Section Four Financial Management Discussion and Analysis

OCC Focuses on Operational Excellence in Financial Management

Letter from the Chief Financial Officer

I am pleased to present the OCC's financial statements as an integral part of the *Fiscal Year 2008 Annual Report.* I am also glad to report that for fiscal year 2008 our independent auditors rendered an unqualified opinion with no material internal control weaknesses. The OCC's commitment to effective financial management and a strong internal control environment continues to be my highest priority.

For the past several years, I have discussed the importance of our internal controls program. A strong internal control environment has never been more important. It serves as the foundation for accurate financial reporting as well as the safeguarding of agency assets. The OCC has diligently applied the concepts embodied in Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," and where practicable, beyond. Our efforts in this area are overseen by OCC executives and senior staff who meet at least monthly to monitor the status of the program. This year, there were no material control weaknesses identified through our testing process.

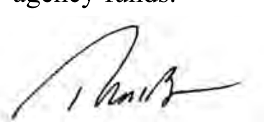
Circular A-123 presents an evolving program. In the past several years, the government charge card program and improper payments program have been incorporated into the A-123 oversight process. In the coming year, the OCC's acquisitions program will come under the A-123 process. We stand ready to devote the resources needed to ensure compliance with the spirit and intent of these enhancements to the A-123 program.

A strong internal control program also includes a constant review of processes. Several years ago, the OCC's Office of Management adopted the Lean Six Sigma approach for improving administrative processes. Strong controls are the ultimate safety net in any process we design. However, inefficient administrative processes detract from the overall effectiveness of the agency and may decrease the hours available for staff to focus on the OCC's mission. This year, the OCC made major strides in this program. The Office of Management now can train and certify Lean Six Sigma Black Belts and Green Belts—the designations used for trained personnel who have successfully led Lean Six Sigma projects. The Office of Management has one master Black Belt, two Black Belts, and multiple Green Belts in multiple business units. An additional six Black Belts and 13 Green Belts will complete their training in fiscal year 2009, and all staff has received introductory training. In fiscal year 2008, 23 Lean Six Sigma projects were completed. Key projects in the Office of Management addressed the performance management, the contract administration, and staffing/recruitment processes. In total, our Lean Six Sigma productivity efforts allowed us to better serve our customers and generated more than $2.3 million in savings as reported on the Office of Management Balanced Scorecard. While this program focuses on improving overall administrative productivity, it also empowers our staff to continuously improve the processes that affect working conditions.

Along with a strong internal control environment, the agency's financial condition remains sound. The structure of our balance sheet and annual operating budget has been influenced greatly by the influx of assets into the national banking system over the past five years. The increase in bank assets supervised has required the OCC to respond with corresponding growth in bank examination staff, information technology infrastructure, and office space. As a non-appropriated federal agency, the OCC's primary sources of revenue are bank assessments and interest earned on investments. The majority of the agency's operating budget is allocated to personnel, travel, and rent. These three budget items accounted for almost 76 percent of the fiscal year 2008 operating budget. While the current economic situation and the impact on financial institutions are well documented, our goal is to ensure that the agency's finances adequately support the OCC's mission.

The Budget and Finance Subcommittee, which I chair, closely monitors the OCC's overall financial condition. Meeting at least monthly, the subcommittee focuses on the agency's investment activities, office space needs, and financial reserves. The growth of our staff to meet bank supervision needs has generated a significant increase in leased office space. In the coming year, we will focus on our headquarters and data center leases. Because of the lead time needed to address leases of such magnitude, the process must begin soon to ensure uninterrupted operations for the agency. The subcommittee also reviews the performance of the agency's investment portfolio. During the past year, our portfolio has performed favorably compared against benchmarks with objectives and holdings comparable to those within the OCC's investment portfolio. Finally, the subcommittee examines the adequacy of agency reserves. Over the past several years, we have been prudent in maintaining our financial reserves at levels that allow us to provide the resources needed to supervise the national banking system, build a pipeline of future talent, and prepare for the expiration of our long-term leases.

Though fiscal year 2008 has been a year of achievement, the coming year will most likely offer new and significant challenges. To ensure we are ready to meet those challenges, we will continue to seek out the latest trends and best practices associated with financial management. To ensure we maintain the capabilities required to safeguard the OCC's assets diligently, I would like to repeat my commitment from last year—to ensure we have the finest people and resources dedicated to managing and monitoring the effective and efficient use of agency funds.



Thomas R. Bloom
Chief Financial Officer

Historical Perspective

For the past few years, the Office of Management's Financial Management (FM) Department has focused on delivering the best in customer service, stewardship of agency resources, and continuous process improvement. FM strove to promote a strong internal control environment, gain experience and expertise in continuous business process improvement, and develop a strong pipeline of present and future leaders to ensure continued progress for the department. Last year, FM began gathering benchmarking data for the department's major functional areas as an initial step toward evaluating operations against external organizations that are known for using best practices.

Strategic Focus

The cornerstone of FM's 2008 strategy is continuous improvement of business processes. FM focused heavily on staff and leadership development and on increasing employee engagement as measured through the Gallup Q12 employee engagement survey. All department initiatives relied heavily on the voice of customers who are directly affected by FM processes, and process improvements were measured by increased quality, cost savings, and increased capacity.

Strategic Goals

FM's goal is to be an efficient organization that reflects:

- An engaged workforce committed to the business strategy of operational excellence.
- A solid understanding of customer needs and expectations.
- Efficient processes that take advantage of system capabilities.
- A focus on developing staff competencies for the evolving organization.
- Optimized costs in delivering products and services.

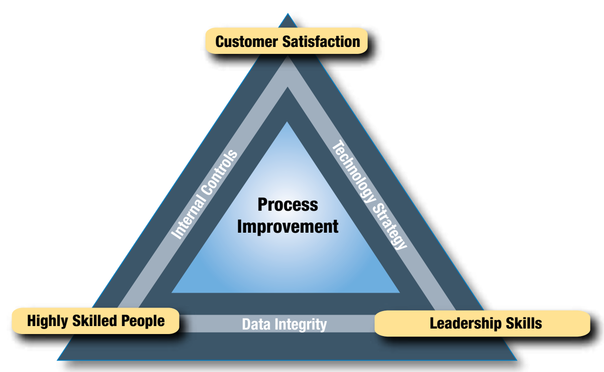
Operating Strategy

The FM operating strategy is shown in Figure 15. The strategy focuses on FM's most important business objectives, which include operating a robust process improvement program. As part of the department's efforts to improve management of financial systems, FM used Lean Six Sigma as the chosen tool for business process improvement.

Additional accomplishments include:

- Improving financial systems and their reporting capabilities.
- Refining the department's internal control and quality assurance program.
- Enhancing ongoing employee and leadership development efforts.
- Reducing FM costs as a percentage of OCC planned operating costs.

Figure 15: **FM Operating Strategy**



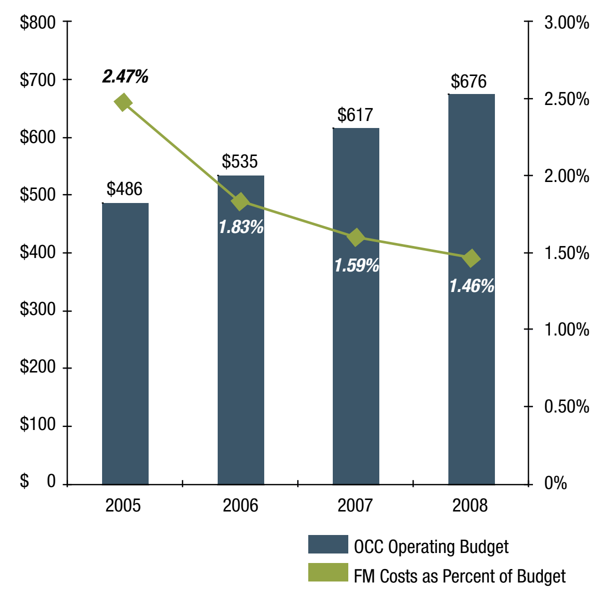
Source: OCC.

