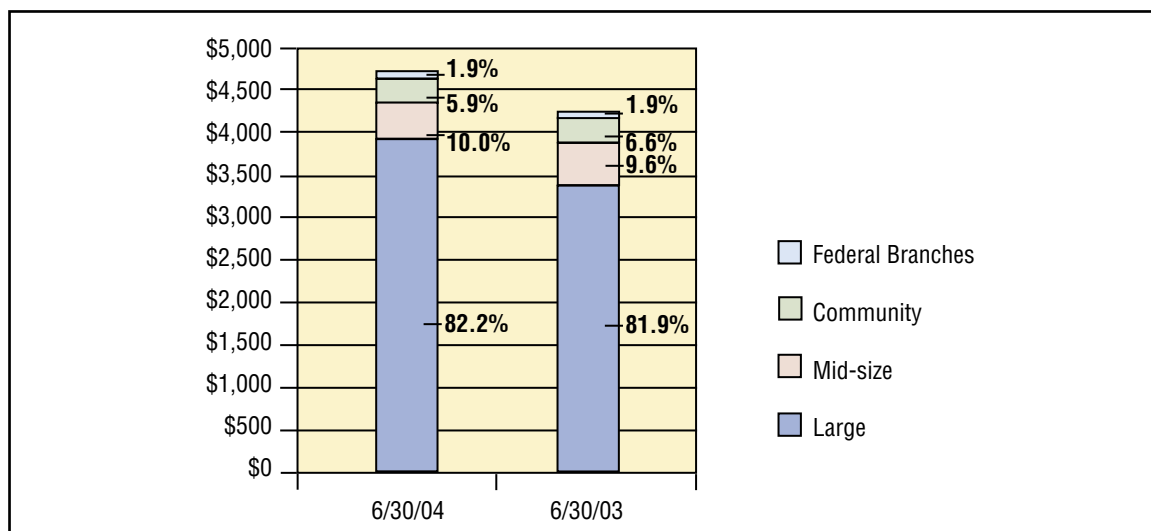
[1] Other sources of revenue include bank licensing fees, revenue received from the sale of publications, and other miscellaneous sources.

Investment income is earned on the investment of available funds in U.S. Treasury securities. The increase in investment income for FY 2004 is largely due to the \$54 million increase in the book value of OCC's portfolio during the fiscal year. The book value of the OCC's portfolio at September 30, 2004 was \$481.6 million compared to \$427.6 million at September 30, 2003. Budget authority for FY 2004 and FY 2003 included \$1.9 million and \$1.7 million, respectively, of investment income. The remaining investment income was designated to fund the Contingency Reserve that is discussed later under *Reserves*.

### Bank Assets and Assessment Revenue

In FY 2004, the composition of national bank assets remained mostly unchanged compared with FY 2003. For the same period, mid-size banks' share of the OCC's assessment revenue increased by 2 percentage points and community banks' share declined by 2 percentage points. National bank asset growth and the movement of assets into the national banking system were the impetus for higher assessments for FY 2004. Figure 3 shows the composition of national bank assets by large banks, mid-size banks, community banks, and federal branches for FY 2004 and FY 2003.

