

XIII.

Other Accompanying Information

Performance Measures and Results

The OCC's FY 2007 performance measures, workload indicators, customer service standards, and results are presented as follows.

Table 10: Performance measures, FY 2004–FY 2007

Strategic Goal	Performance Measure Workload Indicator Customer Service Standard	FY 2004	FY 2005	FY 2006	FY 2007	
					Target	Actual ¹
I. A safe and sound national banking system						
	Percentage of national banks with composite CAMELS rating of 1 or 2	94%	94%	95%	94%	96%
	Rehabilitated problem national banks as a percentage of the problem national banks one year ago (CAMELS 3, 4 or 5)	40%	44%	46%	40%	52%
	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	100%	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	1.30	1.28	1.30	< 1.75	1.32
II. Fair access to financial services and fair treatment of bank customers						
	Percentage of national banks with consumer compliance rating of 1 or 2	96%	94%	94%	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	N/A	36%	80%	18%
	Number of consumer complaints opened/closed during the fiscal year ⁵	N/A	N/A	31,827	38,000	33,655
		N/A	N/A	32,925	36,000	26,245

¹ FY 2007 performance numbers shown in bold italics are estimates. Some performance data is obtained from quarterly call reports from banks. The September 30, 2007 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 is not yet available; therefore, estimates have been reported.

² There were no critically undercapitalized national banks in FY 2005.

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

⁴ In FY 2006 OCC revised reporting on the consumer complaints measure and related workload indicators to exclude inquiries and appeals at the recommendation of the General Accountability Office. As such, prior year reporting is no longer presented because the data is not comparable and FY 2006 is shown as the baseline year. While the number of consumer complaints opened during FY 2007 increased, the rate was less than projected. Performance numbers for FY 2007 are consistent with the performance numbers reported for the final two quarters for FY 2006.

⁵ See note 4 above.

Table 10: Performance measures, FY 2004–FY 2007 (continued)

Strategic Goal	Performance Measure Workload Indicator Customer Service Standard	FY 2007				
		FY 2004	FY 2005	FY 2006	Target	Actual ¹
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	87%	86%	89%	86%	96%
	Number of external legal opinions issued during the fiscal year	119	119	70	120	81 ⁶
	Percentage of licensing applications and notices filed electronically	34%	38%	36%	40%	38% ⁷
	Number of licensing applications and notices filed electronically during the fiscal year	893	1,256	1,367	1,600	1,261 ⁸
	Percentage of licensing applications and notices completed within established time frames	96%	96%	94%	95%	96%
	Number of licensing applications and notices completed during the fiscal year	2,477	2,128	2,425	2,000	2,278
	Average survey rating of the overall licensing services provided by OCC ⁹	1.20	1.19	1.2	< 1.5	1.2
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	N/A	\$8.57	\$9.55	\$8.89

⁶ For FY 2007 the number of external legal opinions issued during the fiscal year 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.

⁷ The OCC did not meet the target of receiving 40 percent of all licensing application and notice filings electronically (38 percent actual) because most of our large volume application filers have already become regular electronic filers. Rate of adoption by new electronic filers has leveled off. Lower volume filers are reluctant to adopt a new system that they are not likely to use frequently.

⁸ The number of total licensing filings has declined from the previous FY. Correspondingly, the number of electronic filings has also declined, but the percentage of electronic filings has increased from the previous FY.

⁹ 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 (IPIA), as implemented by the Office of Management and Budget, 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 FY 2007 and identified 78 erroneous payments requiring adjustments totaling \$272,570. 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. Table 11 summarizes the OCC's erroneous payments for FYs 2007 and 2006.

Table 11: Erroneous payments, FY 2007 and 2006

	FY 2007	FY 2006
Number of payments	78	89
Dollar value of adjustments	\$272,570	\$141,120

Methodology for Identifying Improper Payments

The OCC conducts both pre-payment reviews and post-payment audits to identify improper or erroneous payments. The OCC conducts a 100 percent pre-payment 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 pre-payment 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 post-payment 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 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 do not exceed the Treasury threshold, which is both 2.5 percent of non-payroll payments and \$10 million. The OCC is compliant with the Erroneous Payments and Recovery Act of 2001 and the IPIA.

Audits

Two audit reports issued by the U.S. Government Accountability Office (GAO) during the year resulted in recommendations designed to improve OCC service to the entities it oversees. GAO recommended that the OCC add more transparency and overcome impediments in the rulemaking process for implementation of the Basel II risk-based capital framework. GAO also suggested that the OCC could do more to address the needs of minority-owned financial institutions and recommended that the OCC measure the effectiveness of its program regularly.

Disaster preparedness was the common theme for other reports issued by the GAO and the Treasury Department Office of the Inspector General (OIG). GAO expressed concern that institutions supervised by the OCC had not planned sufficiently for the possibility of a pandemic. Also the OIG noted that the OCC could further strengthen its ability to assess risks to community banks during emergencies, such as hurricanes Katrina and Rita.

Corrective actions are planned and are well under way.

Assurance Statement

The Office of the Comptroller of the Currency (OCC) has made a conscientious effort during fiscal year (FY) 2007 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 2007. Specifically, this assurance is provided relative to Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA).

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, 2007 was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

OCC continues to address financial management systems deficiencies identified by external auditors in FY 2006 and FY 2007. Accordingly, I am reporting a lack of substantial compliance with the requirements imposed by the Federal Financial Management Improvement Act (FFMIA).

Significant Control Deficiency

In FY 2006 and FY 2007, external auditors found that the OCC needed to improve its IT controls over financial management systems. Specifically, they identified IT deficiencies related to security program planning, service continuity, selected access and change controls, and system software administration. The FY 2007 financial audit continues, but external auditors have noted that OCC has made significant progress. The OCC certification and accreditation program is now compliant with NIST and OMB standards; interconnection security agreements have been developed and approved; security awareness procedures have been improved; and, system security plans have been completed. This area continues to warrant management attention, and a plan of corrective actions is in place to address these issues during FY 2008.

Other Control Deficiency

In FY 2006, I also brought to your attention physical and computer security issues that were receiving heightened management attention. These issues highlighted the risks facing the agency in safeguarding sensitive information. I initiated a comprehensive end-to-end review of our physical and computer security processes and procedures to identify opportunities to improve and further strengthen our management controls in this area. The evaluation was completed in July 2007 and resulted in recommendations for improvement. A project task force has developed an implementation plan to address these recommendations.

Analytical Basis of Assurance Statement

OCC evaluated its management controls in accordance with the FY 2007 Secretary's Assurance Statement Guidance of July 12, 2007, signed by Richard Holcomb, Deputy Chief Financial Officer, and also considered the following guidance:

- OMB Circular A-123, Management Accountability and 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 certifications submitted by each Executive Committee member;
- OCC's risk assessment analysis for FY 2007;
- Results of internal control testing under OMB Circular A-123, Appendix A;
- Executive Committee descriptions of business unit quality management programs;
- Results of internal audits and reviews;
- Results of control self-assessments completed by OCC managers in FY 2007;
- 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 2007;
- Program information submitted by OCC's Chief Information Security Officer, Deputy Chief Financial Officer, and Office of Critical Infrastructure Protection and Security;
- Completion of GAO's Core Financial System Requirements Checklist;
- Unqualified and timely audit opinion on FY 2006 financial statements; and
- Gardiner, Kamy and Associates' status report of October 19, 2007, on the FY 2007 financial statement audit.



John C. Dugan
Comptroller of the Currency
November 1, 2007