Balanced Scorecard

The FM Balanced Scorecard contains performance measures and initiatives in four perspectives: financial, customer, internal processes, and learning and growth. The FM Balanced Scorecard is a framework that translates strategy into measurement.

The financial management perspective contains performance measures to ensure that FM is providing the best value to the OCC. In fiscal year 2008, FM continued the three-year trend of lower costs relative to the OCC planned operating costs, as reflected in Figure 16.

Figure 16: **FM Costs as Percent of OCC Planned Operating Budget (in Millions)**



Source: OCC data for fiscal years 2005–2008.

The customer perspective ensures customers are identified and their needs and expectations are met. During fiscal year 2008, FM carried out a customer service action plan that used valuable input received from OCC customers through the 2007 annual customer satisfaction survey. FM engaged in ongoing dialogue with key customers and significantly improved the department's presence on the agency's intranet. FM published a series of targeted newsletters and improved coordination and review processes for communicating information to the agency with timeliness and clarity. In August 2008, FM participated again in the annual Office of Management OCC-wide customer satisfaction survey. FM management and staff will use the results of this year's survey to plan customer-focused initiatives in fiscal year 2009 and later.

The internal processes perspective ensures that FM focuses on improving processes that are most critical to achieving business goals. FM processes that had known inefficiencies, especially for customers, received the most attention and effort this year. During 2008, the department enhanced the process improvement program to incorporate the concept of continuous improvement into the FM culture.

The learning and growth perspective ensures that FM identifies the critical staff skills needed to achieve business goals and that management works with staff to ensure that those skills are fully developed. Each unit in FM continued working on Gallup Q12 employee engagement survey action plans, and the department focused on developing the next generation of leaders. FM successfully continued augmenting staff by hiring undergraduate- and graduate-level financial interns in fiscal year 2008, an effort that brings current learning in various disciplines and a fresh new perspective into the work environment. FM also continued to hire recent college graduates into the entry-level professional program, which is designed to develop the next generation of leaders in financial management.

Looking Forward

FM will continue to focus on achieving strategic business goals and to measure progress by using the Balanced Scorecard and Lean Six Sigma. The department will continue benchmarking performance through key business metrics. Recognizing that financial management and financial reporting are much more than the mechanics of transaction processing and financial statement preparation, the department will continue to explore the latest business models including digitization and e-commerce. Finally, the department will continue to focus on modernizing internal controls and ensuring the agency is current on financial management and accounting policies.

Financial Highlights

Overview

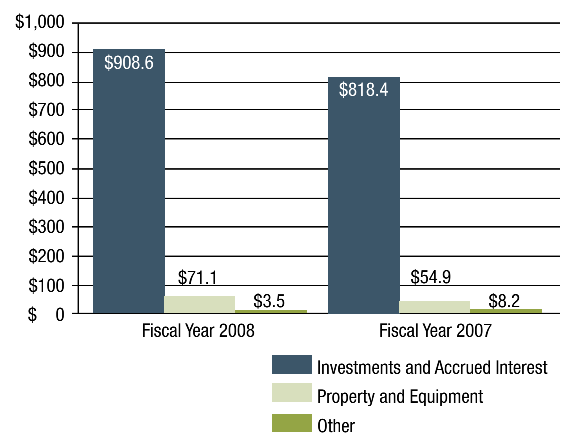
The OCC received an unqualified opinion on our fiscal years 2008 and 2007 financial statements. The financial statements consist of Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and Statements of Budgetary Resources. The OCC presents the financial statements and notes on a comparative basis, providing financial information for fiscal years 2008 and 2007. These financial statements were prepared from the OCC's accounting records in conformity with the generally accepted accounting principles for U.S. federal agencies (federal GAAP). The financial statements, notes, and auditor's opinion begin on page 54. A summary of the OCC's financial activities in fiscal years 2008 and 2007 follows.

Assets

The OCC's assets include both "entity" and "non-entity" assets. The OCC uses entity assets, which belong to the agency, to fund operations. The OCC earns revenue through the collection of assessments from national banks and from other income, including interest on investments in U.S. Treasury securities. Non-entity assets are assets that the OCC holds on behalf of another federal agency or other third party. The OCC's non-entity assets are CMPs due the federal government through court-enforced legal actions. Once collected, the OCC transfers these amounts to the General Fund of the U.S. Treasury.

As of September 30, 2008, total assets were $983.2 million, an increase of $101.7 million or 11.5 percent from the level at September 30, 2007. This increase is primarily attributable to the changes in investments and accrued interest. The increase of $90.2 million in investments and accrued interest resulted from a rise in assessment collections during fiscal year 2008. Figure 17 shows the composition of the OCC's assets.

Figure 17: **Composition of Assets (in Millions)**



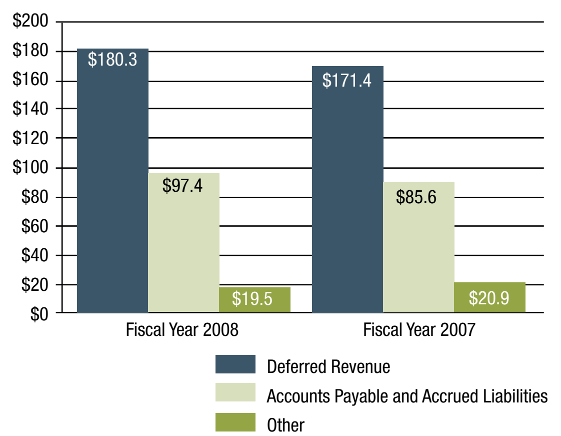
Source: OCC data for fiscal years 2008 and 2007.

Liabilities

The OCC's liabilities represent the resources due to others or held for future recognition and largely comprise deferred revenue, accrued liabilities, and accounts payable. Deferred revenue represents the unearned portion of semiannual assessments that have been collected but not earned. The OCC records a custodial liability for the net amount of enforcement-related receivables. Upon collection, the OCC transfers these amounts to the General Fund of the U.S. Treasury.

As of September 30, 2008, total liabilities were $297.2 million, an increase of a net of $19.3 million, or 6.9 percent, over the level on September 30, 2007. The increase of $8.9 million in deferred revenue was a result of a rise in assessment collections during fiscal year 2008. The increase of $11.8 million in accounts payable and accrued liabilities was primarily caused by an increase in payroll and employee benefits over last year. Figure 18 illustrates the composition of the OCC's liabilities.

Figure 18: **Composition of Liabilities (in Millions)**



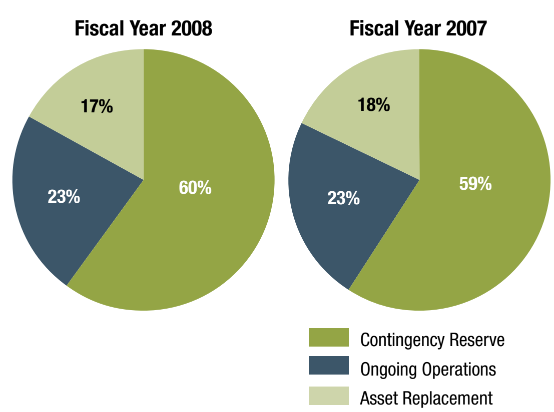
Source: OCC data for fiscal years 2008 and 2007.

Net Position

The OCC's net position of $686.1 million as of September 30, 2008, and $603.6 million as of September 30, 2007, represent the cumulative net excess of the OCC's revenues over the cost of operations since inception. This represents an increase of $82.5 million, or 13.7 percent. The majority of this increase directly relates to increases in assessment revenue over fiscal year 2007. The net position is presented on the Balance Sheets and the Statements of Changes in Net Position.

As discussed in the next section, the OCC reserves a significant portion of the 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, and capital investments. Figure 19 shows the composition of the OCC's net position.

Figure 19: **Composition of Net Position**



Source: OCC data for fiscal years 2008 and 2007.