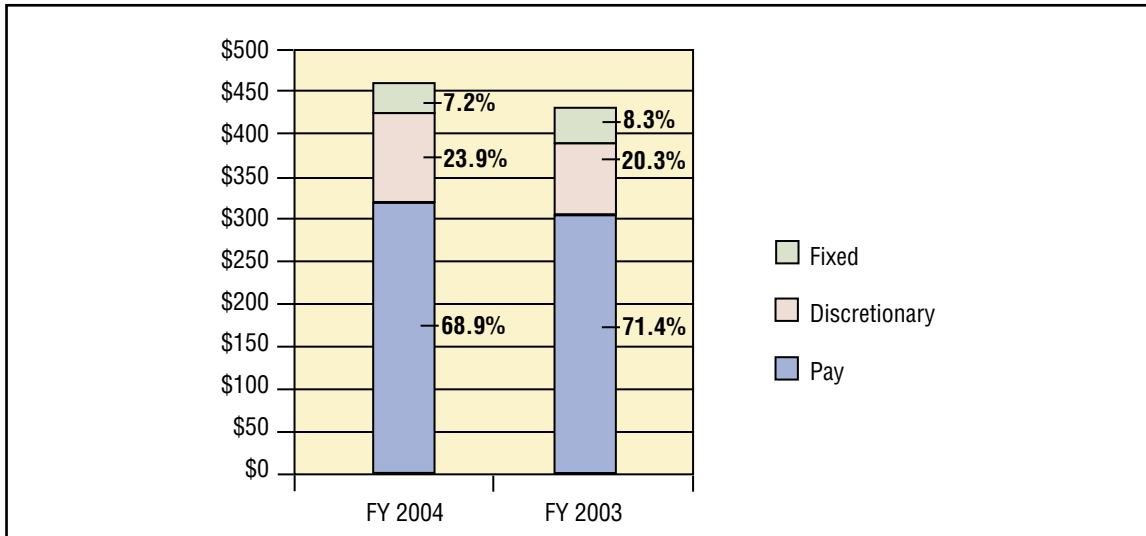
**Figure 3: Composition of National Bank Assets as of June 30, 2004 and 2003 (in billions)**



## Funding Uses

The OCC classifies its funding uses as pay, discretionary, and fixed. Pay encompasses payroll-related costs; discretionary reflects all other funding uses, such as contractual services, travel, training, and capital projects; and fixed primarily includes rent, utilities, and office maintenance. In FY 2004, the OCC's total funds used were \$463.0 million, an increase of 8 percent over the level in FY 2003. Of the total funds used in FY 2004, \$318.9 million was categorized as pay, \$110.9 million as discretionary, and \$33.2 million as fixed. The OCC's operations are service-intensive; therefore, the majority of funds are used for pay. The OCC experienced a \$21.8 million increase in non-pay funds used primarily for various office space improvements and IT investments. Figure 4 depicts the uses of the OCC's funding for FYs 2004 and 2003.

**Figure 4: FY 2004 and 2003 Funding Uses (in millions)**



## Financial Review

The OCC received an unqualified opinion on its FY 2004 and 2003 financial statements. The financial statements include a Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, Financing, and Custodial Activities. The financial statements and notes are presented on a comparative basis, providing financial information for FYs 2004 and 2003. These financial statements summarize the OCC's financial activity and position. Highlights of information presented on the financial statements follow.

