

MANAGEMENT

To ensure a safe and sound national banking system for all Americans, OCC must have an expert, highly motivated, and diverse workforce that makes effective use of its resources. During FY 2005, OCC pursued management initiatives to achieve those goals.

President's Management Agenda

OCC management devoted much of FY 2005 to creating initiatives to “get to green” on the scorecard for the President’s Management Agenda (PMA), where “green” signals success. The PMA is the President’s strategy to improve the management of the federal government.

Budget and Performance Integration

The OCC improved its planning, budgeting, and evaluation process for the FY 2006 budget cycle. The OCC’s budget is driven by its strategic plan. The Executive Committee identified the strategic risks that OCC faces in pursuing its strategic goals and objectives and the steps in place, in development, or needed to mitigate those risks. While developing the FY 2006 budget, executives considered those strategic risks and ensured that plans were in place and resources were adequate to address them.

In FY 2006, the OCC will implement a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing

and more complex national banking system. The measure will weigh OCC’s costs against national bank assets regulated. Bank assets represent the growth and complexity of the national banking system. The OCC’s ability to control its costs while ensuring the safety and soundness of the banking system benefits all national bank customers.

The OCC evaluated the planning and budgeting process of four other entities (two federal agencies, one state agency, and one private company) to identify best practices, and implemented changes that reduced by two months the cycle time of OCC’s budget process. The Executive Committee’s Budget and Finance Subcommittee played a more prominent role in the FY 2006 budget process by being involved at all stages of the cycle. Business units continued to use staffing models to support their FTE needs, as documented in program plans that identified the activities to be accomplished with the related objectives and performance measures. These models were assessed to enhance budgeting and resource use.

Competitive Sourcing

This past year, the OCC’s competitive sourcing efforts focused on assisting the Department of the Treasury in reforming the FAIR Act Inventory (FAI) to ensure compatibility and consistency across all bureaus. The inventory lists jobs that can be performed by contractors or government employees. This collaborative effort by all Treasury bureaus resulted in a

complete and accurate FAI consistent across the bureaus. The OCC also participated in Treasury's shared services program that leverages Treasury-wide expertise in the area of competitive sourcing without increasing resources.

Expanded e-Government

Capital Planning and Investment Control — The OCC made major improvements to its Capital Planning and Investment Control (CPIC) process to ensure that projects are aligned to the mission, goals, and objectives of the agency. The re-engineered process has placed the OCC in a position to plan information technology (IT) initiatives strategically and effectively monitor return on investments and other benefits derived from IT investments. The OCC's capital planning process aligns with the Department of the Treasury's CPIC process and requirements. The OCC is recognized as a best-practice leader in capital planning across the department.

OCC has implemented a year-round project selection process in which the Investment Review Board (IRB) reviews new projects during quarterly control review meetings. This process allows customers to plan their projects carefully without rushing to meet an annual selection process. Through the new quarterly control process, the OCC also monitors the success of IT projects. The process focuses project and program managers and OCC senior management on project risks, costs, and schedule variances. As a result of the reviews

of completed, deferred, or cancelled projects, approximately \$3 million was made available to fund other OCC needs.

Participation in e-Government Initiatives — The OCC participates in government-wide technology initiatives including Integrated Acquisition, e-Authentication, e-Training, Enter on Duty, and Online Rulemaking.

e-Training — The OCC's Automated Learning Information Center (ALICE) is aligned with the federal GoLearn initiative. It is an operational-level data mart that enables OCC management to report on and analyze OCC's usage of the GoLearn environment more effectively. As an internal management and reporting tool, ALICE complements the functionality offered by the PMA GoLearn initiative. The ALICE system uses courseware through the Office of Personnel Management (OPM) and the GoLearn initiative. This courseware will help to identify skill gaps and ensure that the OCC workforce has the appropriate skills to meet the agency mission.

Federal Document Management System — The OCC is an active partner in the e-Gov Federal Document Management System. The interagency initiative will allow OCC customers to review and comment electronically on OCC regulations and rulemaking actions. This initiative will assist the OCC and other federal agencies in providing more timely service and more access to federal regulations.

Enter on Duty e-Gov Initiative — The OCC accepted the lead role on the e-Gov initiative

to automate human resource-related forms (security, ethics, benefits, etc.) that employees complete when hired. This initiative will convert current government-wide and agency-unique human resources forms to electronic Web-based forms that can take up to 75 percent less time to complete and will eliminate duplicate entries. This initiative complements current OCC efforts to improve its hiring process.

Improving Financial Performance

In FY 2005, the OCC met all of its objectives for improving financial performance. The OCC successfully issued its FY 2004 Annual Report before November 15 for the fourth consecutive year. The agency received an unqualified opinion with no material weaknesses on the FY 2004 and FY 2005 financial statements. No material weaknesses have been identified since FY 1999. The OCC consistently closed its accounting records for month-end financial reporting on a timely and accurate basis. Financial reports are provided to the Executive Committee's Budget and Finance Subcommittee monthly and to the Executive Committee quarterly for timely operational decisions. Performance reporting is an integral part of these quarterly reports.

Human Capital

In FY 2005, Human Capital efforts focused on recruiting and retraining a highly expert and diverse workforce in anticipation of

an increasing number of retirements, with an emphasis on succession planning and reallocating Large Bank Supervision examiner resources to areas of critical needs, such as New York City. The OCC had achievements in each of these areas.

The OCC is in the third year of an expanded recruitment program for entry-level bank examiners. This highly successful program has attracted diverse pools of applicants with superior qualifications. More than half of the entry-level examiners hired were female and more than 40 percent were minorities.