Reserves

The establishment of financial reserves is integral to the effective stewardship of the OCC's resources, particularly because the agency does not receive congressional appropriations. The contingency reserve, into which the OCC incorporated the funds from the special reserve during fiscal year 2008, serves to reduce the impact on the OCC's operations of revenue shortfalls resulting from foreseeable but rare events that are beyond the OCC's control, or new requirements and opportunities. Examples of such events include a major change in the national banking system or a fire, flood, or significant impairment to the OCC's information technology network that interferes with the OCC's ability to accomplish its mission. The asset replacement reserve is for the replacement of information technology equipment, leasehold improvements, and furniture replacement for future years. The OCC establishes the target level in the replacement reserve annually, based on the gross value of existing property and equipment, a growth rate factor, and other market cost adjustments.

Revenues and Costs

The OCC does not receive appropriations. The OCC's operations are funded primarily by assessments collected from national banks and interest on investments in U.S. Treasury securities. 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 fiscal year 2008 was $749.1 million, which represents an increase of $77.9 million, or 11.6 percent, over the $671.2 million budget in fiscal year 2007.

Total fiscal year 2008 revenue of $736.1 million reflects a $40.7 million, or 5.9 percent, increase over fiscal year 2007 revenues of $695.4 million. The increase is primarily attributable to a rise in bank assessment revenue stemming from the overall increase in the assets of the national banking system and the growth of investment income from an expanded investment portfolio. Figure 20 depicts the components of total revenue for fiscal years 2008 and 2007.

Figure 20: **Components of Total Revenue (in Millions)**

	Fiscal Year 2008	Fiscal Year 2007	Change
Assessments	$ 707.5	$ 666.0	$ 41.5
Investment Income	26.1	26.6	(0.5)
Other [1]	2.5	2.8	(0.3)
Total Revenue	$ 736.1	$ 695.4	$ 40.7

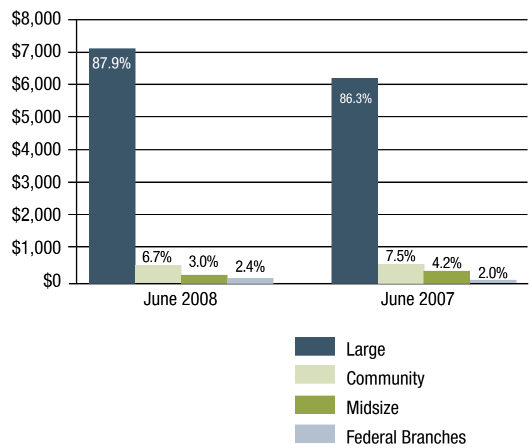
Source: OCC data for fiscal years 2008 and 2007.

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

Bank Assets and Assessment Revenue

Total assets under OCC supervision increased during fiscal year 2008 to $8.1 trillion from $7.2 trillion in fiscal year 2007. For fiscal year 2008, 87.9 percent ($7.1 trillion) is attributable to large national banks. Large banks' share of total OCC assessment revenue increased from 68.0 percent to 70.1 percent, followed by midsize and community banks decreasing to 26.7 percent, and federal branches up slightly to 3.2 percent. National bank asset growth combined with the movement of assets into the national banking system resulted in the higher total assets of national banks in fiscal year 2008. Figure 21 shows the composition of national bank assets by large banks, midsize banks, community banks, and federal branches for fiscal years 2008 and 2007.

Figure 21: **Composition of National Bank Assets (in Billions)**

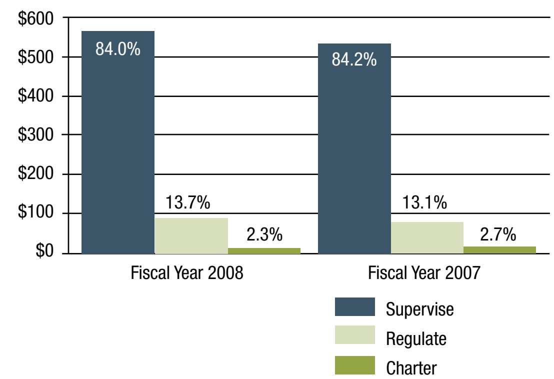


Source: OCC data as of June 30 for fiscal years 2008 and 2007.

Investments

The book value of the OCC's portfolio on September 30, 2008, was $904.7 million, compared with $814.3 million a year earlier. The OCC invests available funds in non-marketable U.S. Treasury securities issued through the Department of the Treasury's Bureau of Public Debt in accordance with the provisions of 12 USC 481 and 12 USC 192. The increase in investments of $90.4 million during the fiscal year reflects the investment of increased assessment revenue and the interest on investments held in the portfolio. The portfolio earned an annual yield for 2008 of 3.8 percent. The OCC calculates annual portfolio yield by dividing the total interest earned during the year by the average ending monthly book value of investments.

Figure 22: **Costs of Operations by Major Program (in Millions)**



Source: OCC data for fiscal years 2008 and 2007.

Cost of Operations

The OCC's net cost of operations is reported on the Statements of Net Cost and the Statements of Changes in Net Position. The OCC uses an activity-based time reporting system to allocate costs among the agency's programs. Costs are further divided into those resulting from transactions between the OCC and other federal entities (intragovernmental) and those between the OCC and non-federal entities (with the public). The Statements of Net Cost present the full cost of operating the OCC's three major programs—supervise, regulate, and charter national banks—for the years ended September 30, 2008, and 2007. Figure 22 illustrates the breakdown of costs of operations for fiscal years 2008 and 2007.

The full cost presented in the Statements of Net Cost includes contributions made by the Office of Personnel Management (OPM) on behalf of the OCC to cover the cost of the Federal Employees Retirement System and Civil Service Retirement System retirement plans, totaling $25.8 million in fiscal year 2008 and $26.4 million in fiscal year 2007. Fiscal year 2008 total program costs of $679.5 million reflect an increase of $42.9 million from $636.6 million in fiscal year 2007. The increase was primarily because of pay and benefits resulting from a 2.6 percent increase to full-time equivalents of 3,030.8 in fiscal year 2008 from 2,955.1 in fiscal year 2007, and additions to the benefit programs. Additional contributing factors include increases to contractual services supporting maintenance and non-capitalized information technology investments and imputed costs.

The full cost is reduced by earned revenues to arrive at net cost. Earned revenues increased by $40.7 million because of an increase in fiscal year 2008 bank assessments that was slightly offset by minor decreases in other revenues. The increases in assessments are a direct result of bank asset growth in the national banking system, particularly the largest banks. The influx of assets into the national banking system has increased the OCC assessment revenue. Correspondingly, the costs of supervising the national banks have risen because of the increasing size and complexity of national bank assets.

Budgetary Resources

As previously discussed, the OCC receives the majority of our funding from assessment revenue earned and investment income. The Statements of Budgetary Resources, designed primarily for appropriated fund activities, present 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, which is a non-appropriated agency, executed $672.8 million or 89.8 percent of the fiscal year 2008 budget of $749.1 million, with the remaining funding being applied to the asset replacement and contingency reserves.