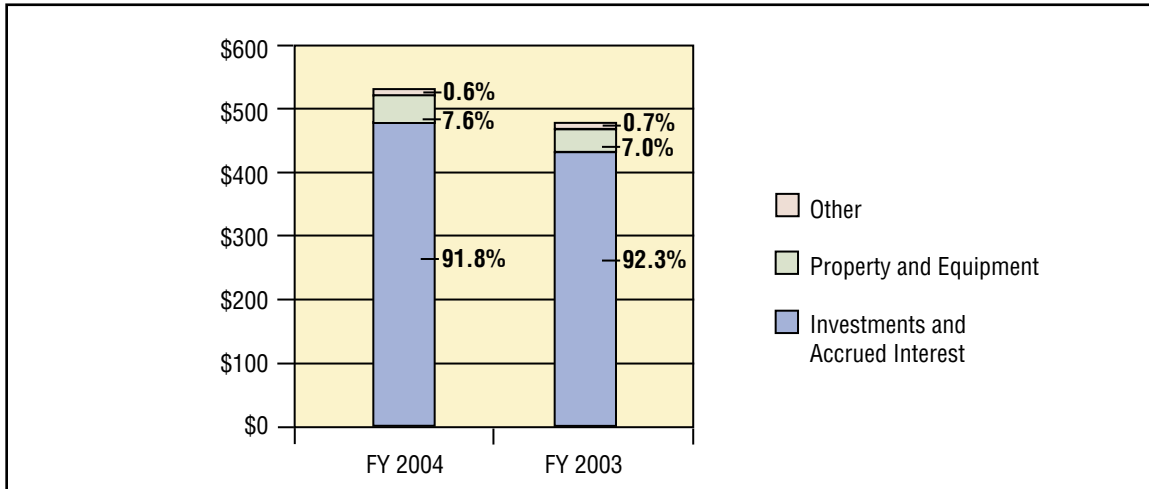
### Balance Sheet

The Balance Sheet, as of September 30, 2004 and 2003, presents the resources that are owned by the OCC and available for use (assets), the resources due to others or held for future recognition (liabilities), and the resources that comprise the residual (net position). For clarity in presentation, assets and liabilities are differentiated between those resulting from transactions between the OCC and other federal entities (intragovernmental) and transactions between the OCC and non-federal entities.

### Composition of and Trends in OCC Assets

The Balance Sheet shows that total assets as of September 30, 2004, increased by \$61.7 million from their level at September 30, 2003. The increase of \$54.4 million in Investments and Related Interest was attributed to a rise in assessment collections during FY 2004. The increase of \$7.2 million in Property and Equipment was due primarily to software purchases. Figure 5 shows the composition of the OCC's assets.

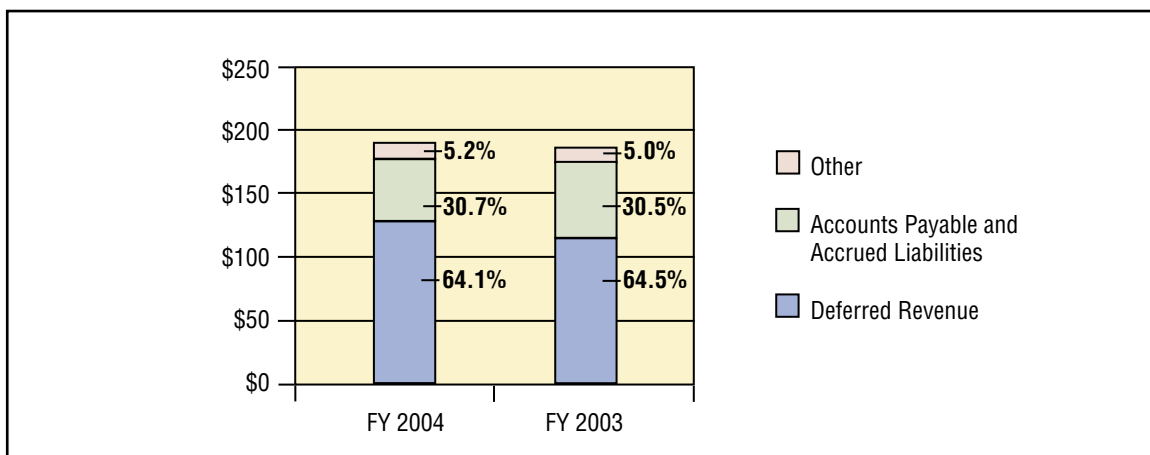
**Figure 5: Composition of FY 2004 and FY 2003 Assets (in millions)**



### Composition of and Trends in OCC Liabilities

Total liabilities as of September 30, 2004, increased by a net of \$13.6 million over their level at September 30, 2003. The OCC's liabilities are largely composed of deferred revenue, accounts payable, and accrued liabilities. Deferred revenue represents the unearned portion of semiannual assessments that have been collected but not yet earned. The increase of \$8.0 million in deferred revenue was due to a rise in assessment collections during FY 2004. The increase of \$5.3 million in accrued liabilities was largely due to an increase in pay and employee benefits. Figure 6 illustrates the composition of the OCC's liabilities.