Office of the Comptroller of the Currency
Balance Sheets

As of September 30, 2008 and 2007

	Fiscal Year 2008	Fiscal Year 2007
Assets		
Intragovernmental:		
Fund balance with Treasury	$ 1,762,698	$ 6,762,090
Investments and related interest (Note 2)	908,556,217	818,361,022
Advances and prepayments	64,815	82,904
Total intragovernmental	**910,383,730**	**825,206,016**
Cash	11,633	11,944
Accounts receivable, net	1,709,611	1,347,977
Property and equipment, net (Note 3)	71,089,891	54,882,947
Advances and prepayments	46,057	24,193
Total assets	**$ 983,240,922**	**$ 881,473,077**
Liabilities		
Intragovernmental:		
Accounts payable and other accrued liabilities	$ 3,367,868	$ 2,019,543
Total intragovernmental	**3,367,868**	**2,019,543**
Accounts payable	8,935,460	7,251,284
Accrued payroll and benefits	26,695,083	22,677,144
Accrued annual leave	32,681,026	29,996,291
Other accrued liabilities	25,763,750	23,671,832
Deferred revenue	180,283,755	171,380,008
Other actuarial liabilities (Note 5)	19,458,735	20,882,737
Total liabilities	**297,185,677**	**277,878,839**
Net position (Note 6)	**686,055,245**	**603,594,238**
Total liabilities and net position	**$ 983,240,922**	**$ 881,473,077**

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

Office of the Comptroller of the Currency
Statements of Net Cost

For the Years Ended September 30, 2008 and 2007

	Fiscal Year 2008	Fiscal Year 2007
Program Costs		
Supervise National Banks		
Intragovernmental	$ 80,246,924	$ 74,331,808
With the Public	490,310,368	462,006,442
Subtotal - Supervise National Banks	$ 570,557,292	$ 536,338,250
Regulate National Banks		
Intragovernmental	$ 13,092,698	$ 11,790,685
With the Public	80,323,998	71,519,547
Subtotal - Regulate National Banks	**$ 93,416,696**	**$ 83,310,232**
Charter National Banks		
Intragovernmental	$ 2,290,338	$ 2,462,667
With the Public	13,189,237	14,513,285
Subtotal - Charter National Banks	**$ 15,479,575**	**$ 16,975,952**
Total Program Costs	**$ 679,453,563**	**$ 636,624,434**
Less: Earned Revenues Not Attributed to Programs	(736,142,091)	(695,443,263)
Net Cost of Operations (Note 7)	**$ (56,688,528)**	**$ (58,818,829)**

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

Office of the Comptroller of the Currency
Statements of Changes in Net Position

For the Years Ended September 30, 2008 and 2007

	Fiscal Year 2008	Fiscal Year 2007
Beginning Balances	$ 603,594,238	$ 518,356,458
Other Financing Sources:		
Imputed financing (Note 8)	25,772,479	26,418,951
Net Cost of Operations	56,688,528	58,818,829
Net Change	82,461,007	85,237,780
Ending Balances	**$ 686,055,245**	**$ 603,594,238**

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

Office of the Comptroller of the Currency
Statements of Budgetary Resources

For the Years Ended September 30, 2008 and 2007

	Fiscal Year 2008	Fiscal Year 2007
Budgetary Resources		
Unobligated balance, brought forward, October 1	$ 667,660,982	$ 597,772,320
Spending authority from offsetting collections		
Earned		
Collected	740,544,477	707,929,667
Receivable from Federal sources	(132,564)	392,256
Subtotal	740,411,913	708,321,923
Total Budgetary Resources	**$ 1,408,072,895**	**$ 1,306,094,243**
Status of Budgetary Resources		
Obligations incurred	$ 673,715,700	$ 638,433,261
Unobligated balance available	734,357,195	667,660,982
Total Status of Budgetary Resources	**$ 1,408,072,895**	**$ 1,306,094,243**
Change in Obligated Balance		
Obligated balance, net, beginning of period		
Unpaid obligations brought forward, October 1	$ 151,721,328	$ 117,900,706
Uncollected customer payments from Federal sources, October 1	(4,036,718)	(3,644,462)
Total unpaid obligated balance, net	147,684,610	114,256,244
Obligations incurred	673,715,700	638,433,261
Gross outlays	(659,869,422)	(604,612,639)
Change in uncollected customer payments from Federal sources	132,565	(392,256)
Obligated balance, net, end of period		
Unpaid obligations	165,567,607	151,721,328
Uncollected customer payments from Federal sources	(3,904,154)	(4,036,718)
Obligated balance, net, end of period	161,663,453	147,684,610
Net outlays		
Gross outlays	$ 659,869,422	$ 604,612,639
Offsetting collections	(740,544,477)	(707,929,667)
Net Outlays	**$ (80,675,055)**	**$ 103,317,028)**

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

Notes to the Financial Statements

Note 1—Significant Accounting Policies

A. Reporting Entity

The OCC was created as a bureau within the U.S. Department of the Treasury by an act of Congress in 1863. The mission of the OCC was to establish and regulate 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.

The financial statements report on the OCC's three major programs: supervise, regulate, and charter national banks. These programs support the OCC's overall mission by ensuring the safety and soundness of the national banking system; fostering a flexible legal and regulatory framework that enables the national banking system to provide a full, competitive array of financial services; and promoting fair access to financial services and fair treatment of bank customers.

B. Basis of Accounting and Presentation

The accompanying financial statements present the operations of the OCC. The OCC's financial statements are prepared from the agency's accounting records in conformity with the generally accepted accounting principles for U.S. federal agencies (federal GAAP) and are presented in accordance with the form and content guidelines established by the Office of Management and Budget (OMB) in Circular A-136, "Financial Reporting Requirements."

The OCC's financial statements consist of Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and Statements of Budgetary Resources. The OCC presents the financial statements on a comparative basis, providing information for fiscal years 2008 and 2007. In previous years, the OCC's financial statements also included the Statements of Custodial Activity. However, as the amounts for fiscal years 2008 and 2007 are immaterial, these statements have been eliminated. Should amounts become material in the future, the Statements of Custodial Activity will be included in the OCC's financial statement presentation.

Per OMB's authority under the Statement of Federal Financial Accounting Standards (SFFAS) No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," the Statement of Financing was eliminated as a basic statement effective in fiscal year 2007. The Statement of Financing data are presented in Note 9, Reconciliation of Net Cost of Operations to Budget.

The financial statements reflect both the accrual and budgetary bases 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. The budgetary method recognizes the obligation of funds according to legal requirements, which in many cases is made prior to the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of federal funds.

In accordance with federal GAAP, the preparation of financial statements 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 affect the amounts reported and disclosed herein.

Throughout these financial statements, intragovernmental assets, liabilities, earned revenues, and costs have been classified according to the entity responsible for these transactions. Intragovernmental earned revenues are collections or accruals of revenue from other federal entities, and intragovernmental costs are payments or accruals of expenditures to other federal entities.

C. Revenues and Other Financing Sources

The OCC derives revenue primarily from assessments and fees paid by national banks and income on investments in U.S. Treasury securities. The OCC does not receive congressional appropriations to fund any of the agency's operations. Therefore, the OCC does not have any unexpended appropriations.

By federal statute 12 USC 481, the 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.

D. Earmarked Funds

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues. In accordance with Federal Accounting Standards Advisory Board SFFAS No. 27, "Identifying and Reporting Earmarked Funds," all of the OCC's revenue meets this criterion and constitutes an earmarked fund.

The federal government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. Treasury securities are an asset to the OCC and a liability to the U.S. Treasury. Because the OCC and the U.S. Treasury are both parts of the federal government, the corresponding assets and liabilities offset one another from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government-wide financial statements.

Treasury securities provide the OCC with authority to draw upon the U.S. Treasury to make future payments or expenditures. When the OCC requires redemption of these securities to make expenditures, the government finances those expenditures from accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

E. Fund Balance with Treasury

The Department of the Treasury processes the OCC's cash receipts and disbursements. Sufficient funds are maintained in a U.S. government trust revolving fund and are available to pay current liabilities. The OCC invests available funds in non-marketable U.S. Treasury securities (Note 2). In accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," the OCC has the positive intent and ability to hold these securities until maturity.

The OCC's Statements of Budgetary Resources reflect the status of the Fund Balance with Treasury. It consists of the unobligated balance amount of $734.4 million at September 30, 2008, and $667.7 million at September 30, 2007, which is included in the OCC's net investment balance of $894.2 million for fiscal year 2008 and $808.6 million for fiscal year 2007, and the obligated balances not yet disbursed (e.g., undelivered orders) of $161.7 million for fiscal year 2008 and $147.7 million for fiscal year 2007. These balances reflect the budgetary authority remaining for disbursements against current or future obligations.

F. Accounts Receivable

As presented in the OCC's Balance Sheets, accounts receivable represent monies owed, primarily due from the public, for services and goods provided that will be retained by the OCC upon collection. Also included are CMP amounts assessed against people or banks for violations of law, regulation, and orders; unsafe or unsound practices; and breaches of fiduciary duty. When collected, these CMP amounts are transferred to the General Fund of the U.S. Treasury. CMP collections totaled $25.3 million at September 30, 2008, and $12.7 million at September 30, 2007.

In accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," the OCC updates the allowance for loss on accounts receivable account annually or as needed to reflect the most current estimate of accounts that are likely to be uncollectible. Accounts receivable from the public are reduced by an allowance for loss on doubtful accounts.

The OCC's practice has been to reserve 50 percent of outstanding receivable balances between 180 and 365 days delinquent and 100 percent for outstanding balances greater than 365 days delinquent. Because CMPs are not debts due the OCC, the amount outstanding does not enter into the calculation for the allowance. In addition, debts owed by other government entities and interest receivable on investments in U.S. Treasury securities are considered collectible, and therefore also do not enter into the calculation for the allowance. The balance in the OCC's allowance for loss on accounts receivable account was $1,079 at September 30, 2008, and $2,374 at September 30, 2007.

G. Advances and Prepayments

Payments in advance for receipt of goods and services are recognized as advances or prepayments and are reported as assets on the Balance Sheets.

H. Property and Equipment

Property, equipment, and internal use software (Note 3) are accounted for in accordance with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," and SFFAS No. 10, "Accounting for Internal Use Software."

Property and equipment purchases and additions are stated at cost. The OCC expenses acquisitions that do not meet the capitalization criteria, such as normal repairs and maintenance, when they are received or incurred.

In addition, property and equipment are depreciated over their estimated useful lives using the straight-line method. They are removed from the OCC's asset accounts in the period of disposal, retirement, or removal from service. Any difference between the book value of the property and equipment and amounts realized is recognized as a gain or loss in the same period that the asset is removed.

I. Liabilities

Accounts Payable

Liabilities represent the amounts owed or accrued under contractual or other arrangements governing the transactions, including operating expenses incurred but not 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 within the discount period.

Accrued Annual Leave

The OCC accounts for liabilities in accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government." In accordance with SFFAS No. 5, annual leave is accrued and funded by the OCC as it is 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 actual leave balances with current pay rates. Sick leave and other types of leave are expended as taken.

Deferred Revenue

The OCC's activities are primarily financed by assessments on assets held by national banks and the federal branches of foreign banks. These assessments are due March 31 and September 30 of each year, based on asset balances as reflected on call reports dated December 31 and June 30, respectively. Assessments are paid in mid-cycle and are recognized as earned revenue on a straight-line basis over the six months following the call report date. The unearned portions of collected assessments are classified as deferred revenue.

Civil Money Penalties

The custodial liability amount of $1.7 million recognized represents the amount of accounts receivable that, when collected, will be deposited to the General Fund of the U.S. Treasury. Included in the custodial liability are amounts collected for fines, CMPs, and related interest assessments.

The SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The OCC recognizes contingencies as liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated. For fiscal years 2008 and 2007, the OCC neither identified nor recognized any such contingent liabilities.

J. Employment Benefits

Retirement Plan

OCC employees are eligible to participate in either the Civil Service Retirement System or the

Federal Employees Retirement System, depending on when they were hired by the federal government. Pursuant to the enactment of Public Law 99-335, which established the Federal Employees Retirement System, most employees hired after December 31, 1983, are automatically covered by Federal Employees Retirement System and Social Security. Employees hired prior to January 1, 1984, are covered by the Civil Service Retirement System, with the exception of those who, during the election period, joined the Federal Employees Retirement System.

Thrift Savings Plan

OCC employees are eligible to participate in the federal Thrift Savings Plan. For those employees under the Federal Employees Retirement System, a Thrift Savings Plan account is automatically established, and the OCC contributes a mandatory 1.0 percent of base pay to this account. In addition, the OCC matches employee contributions up to an additional 4.0 percent of pay, for a maximum OCC contribution of 5.0 percent of base pay.

OCC 401(k) Plan

In addition to the federal Thrift Savings Plan, employees can elect to contribute up to 10.0 percent of their base pay in the OCC 401(k) Plan administered by Prudential Financial Incorporated, subject to Internal Revenue Service regulations. Currently, the OCC contributes a fixed 2.0 percent of the base pay to the plan for all qualified employees, regardless of whether they contribute to the plan or not. In addition, the OCC will match an additional 1.0 percent employee contribution, for a maximum OCC contribution of 3.0 percent of base pay. In both fiscal years 2008 and 2007, the OCC funded a special lump sum contribution of $1,000 to be deposited in the 401(k) accounts of all permanent employees. The OCC contracted with an independent public accounting firm to perform an audit of the plan and related financial statements for the year ended December 31, 2007. The financial statements for the plan received an unqualified opinion.

Federal Employees Health Benefits and Federal Employees Group Life Insurance

Employees and retirees of the OCC are eligible to participate in Federal Employees Health Benefits and Federal Employees Group Life Insurance plans that involve a cost sharing of bi-weekly coverage premiums by employee and employer. The Office of Personnel Management (OPM) administers both of these employee benefit plans.

K. Effects of Recent Accounting Pronouncements

The OCC's benefits program includes a Postretirement Life Insurance Plan, a defined benefit program not typically offered within the federal government and therefore not addressed by accounting standards issued by the Federal Accounting Standards Advisory Board. For this program, the OCC follows Financial Accounting Standards Board Statement of Financial Accounting Standard (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." As a result, the OCC implemented SFAS 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans" in fiscal year 2007. This standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multi-employer plan) as an asset or liability in the Statement of Financial Position and to recognize changes in that funded status in the year in which the changes occur. Implementation of this standard resulted in an increase to the OCC's liability of $3.1 million in fiscal year 2007 for the funded portion, in accordance with the actuarial estimate.

In addition, no new accounting pronouncements issued during fiscal year 2008 affected the OCC.

Note 2—Investments and Related Interest

The OCC invests available funds in non-marketable U.S. Treasury securities and has the positive intent and ability to hold all U.S. Treasury securities to maturity. It does not maintain any available-for-sale or trading securities. The OCC manages risk by diversifying the agency's portfolio across maturities within established parameters. Diversifying maturities of the individual securities is meant to help manage the inherent risk of interest rate fluctuations. As part of the agency's investment strategy, the OCC evaluates, at least annually, performance benchmarks with objectives and holdings comparable to those within the OCC's investment portfolio.

Investments are stated at amortized cost and the related accrued interest. Premiums and discounts are amortized over the term of the investment using the effective yield method. The fair market value of investment securities was $922.2 million at September 30, 2008, and $815.9 million at September 30, 2007. The total return on the OCC's portfolio, which includes income from interest and the change in the market value of the securities held in the portfolio during the reporting period, was 7.0 percent and 6.2 percent, respectively. The overall portfolio earned an annual yield of 3.8 percent for fiscal year 2008 and 4.4 percent for fiscal year 2007.

The yield-to-maturity on the non-overnight portion of the OCC's investment portfolio ranged from 1.5 percent to 4.7 percent in fiscal year 2008, and from 2.9 percent to 4.9 percent in fiscal year 2007.

Investments and Related Interest

Intragovernmental Securities	Cost	Amortization Method	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
			Fiscal Year 2008		
Non-Marketable Market-Based	$ 908,441,786	Effective Yield	$ (3,724,908)	$ 904,716,878	$ 922,247,855
Accrued Interest	3,839,339		0	3,839,339	3,839,339
Total Intragovernmental Investments	**$ 912,281,125**		**$ (3,724,908)**	**$908,556,217**	**$ 926,087,194**

			Fiscal Year 2007		
Non-Marketable Market-Based	$ 815,967,809	Effective Yield	$ (1,643,505)	$ 814,324,304	$ 815,902,463
Accrued Interest	4,036,718		0	4,036,718	4,036,718
Total Intragovernmental Investments	**$ 820,004,527**		**$ (1,643,505)**	**$ 818,361,022**	**$ 819,939,181**

Note 3—Property and Equipment, Net

Property and equipment purchased at a cost greater than or equal to the noted thresholds below with useful lives of three 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.