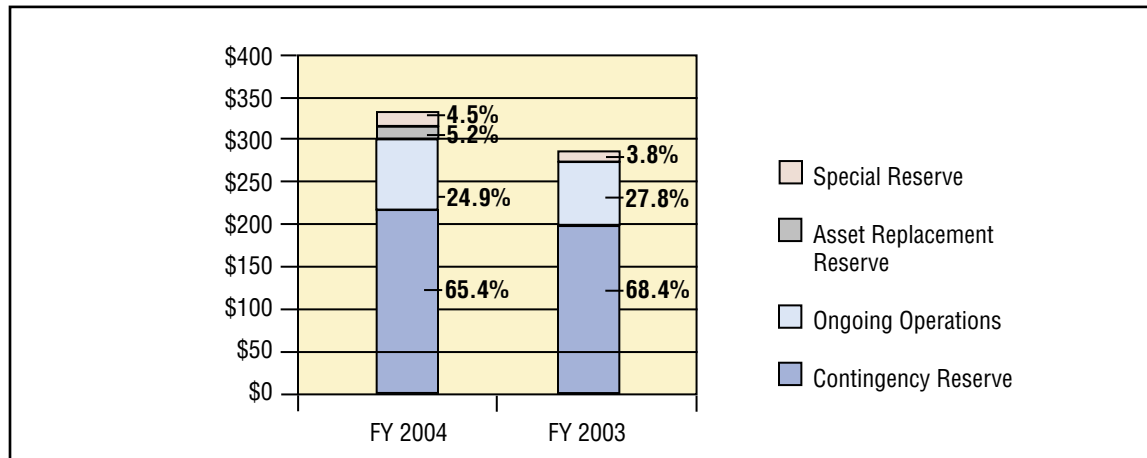
**Figure 6: Composition of FY 2004 and 2003 Liabilities (in millions)**



## Composition of and Trends in OCC Net Position

The OCC's net position of \$335.5 million as of September 30, 2004, and \$287.4 million as of September 30, 2003, represents the cumulative net excess of the OCC's revenues over its cost of operations since inception. As discussed in the next section, the OCC reserves a significant portion of its net position to supplement resources made available to fund the OCC's annual budget and to cover foreseeable but rare events. The OCC also earmarks funds for ongoing operations to cover undelivered orders, the consumption of assets, capital investments, and district office restructuring. Figure 7 shows the composition of the OCC's net position.

**Figure 7: Composition of FY 2004 and 2003 Net Position (in millions)**



## Reserves

The establishment of financial reserves is integral to the effective stewardship of the OCC's resources, particularly since the agency does not receive congressional appropriations. The Contingency Reserve funds foreseeable but rare events beyond the control of the OCC, such as a major change in the national banking system or a disaster, such as a fire, flood, or significant impairment to the OCC's information technology network that may interfere with the OCC's ability to accomplish its mission. The Asset Replacement Reserve funds the replacement of IT equipment, leasehold improvements, and furniture replacements for future years. The amount in the replacement reserve is determined based on the cost of replacement and the useful life of assets. The Special Reserve reduces the effect of unforecasted shortfalls or unbudgeted and unanticipated requirements.

## Statement of Net Cost

The Statement of Net Cost presents the full cost of operating the OCC's programs for the years ended September 30, 2004 and 2003. In FY 2004, the OCC eliminated analyze risk as a separate program area for managing its operations. The activities that comprised the analyze risk program were so closely aligned to the objectives and performance goals of the supervise program that maintaining a separate program was no longer meaningful. In addition, the OCC adopted in FY 2004 an activity-based time allocation process that allowed for a better allocation of costs between the programs. Costs are further differentiated between those resulting from transactions between the OCC and other federal entities (intragovernmental) and transactions between the OCC and non-federal entities (with the public). The full cost includes an imputed cost of \$22.5 million in FY 2004 and \$20.7 million in FY 2003, the cost of the OCC's Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS) plans, paid by the OPM. The full program costs increased by

\$21.1 million primarily due to increases in pay and benefits, contractual services, imputed costs, and non-capitalized IT investments. The full costs are reduced by earned revenues to arrive at net cost. Earned revenues increased by \$31.7 million because of a rise in assessments collected during FY 2004.