For fiscal year 2008, per SFFAS No. 6, "Accounting for Property, Plant and Equipment," the OCC reported $4.9 million of fully depreciated assets removed from service and recognized a loss of $54,057 on the disposal of other assets.

The following figure summarizes property and equipment balances as of September 30, 2008, and 2007.

Property and Equipment, Net

Class of Assets	Capitalization Threshold/ Useful Life		Cost	Accumulated Depreciation	Net Book Value
Fiscal Year 2008					
Leasehold Improvements	$ 50,000	5-20	$ 44,585,541	$ (24,255,659)	$ 20,329,882
Equipment	$ 50,000	3-10	25,896,127	(17,731,089)	8,165,038
Internal Use Software	$500,000	5	57,707,853	(36,410,965)	21,296,888
Internal Use Software-Dev	$500,000	N/A	13,570,654	–	13,570,654
Leasehold Improvements-Dev	$ 50,000	N/A	7,727,429	–	7,727,429
Total			**$ 149,487,604**	**$ (78,397,713)**	**$ 71,089,891**

Fiscal Year 2007					
Leasehold Improvements	$ 50,000	5-20	$ 28,480,815	$ (21,989,589)	$ 6,491,226
Equipment	$ 50,000	3-10	26,941,592	(18,213,271)	8,728,321
Internal Use Software	$500,000	5	39,922,748	(27,290,315)	12,632,433
Internal Use Software-Dev	$500,000	N/A	22,583,709	–	22,583,709
Leasehold Improvements-Dev	$ 50,000	N/A	4,447,258	–	4,447,258
Total			**$ 122,376,122**	**$ (67,493,175)**	**$ 54,882,947**

Note 4—Leases

The OCC leases office space for headquarters operations in Washington, D.C., and for district and field operations. The lease agreements expire at various dates. In fiscal year 2008, the OCC entered into five new lease occupancy agreements that ranged between 65 and 120 months in various locations throughout the continental United States as current leases expired. These leases are treated as operating leases. All annual lease costs under the operating leases are included in the Statements of Net Cost.

Under existing commitments, the minimum yearly lease payments through fiscal year 2014 and thereafter are illustrated in the following figure:

Future Lease Payments

Fiscal Year 2008	
Year	**Amount**
2009	$ 34,838,102
2010	33,701,893
2011	27,858,269
2012	15,579,300
2013	12,480,836
2014 and Beyond	52,613,662
Total	**$177,072,062**

Fiscal Year 2007	
Year	**Amount**
2008	$ 29,064,300
2009	28,735,823
2010	27,189,128
2011	21,338,482
2012	9,068,922
2013 and Beyond	18,780,610
Total	**$134,177,265**

Note 5—Other Actuarial Liabilities

OCC's other actuarial liabilities are reported on the Balance Sheets and include the components as shown in the following figure:

Actuarial Liabilities Category

Component	Fiscal Year 2008	Fiscal Year 2007
Federal Employees' Compensation Act (FECA)	$ 2,380,482	$ 3,418,308
Postretirement Life Insurance Benefits	17,078,253	17,464,429
Total Actuarial Liabilities	**$ 19,458,735**	**$ 20,882,737**

Federal Employees' Compensation Act

The FECA provides income and medical cost protection to cover 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 covered under FECA are administered by the U.S. Department of Labor and later billed to the OCC. The fiscal year 2008 present value of these estimated outflows are calculated using a discount rate of 4.4 percent in the first year and 4.8 percent in subsequent years.

Postretirement Life Insurance Benefits

The OCC sponsors a life insurance benefit plan for current and retired employees. This plan is a defined benefit plan. The following figure sets forth the plan's funded status reconciled with the actuarial liability.

The actuarial cost method used to determine costs for the retirement plans is the Projected Unit Credit method, a benefit valuation method, according to SFAS No. 87, "Employers Accounting for Pensions," used to determine the actuarial present value of the benefit obligation and the related service cost. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 6.5 percent. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan. Because the OCC's liability experience, including changes in assumptions, has been favorable, the accumulated SFAS 158 charge has dropped to $1.3 million, resulting in a reduction of $1.8 million to the funded status adjustment for fiscal year 2008. The actuarial assumptions and methods used in calculating actuarial amounts comply with the requirements for postretirement benefits other than pensions as set forth in SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and for health benefit plans as set forth in the American Institute of Certified Public Accountants (AICPA) Statement of Position 92-6.

Net periodic postretirement benefit costs for life insurance provisions under the plan include the components as shown in the previous figure. The OCC has modified the layout of the data in the figure from fiscal year 2007 to improve the presentation of the OCC's postretirement liabilities. The total benefit expenses are recognized as program costs in the Statements of Net Cost.

Accrued Postretirement Benefit Liability and Net Periodic Postretirement Benefit Cost

Liability Component	Fiscal Year 2008	Fiscal Year 2007
Accumulated Postretirement Benefit Obligation, Beginning of Period	$ 17,464,429	$ 12,839,288
Net Periodic Benefit Cost	1,844,994	1,888,028
Expected Benefit Distribution	(402,964)	(406,190)
SFAS 158 Funded Status Adjustment	(1,828,206)	3,143,303
Total Postretirement Benefit Liability	**$ 17,078,253**	**$ 17,464,429**

Cost Component	Fiscal Year 2008	Fiscal Year 2007
Service Cost	$ 607,651	$ 598,961
Interest Cost	1,027,797	967,799
Amortization of Transition Obligation	172,837	172,837
Amortization of Unrecognized Loss	36,709	148,431
Total Postretirement Benefit Cost	**$ 1,844,994**	**$ 1,888,028**

Note 6—Net Position

Net Position represents the net result of operations since inception and includes cumulative amounts related to investments in capitalized assets. The OCC sets aside a portion of the net position as contingency and asset replacement reserves for use at the Comptroller's discretion. In addition, funds are set aside to cover the cost of ongoing operations.

The contingency reserve supports the OCC's ability to accomplish the mission in the case of foreseeable but rare events. Foreseeable but rare events are beyond the control of the OCC, such as a major change in the national banking system or, for instance, a fire, flood, or significant impairment of the information technology systems. During fiscal year 2008, the OCC incorporated into the contingency reserve the funds from the special reserve, which had originally been established to reduce the impact on the OCC's operations of revenue shortfalls or new requirements and opportunities.

The asset replacement reserve funds the replacement of information technology equipment, leasehold improvements, and furniture replacements for future years. The target level for the replacement reserve is established annually based on the gross value of existing property and equipment plus a growth rate factor and a margin for market cost adjustments.

The figure below reflects changes for fiscal years 2008 and 2007:

Net Position Availability

Components	Fiscal Year 2008	Fiscal Year 2007
Contingency Reserve	$ 409,061,610	$ 355,256,659
Asset Replacement Reserve	116,800,000	111,200,000
Set Aside for Ongoing Operations:		
Undelivered Orders	52,742,606	50,972,975
Consumption of Assets	81,606,510	60,742,789
Capital Investments	25,844,519	25,421,815
Net Position	**$ 686,055,245**	**$ 603,594,238**

Note 7—Net Cost of Operations

The Net Cost of Operations represents OCC's operating costs deducted from assessments and fees paid by national banks and investment interest income earned. The revenue earned from reimbursable services is shown as an offset against the full cost of the program to arrive at net cost. The imputed financing sources for net cost of operations are reported on the Statements of Changes in Net Position and in Note 9, Reconciliation of Net Cost of Operations to Budget.

The figure below illustrates the OCC's operating expenses categories for fiscal years 2008 and 2007:

Operating Expenses

Expense Category	Fiscal Year 2008	Fiscal Year 2007
Personnel Compensation and Benefits	$ 452,936,124	$ 423,596,167
Contractual Services	79,694,100	77,945,521
Travel and Transportation of Persons and Things	43,650,692	41,099,328
Rent, Communication, and Utilities	43,945,774	36,486,810
Imputed Costs	25,772,479	26,418,951
Depreciation	15,899,671	12,112,108
Other	17,554,723	18,965,549
Total	**$ 679,453,563**	**$ 636,624,434**

Note 8—Imputed Costs and Financing Sources

In accordance with SFFAS No. 5, "Liabilities of the Federal Government," federal agencies must recognize the portion of employees' pension and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for other agencies. OPM provides federal agencies with cost factors for the computation of current year imputed costs. These cost factors are multiplied by the current year salary or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency.

The imputed costs categories for fiscal years 2008 and 2007 are listed in the following figure. These imputed costs are included on the Statements of Net Cost. The financing sources absorbed by OPM are reflected on the Statements of Changes in Net Position and in Note 9, Reconciliation of Net Cost of Operations to Budget.

Note 9—Reconciliation of Net Cost of Operations to Budget

The reconciliation of Net Cost of Operations to Budget demonstrates the relationship between OCC's proprietary (net cost of operations) and budgetary accounting (net obligations) information. For fiscal year 2008, the following reconciliation shows $40.9 million in excess resources available to finance activities, a net decrease of $2.6 million over September 30, 2007. This net decrease resulted from a $32.1 million increase in resources available netted against the increase of $35.3 million in resources used (obligations incurred) and the $0.6 million decrease in imputed financing. The increase in net resources available is primarily because of increased assessments, while the increase in resources used results from various office space and information technology investments as well as salary and employee benefits.

Imputed Costs Absorbed by OPM

Component	Fiscal Year 2008	Fiscal Year 2007
Retirement	$ 10,848,000	$ 10,971,155
Federal Employees Health Benefits	14,892,660	15,417,724
Federal Employees Group Life Insurance	31,819	30,072
Total Imputed Costs Covered by OPM	**$ 25,772,479**	**$ 26,418,951**

Reconciliation of Net Cost of Operations to Budget

	Fiscal Year 2008	Fiscal Year 2007
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 673,715,700	$ 638,433,261
Less: Spending authority from offsetting collections	(740,411,913)	(708,321,923)
Net obligations	(66,696,213)	(69,888,662)
Other Resources		
Imputed financing sources (Note 8)	25,772,479	26,418,951
Total resources used to finance activities	**(40,923,734)**	**(43,469,711)**
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	(3,835,648)	(16,455,629)
Resources that finance the acquisition of assets	(32,106,616)	(24,244,583)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	91,867	(107,415)
Total resources used to finance items not part of the net cost of operations	**(35,850,397)**	**(40,807,627)**
Total resources used to finance the net cost of operations	**$ (76,774,131)**	**$ (84,277,338)**
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Change in deferred revenue	8,903,747	11,958,547
Total components that will require or generate resources in future periods	8,903,747	11,958,547
Components Not Requiring or Generating Resources:		
Depreciation and amortization	15,845,615	12,112,109
Net (increase) decrease in bond premium	(4,717,816)	973,181
Other	54,057	414,672
Total components that will not require or generate resources	11,181,856	13,499,962
Total components of net cost of operations that will not require or generate resources in the current period	**20,085,603**	**25,458,509**
Net Cost of Operations	**$ (56,688,528)**	**$ (58,818,829)**

gka, P.C.

1015 18th Street, NW
Suite 200
Washington, DC
20036

Phone: 202-857-1777
Fax: 202-857-1778
Website: www.gkacpa.com

Certified Public Accountants | Management Consultants

Independent Auditor's Report on Financial Statements

Inspector General, Department of the Treasury, and
the Comptroller of the Currency:

We have audited the accompanying balance sheets of the Office of the Comptroller of the Currency (OCC) as of September 30, 2008 and 2007, and the related statements of net cost, changes in net position and budgetary resources for the years then ended. These financial statements are the responsibility of the management of OCC. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.* Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OCC as of September 30, 2008 and 2007, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information in Section Four, pages 45 through 53 of OCC's fiscal year 2008 Annual Report is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and we express no opinion on it.

Member of the American Institute of Certified Public Accountants

gka, P.C.

1015 18th Street, NW
Suite 200
Washington, DC
20036

Phone: 202-857-1777
Fax: 202-857-1778
Website: www.gkacpa.com

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Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information included in Sections One, Two, and Three of OCC's fiscal year 2008 Annual Report is presented for purposes of additional analysis and is not a required part of the financial statements. We did not audit this information, and we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports dated October 31, 2008, on our consideration of the OCC's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws, regulations, and contracts. These 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 audits.

GKA, P.C.

October 31, 2008

Member of the American Institute of Certified Public Accountants

gka, P.C.

1015 18th Street, NW
Suite 200
Washington, DC
20036

Phone: 202-857-1777
Fax: 202-857-1778
Website: www.gkacpa.com

Certified Public Accountants | Management Consultants

Independent Auditor's Report on Internal Control over Financial Reporting

Inspector General, Department of the Treasury, and
the Comptroller of the Currency:

We have audited the balance sheet and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements" of the Office of the Comptroller of the Currency (OCC) as of and for the year ended September 30, 2008, and have issued our report thereon dated October 31, 2008. 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 the applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *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 design effectiveness of OCC's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on internal control over financial reporting. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily disclose all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. Under standards issued by the American Institute of Certified Public Accountants, a control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course

Member of the American Institute of Certified Public Accountants

gka, P.C.

1015 18th Street, NW
Suite 200
Washington, DC
20036

Phone: 202-857-1777
Fax: 202-857-1778
Website: www.gkacpa.com

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of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the OCC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the OCC's financial statements that is more than inconsequential will not be prevented or detected by the OCC's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the OCC's internal control. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain matters involving internal control and its operation that we reported to management of OCC in a separate letter dated October 31, 2008.

This report is intended solely for the information and use of the Management of the OCC, the Department of the Treasury Office of Inspector General, the Government Accountability Office, OMB, and the U.S. Congress, and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

GKA, P.C.

October 31, 2008

gka, P.C.

1015 18th Street, NW
Suite 200
Washington, DC
20036

Phone: 202-857-1777
Fax: 202-857-1778
Website: www.gkacpa.com

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Independent Auditor's Report on Compliance with Laws and Regulations

The Inspector General, Department of the Treasury, and
the Comptroller of the Currency:

We have audited the balance sheets and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements" of the Office of the Comptroller of the Currency (OCC) as of and for the years ended September 30, 2008 and 2007, and have issued our report thereon dated October 31, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, the applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *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 its compliance with certain provisions of laws and regulations and contracts, 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. 07-04, 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, regulations and contracts applicable to the OCC. However, our objective was not to provide an opinion on overall compliance with laws, regulations and contracts. Accordingly, we do not express such an opinion.

The results of our tests of compliance with laws, regulations and contracts described in the preceding paragraph, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

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

Member of the American Institute of Certified Public Accountants

gka, P.C.

1015 18th Street, NW
Suite 200
Washington, DC
20036

Phone: 202-857-1777
Fax: 202-857-1778
Website: www.gkacpa.com

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

This report is intended solely for the information and use of the Management of the OCC, the Department of the Treasury Office of Inspector General, the Government Accountability Office, OMB, and U.S. Congress and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

GKA, P.C.

October 31, 2008

Other Accompanying Information

Performance Measures and Results

The OCC's fiscal year 2008 performance measures, workload indicators, customer service standards, and results are presented in Figure 23.