### ***Statement of Changes in Net Position***

The Statement of Changes in Net Position presents the change in the OCC's net position resulting from the net cost of the OCC's operations and financing sources other than exchange revenues for the years ended September 30, 2004 and 2003. The line item, Imputed financing from costs absorbed by others, increased by \$1.8 million. The OCC's financing source resulted from a contribution of \$22.5 million in FY 2004 and \$20.7 million in FY 2003, by the OPM toward the OCC's FERS and CSRS retirement plans.

### ***Statement of Budgetary Resources***

The Statement of Budgetary Resources presents the budgetary resources available to the OCC for the year, the status of these resources at the end of the year, and the net outlay of budgetary resources at the end of the year. The OCC obligated 53.0 percent of its budgetary resources for the year. The remaining 47.0 percent was available primarily to cover the OCC's reserves.

### ***Statement of Financing***

The Statement of Financing demonstrates the relationship between the OCC's proprietary (net cost of operations) and budgetary accounting (net obligations) information. For FY 2004, the statement shows \$36.0 million in excess resources available to finance activities, a net increase of \$29.5 million over September 30, 2003. This net increase resulted from a \$36.5 million increase in resources available netted against the increase of \$5.2 million in resources used (obligations incurred). The increase in net resources available is primarily due to increased assessments and imputed financing, while the increase in resources used results primarily from various office space and IT investments.

### ***Statement of Custodial Activities***

The Statement of Custodial Activities identifies revenues collected by the OCC on behalf of others. These revenues result primarily from CMPs that are assessed through court enforced legal actions against a national bank and/or its officers. CMP collections are transferred to the Department of the Treasury's General Fund. The CMPs transferred to the Department of the Treasury increased by \$24.6 million over their level at September 30, 2003 due to a one-time \$25 million penalty assessment on a national bank.

### ***Prompt Payment***

The Prompt Payment Act and the 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. OMB's goal is a prompt payment rate of greater than 98 percent. The OCC's prompt pay rate was 98.7 percent in FY 2004, compared to 98.6 percent achieved in FY 2003. Table 10 summarizes the OCC's prompt payment performance for FYs 2004 and 2003.

**Table 10: Prompt Payment Performance, FY 2004 and FY 2003**

	FY 2004 Amount	FY 2003 Amount	FY 2004 Number	FY 2003 Number
Invoices paid	\$68,819,284	\$69,210,143	21,301	20,910
Invoices paid late	\$4,645,377	\$3,802,695	281	287
Interest penalties paid	\$6,642	\$3,960	196	127

***Electronic Funds Transfer***

The use of electronic funds transfer (EFT) rather than paper checks for payments provides greater control over their timing and reduces payment cost. During FY 2004, we continued our efforts to maximize the use of payment mechanisms as required by the Debt Collection Improvement Act of 1996. Table 11 summarizes EFT usage for FYs 2004 and 2003.

**Table 11: Electronic Funds Transfer Performance, FY 2004 and FY 2003**

	FY 2004	FY 2003
Vendor payments	99.4%	99.6%
Employee payments	99.9%	99.9%

***Erroneous Payments***

The erroneous payments program meets the criteria of the Improper Payments Information Act of 2002 (IPIA) to support the Department of Treasury’s strategic goal. The goal is to: Ensure Professionalism, Excellence, Integrity and Accountability in the Management and Conduct of the Department of the Treasury. The OCC analyzed payments (excluding payroll) made during FY 2004 and identified 11 erroneous payments totaling \$338,844. The OCC corrected or recovered all erroneous payments made during the year.