Figure 23: **Performance Measures, Workload Indicators, Customer Service Standards, and Results**

Strategic Goal	Performance Measure Workload Indicator Customer Service Standard	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008 Target	Fiscal Year 2008 Actual [1]
I. A safe and sound national banking system						
	Percentage of national banks with composite CAMELS rating of 1 or 2	94%	95%	96%	90%	***92%***
	Rehabilitated problem national banks as a percentage of the problem national banks one year ago (CAMELS 3, 4 or 5)	44%	46%	52%	40%	***47%***
	Percentage of national banks that are categorized as well capitalized	99%	99%	99%	95%	***99%***
	Percentage of critically undercapitalized banks on which responsible action is taken within 90 calendar days after they become critically undercapitalized	N/A [2]	N/A [2]	100%	100%	100%
	Average survey response that the report of examination clearly communicated examination findings, significant issues and the corrective actions management needed to take [3]	1.28	1.30	1.32	≤ 1.75	1.28
II. Fair access to financial services and fair treatment of bank customers						
	Percentage of national banks with consumer compliance rating of 1 or 2	94%	94%	97%	94%	***97%***
	Percentage of qualified intermediate small banks to which the OCC offers to provide consultation on the Community Reinvestment Act and community development opportunities	100%	100%	100%	100%	100%
	Percentage of consumer complaints closed within 60 calendar days of receipt [4]	N/A	36%	18%	80%	12%
	Number of consumer complaints opened/closed during the fiscal year [4]	N/A N/A	31,827 32,925	33,655 26,245	38,000 36,000	41,656 30,986
III. A flexible legal and regulatory framework that enables the national banking system to provide a full, competitive array of financial services						
	Percentage of external legal opinions issued within established time frames	86%	89%	96%	86%	92%
	Number of external legal opinions issued during the fiscal year [5]	119	70	81	120	73
	Percentage of licensing applications and notices filed electronically during the fiscal year	38%	36%	38%	40%	46%
	Number of licensing applications and notices filed electronically during the fiscal year	1,256	1,367	1,261	1,520	1,525
	Percentage of licensing applications and notices completed within established time frames	96%	94%	96%	95%	95%
	Number of licensing applications and notices completed during the fiscal year [6]	2,128	2,425	2,278	2,000	1,843
	Average survey rating of the overall licensing services provided by OCC [7]	1.19	1.20	1.20	≤ 1.50	1.22

Strategic Goal	Performance Measure Workload Indicator Customer Service Standard	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	
					Target	Actual [1]
IV. An expert, highly motivated, and diverse workforce that makes effective use of OCC resources						
	Total OCC costs relative to every $100,000 in bank assets regulated	N/A	$ 8.57	$ 8.89	$ 9.55	***$ 8.39***

Source: OCC data for fiscal years 2008 and 2007.

[1] Fiscal year 2008 performance numbers shown in bold italics are estimates. Some performance data are obtained from quarterly call reports from banks. The September 30, 2008, call reports are not due until 30 or 45 days after the end of the period. Additionally, examinations concluded late in the fiscal year are not finalized for another 30 to 60 days. As a result, complete fiscal year data are not yet available; therefore, estimates have been reported.

[2] There were no critically undercapitalized national banks in fiscal years 2005 and 2006.

[3] The examination survey is based on a 5-point scale, in which 1 indicates complete agreement and 5 indicates complete disagreement.

[4] In fiscal year 2006, the OCC revised reporting on the consumer complaints measure and related workload indicators to exclude inquiries and appeals at the recommendation of the Government Accountability Office. As such, prior year reporting is no longer presented because the data is not comparable and fiscal year 2006 is shown as the baseline year.

[5] For fiscal year 2008, the number of external legal opinions issued is below target because legal opinions are initiated externally by banks requesting interpretations from the OCC, and the OCC can only base projections on past history and anticipated activity.

[6] The number of total licensing filings has declined from the previous fiscal year because the number is based on actual applications received that also declined. However, the number of applications filed electronically increased for the fiscal year.

[7] The licensing survey is based on a five-point scale, in which 1 indicates outstanding and 5 indicates significantly deficient.

Improper Payments Information Act

The Improper Payments Information Act of 2002, as implemented by the OMB, requires federal agencies to review all program and activities annually and identify those that may be susceptible to significant erroneous payments. The OCC analyzed payments (excluding payroll) made during fiscal year 2008 and identified 38 erroneous payments requiring adjustments totaling $31,895. Erroneous payments are identified and monitored daily to ensure prompt recovery. The underlying causes and contributing factors are identified quickly, and control measures are implemented to prevent additional erroneous payments. The OCC corrected and recovered all erroneous payments made during the year. Figure 24 summarizes the OCC's erroneous payments for fiscal years 2008 and 2007.

Figure 24: **Erroneous Payments**

	Fiscal Year 2008	Fiscal Year 2007
Number of Payments	38	78
Dollar Value of Adjustments	$ 31,895	$ 272,570

Source: OCC data for fiscal years 2008 and 2007.

Methodology for Identifying Improper Payments

The OCC conducts both prepayment reviews and postpayment audits to identify improper or erroneous payments. The OCC conducts a 100 percent prepayment review of all supplier invoices and payment files prior to transmission to Treasury. As part of its sensitive payments program, the OCC conducts a 100 percent prepayment review of executive and international travel vouchers and relocation payments, thereby helping to prevent erroneous payments. The OCC uses a sampling approach to audit travel vouchers and data-mining techniques to detect potential erroneous payments for postpayment audit activities. Immediately upon their identification, the OCC initiates collection activity to ensure recovery of funds. Also, the OCC is conducting a business process improvement review of the nonpayroll process to bring about efficiencies and to determine the need for additional controls.

Based on the analyses, the OCC has concluded that erroneous payments do not exceed the Treasury threshold, which is both 2.5 percent of nonpayroll payments and $10 million. The OCC is compliant with the Erroneous Payments and Recovery Act of 2001 and the Improper Payments Information Act of 2002.

Assurance Statement

The Office of the Comptroller of the Currency (OCC) has made a conscientious effort during fiscal year (FY) 2008 to meet the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), and Office of Management and Budget (OMB) Circular A-123.

OCC systems of management control are designed to ensure that:

a) Programs achieve their intended results;

b) Resources are used in accordance with the agency's mission;

c) Programs and resources are protected from waste, fraud, and mismanagement;

d) Laws and regulations are followed;

e) Controls are sufficient to minimize improper or erroneous payments;

f) Performance information is reliable;

g) Systems security is in substantial compliance with relevant requirements;

h) Continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and

i) Financial management systems are in compliance with federal financial systems standards, i.e., FMFIA Section 4 and FFMIA.

I am providing reasonable assurance that the above-listed management control objectives were achieved by the OCC without material weakness during FY 2008. Specifically, this assurance is provided relative to Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA).

I am also reporting substantial compliance with the requirements imposed by the Federal Financial Management Improvement Act (FFMIA).

The OCC also conducted its assessment of the effectiveness of internal control over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the OCC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2008, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

Other Control Deficiency

The OCC presented results of performance measures, workload indicators, and customer service standards in the *FY 2007 Annual Report.* We reported that only 18 percent of the targeted 80 percent of FY 2007 consumer complaints were closed within 60 calendar days of receipt. Our management team conducted a process improvement project during FY 2008, and changes are being initiated. The OCC Customer Assistance Group expects substantial improvement during FY 2009 as a result of these process improvement initiatives.

Analytical Basis of Assurance Statement

OCC evaluated its management controls in accordance with the FY 2008 Secretary's Assurance Statement Guidance of July 10, 2008, and also considered the following guidance:

- OMB Circular A-123, Management's Responsibility for Internal Control;
- OMB Circular A-127, Financial Management Systems;

- OMB Circular A-130, Management of Federal Information Resources; and
- Treasury Directive 40-04, Treasury Internal (Management) Control Program.

Information considered in our control assessment included the following:

- FMFIA and FFMIA certifications submitted by each Executive Committee member;
- OCC's Strategic Risk Management Plan;
- Results of internal control testing under OMB Circular A-123, Appendix A;
- Executive Committee descriptions of business unit quality management programs;
- Results of internal reviews, including quality management program testing by the Enterprise Governance unit;
- Results of control self-assessments completed by OCC managers in FY 2008;
- Audit reports and evaluations issued by the Government Accountability Office and the Office of the Inspector General;
- Completion of risk assessment materials related to the Improper Payments Information Act by our Deputy Chief Financial Officer, which was submitted to the Department in May 2008;
- Completion of GAO's Core Financial System Requirements Checklist;
- Unqualified and timely audit opinion on FY 2007 financial statements; and
- GKA, P.C.'s status report of October 17, 2008, on the FY 2008 financial statement audit.

John C. Dugan
Comptroller of the Currency
November 3, 2008