The OCC affected software enhancements and additional manual controls to reduce erroneous payments. The changes were documented in a Financial Policy & Procedure document (FPP) – Payments Certification Process, which governs the daily certification process.

**Methodology for Identifying Improper Payments**

The OCC conducts both pre-payment reviews and post-payment audits to identify improper or erroneous payments. As part of its sensitive payments program, the OCC conducts a 100 percent pre-payment review of executive travel vouchers and relocation payments, thereby helping to prevent erroneous payments. The OCC uses for post-audit activities a sampling approach to audit travel vouchers and data-mining techniques to detect potential erroneous payments. Immediately upon their identification, the OCC commences collection to assure recovery of funds. Also, the OCC is conducting a Lean Six Sigma review of the non-payroll process to bring about efficiencies and to determine the need for additional controls.

Based on the analyses, the OCC has concluded that erroneous payments will not exceed 2.5 percent of non-payroll payments and \$10 million. The OCC is compliant with the Erroneous Payments Recovery Act of 2001 and the IPIA.

## **Limitations to the Financial Statements**

The financial statements have been prepared to report the assets, liabilities, and net position of the OCC, its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, and its custodial activity pursuant to the requirements 31 USC 3515(b).

While the statements have been prepared from the books and records of the OCC in accordance with GAAP and the formats 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.

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

This section of the report provides information on the OCC's compliance with FMFIA, FFMIA, and other legal and regulatory requirements.

### **Federal Managers' Financial Integrity Act of 1982**

FMFIA requires federal agencies to establish management controls and financial systems to ensure that:

- Programs achieve their intended results.
- Resources are used in a manner consistent with the agencies' missions.
- Programs and resources are protected from waste, fraud, and mismanagement.
- Laws and regulations are followed.
- Reliable and timely information is used for decision-making.

FMFIA further requires the head of each agency, based on an evaluation, to provide an annual Statement of Assurance on whether the agency has met the above requirements. The Assurance Statement must also disclose material control weaknesses along with the specific actions management intends to take to remedy the weakness. To be considered a material weakness for inclusion in the Assurance Statement, the problem must be significant enough that it severely impairs the organization's ability to accomplish its mission or to prepare timely, accurate financial statements or reports. Such weaknesses are of sufficient magnitude that the agency is obliged to report them to external stakeholders.

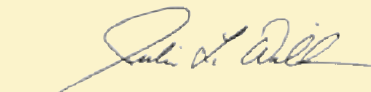
### **Fiscal Year 2004 Annual Assurance Statement**

#### **Federal Managers' Financial Integrity Act**

"On the basis of a comprehensive assessment of the Office of the Comptroller of the Currency's management controls, including assurances provided by each Executive Committee member, and having fully considered the comments and findings of our external auditors, Gardiner, Kamyra, and Associates, I am pleased to report that our management control systems and financial systems, as a whole, provide reasonable assurance that the objectives of FMFIA have been met for fiscal year 2004."

#### **Federal Financial Management Improvement Act**

"OCC financial systems substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the United States Government General Ledger at the transaction level."



Julie L. Williams

Acting Comptroller of the Currency



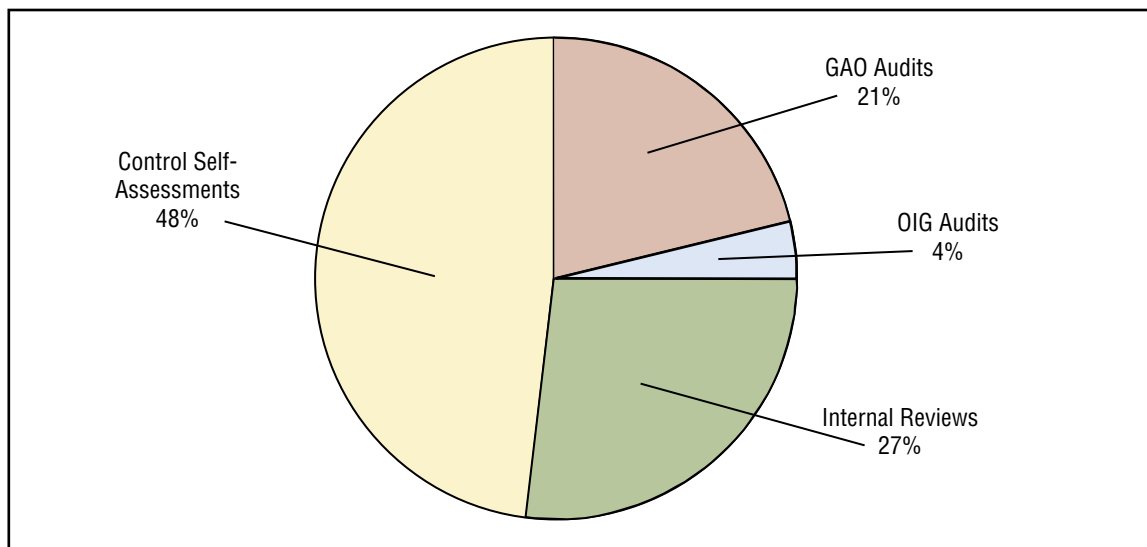
The QM staff evaluated the OCC’s management controls, financial systems, and administrative processes for FY 2004 and determined that OCC programs are operating efficiently and effectively. The review revealed no material management control weaknesses or material non-conformances with law or regulation that either impair the OCC’s ability to fulfill its mission or significantly weaken established safeguards against waste, fraud, or mismanagement.

### **Management Accountability Program**

The OCC’s management accountability program is a continuous internal control improvement process extending to each major program under the oversight of the QM Division. To ensure identified weaknesses are responded to appropriately, the audit subcommittee provides a forum to monitor progress, resolve problems, and develop consensus recommendations about issues that arise from management control reviews, quality assurance activities, and audits. Executive Committee members also have responsibility for protecting the resources under their direction and ensure that new and existing programs are managed efficiently and effectively, including maintaining sufficient controls to safeguard resources from waste, fraud, and mismanagement.

Figure 8 shows the distribution of management control assessments for FY 2004. The OCC’s QM and PAU functions completed 19 internal reviews and administered 33 management control self-assessments during this period. These reviews add to self-initiated program reviews completed at an Executive Committee member’s direction. The GAO issued 15 audit reports resulting in one action item for the OCC. The OIG issued three audit reports resulting in seven recommendations, six of which have been implemented. Corrective actions are ongoing to resolve a small number of open audit recommendations from previous years.

**Figure 8: Management Control Assessments, FY 2004**



### **Executive Committee Program Certifications**

To support the management accountability program, each Executive Committee member submits a departmental certification that, combined with the internal reviews and external audits, form the analytical basis of the annual Assurance Statement. These certifications are based on information gathered from executive management’s personal knowledge of day-to-day operations as supplemented by quality assurance activities, program reviews, and other management-initiated evaluations.

## ***Risk Assessment Program***

During FY 2004, the OCC developed an internal risk assessment model to promote consistency in identifying and ordering of risks across its programs. The risk categories are reputation, strategic, transaction, financial, and compliance. Significant in the risk assessment process is dialogue with each Executive Committee member and, ultimately, presentation of an annual review plan to the audit subcommittee. Annual application of the risk model enables the audit subcommittee to support the management accountability program via a structured program through internal reviews for quality, internal control, alignment with strategic objectives, and cost-effectiveness.

The OCC identified its primary management challenges as: AML, including effective supervision and enforcement of the BSA and implementation of the USA PATRIOT Act; preemption, including the effect of decisions on OCC operations; human capital, including the ability to recruit, train, retain expertise, and deploy it where needed; technology, including the availability and integrity of data used for decision-making; and internal controls, including systems, security, and financial.

## ***Federal Financial Management Improvement Act of 1996***

FFMIA is designed to improve federal management by requiring that financial systems provide reliable financial data in accordance with generally accepted accounting principles and standards. Under FFMIA, financial management systems must comply substantially with: 1) federal financial management system requirements; 2) applicable federal accounting standards; and 3) the U.S. Government Standard General Ledger (SGL) at the transaction level. FFMIA also requires that the independent auditors' report indicate whether the agency's financial management systems comply with these requirements.

An FFMIA-compliant system was implemented in FY 2002 and subsequently upgraded to a Web-based platform during FY 2003. The upgraded system continues to comply substantially with the federal financial management system requirements published by the Joint Financial Management Improvement Program.

## ***Other Key Legal and Financial Regulatory Requirements***

The OCC must implement controls and periodically submit information to the Department of the Treasury in support of its initiatives. Specific examples include compliance under FISMA, IPIA, the Erroneous Payments Recovery Act of 2001, and GPRA. The OCC continues to monitor its performance under these acts. The FY 2004 management control assessment considered the OCC's level of compliance with each of these acts and concluded, with reasonable assurance, that the OCC is achieving satisfactory results in each case. The OCC's results in these areas have been discussed in the pertinent sections of this report.

## **OCC's Next Steps**

The OCC will carry out the regulatory and supervisory recommendations from its FY 2004 review of BSA/AML supervision. The agency also will issue a revised "Bank Secrecy Act" booklet to the *Comptroller's Handbook* and develop two information systems projects to enhance its BSA/AML work. The Quantity of Money Laundering Risk Identification project allows the OCC to gather money laundering risk information for each mid-size and community bank. This information will be used to develop unique supervisory strategies, allocate examiner resources, and quantify money laundering risks across these national banks. The Suspicious Activity Reporting database will increase the OCC's ability to detect existing and emerging operational risks

associated with suspicious activity reported by the banking industry and develop appropriate supervisory responses to those risks. The OCC will continue to coordinate with other federal financial regulators and criminal law enforcement agencies to combat money laundering and terrorist financing activities.

The CAG operations will be staffed to handle expanded operating hours, and the OCC will reinforce its commitment to providing high quality assistance on the resolution of consumer complaints.

The OCC will continue to work with other federal regulators on Basel II, to include a fourth quantitative impact study, scheduled for October 2004, and a notice of proposed rulemaking on possible revisions to the agencies' risk-based capital standards relating to the Framework. Publication of the notice of proposed rulemaking is currently planned for mid-CY 2005. During this same time frame, the agencies also plan to consider and address possible changes to their capital regulations for U.S. institutions not subject to the Framework-based regulations.

The focus for the charter program in FY 2005 is to complete testing electronic versions of the Part 24 CD-1 Community Development Investment application forms for e-Corp deployment. Initially developed in FY 2004, these new forms will be deployed in mid-FY 2005 after internal testing and operating environment upgrades.

The OCC is also reviewing contract proposals for developing the Licensing Information System (LIS). LIS will provide reporting and tracking capability for corporate applications that use new technology and replace the current outmoded, mainframe Corporate Activity Information System (CAIS). LIS will leverage document management, communications, and reference tools currently being developed for SIS and other OCC technology initiatives. A contract for LIS development is scheduled for award prior to the end of FY 2005.

The OCC will continue its aggressive recruitment of new examiners and continue to train new teams of examiners and deploy them to field offices. The OCC will use hiring incentives to attract the experienced examination skills needed in key locations.

The OCC will complete the remaining three security certifications and accreditations for its information technology systems by the third quarter of FY 2005.

A Lean Six Sigma project to improve the disbursement cycle, from requisition to payment, will be conducted during FY 2005, as part of the OCC's Office of Management initiative to become more strategic-based and metrics-driven.