The OCC continually reviews its hiring policies and practices and conducts long term, in-depth hire and separation analyses to address barriers that may affect women, minorities, and persons with disabilities, who seek employment with the agency. In addition, new examiner hires are surveyed after their first six months with the OCC and annually for their first five years with the OCC to identify potential retention problems early and opportunities for improving recruitment and on-boarding processes.

The OCC recognizes that it could lose valuable skills and experience in the next three-to-five years because of retirements; therefore the OCC has integrated succession planning into its recruitment and career development initiatives. The OCC plans to implement a succession management development program in the bank supervision departments. Through this program, OCC seeks to provide a systemic way of identifying candidates for key positions to ensure a continuity of leadership and maintain a diverse pool of talent.

With the addition of JPMorgan Chase and Hong Kong Shanghai Bank Corporation to the national banking system, more than 80 examiner positions were added to the New York City metropolitan area. The OCC launched a major recruitment effort to encourage examiners with expertise in safety and soundness as well as specialty areas such as, capital markets, credit, bank information technology, compliance and asset management, to relocate to New York City. The OCC offered a range of relocation incentives and Large Bank managers conducted town hall meetings in offices throughout the OCC to make the workforce aware of the New York City opportunities and the many benefits associated with these opportunities. This recruitment effort was highly successful in enabling the OCC to meet its current staffing needs. Approximately 70 percent of OCC employees attending the town hall meetings ultimately applied for Large Bank positions in New York City, which traditionally have been difficult positions to fill.

The Office of Personnel Management's 2004 Federal Human Capital Survey ranked the OCC higher than the federal government average in all areas: personal work experience; learning; recruitment, development, and retention; benefits satisfaction; leadership; job satisfaction; and performance culture. Thirty-one percent of OCC survey items received 80 percent or more positive responses compared with 12 percent government-wide. The survey scores reflect the OCC's commitment to cultivating an employee-focused and performance-based culture where

employees are expected to develop their skills and knowledge continuously.

Other Initiatives

OCC pursued other management initiatives to ensure a diverse and highly motivated workforce that operates efficiently. In FY 2005, those initiatives included:

Implemented the Collective Bargaining Agreement between OCC and NTEU

The Collective Bargaining Agreement between the OCC and the NTEU (National Treasury Employees' Union) went into effect on March 22, 2005. The agreement covers employee working conditions, such as processes for filling jobs and offering assignment opportunities, provisions for administering leave, work scheduling and work location, and provisions for remediation. The OCC's compensation and benefits are not subject to negotiation, and therefore, not covered by the agreement. All OCC managers received comprehensive training on their roles and responsibilities in implementing the agreement. The OCC and NTEU delivered joint training to all employees. In addition, the OCC is establishing a program to assist managers in implementing and ensuring compliance with the agreement.

Enhanced Education Programs, Skill Maintenance, and Delivery

During the year, OCC refined the examiner pre-commission training program. A comprehensive framework of classes and on-the-job experience is in place to ensure that new examiners are trained systemically to reach full competency as soon as possible. The OCC also ensured that instruction and the training-team experiences are consistent with the strategic training approach and training best practices.

The OCC made significant progress in conceptualizing the OCC future leadership development program and management succession efforts. The Executive Committee's Human Capital Subcommittee agreed to the proposed programmatic framework based on input from an internal task group, with assistance from OPM. Aspects of the leadership development program are being implemented to meet the needs of our current managers and leaders, including an executive coaching pilot for mid-level managers and senior managers.

Significant changes in procedures for administering the Examiner Specialized Skills Program provided timely and accurate resource and budget tracking. The program addresses examiner competency gaps in several specialty areas. The program inventories and develops examiner skills in asset management, compliance (BSA/AML), capital markets, retail credit, and bank information technology.

Deployed Lean Six Sigma

Lean Six Sigma (LSS) is a fact-based approach for improving OCC's business processes, eliminating waste, improving compliance with statutory and regulatory requirements, and delivering best value to customers. The principles of LSS are to assess value from the customer's perspective; involve and align employees; collaborate across boundaries; and continuously improve knowledge in pursuit of perfection. LSS addresses management-related programs.

A total of 21 process improvement studies were initiated in FY 2005. Completed projects have resulted in cost savings of \$700,000, enabled the redirection of staff resources to higher priority needs, minimized the impact of complying with newly mandated or existing requirements, and matched internal customer expectations with service delivery.

Promoted Workplace Fairness and Alternative Resolutions

The OCC excels in promoting a professional, supportive environment for employees that attracts, develops, and retains a world-class team of professionals. In FY 2005, the OCC raised awareness and understanding of equal employment opportunity (EEO) and alternative dispute resolution by conducting special programs and developing training for managers and employees. The OCC provides additional training to employees serving as mediators and EEO counselors to comply with

the requirements of the Equal Employment Opportunity Commission and Department of the Treasury. In FY 2005, the number of complaints at the OCC fell to 0.2 percent per employee, significantly less than the government-wide average of 0.7 percent.

Employees and managers also benefited from OCC's continued commitment to its Fair Alternatives and Innovative Resolutions (FAIR) process to address workplace disputes that were not related to equal employment opportunity.

The OCC also made significant strides in increasing the efficiency and effectiveness of its discrimination investigation processes. Treasury authorized an OCC pilot program to test a re-engineered process that was developed using Lean Six Sigma. The pilot is intended to produce quality products and services, reduce processing costs, and ensure the agency not only meets, but exceeds, statutory and regulatory standards.

Enhanced OCC's Effectiveness through Audits and Program Analyses

Audit and program analysis initiatives during the year continued to enhance the effectiveness of the OCC workforce and strengthen its organizational performance and corporate governance. This year's initiatives included:

- An assessment of BSA/AML supervision.
- A lessons-learned review of a failed bank.
- A field office onsite validation to test the

adequacy of district quality assurance processes.

- An administrative systems cost/benefit analysis.
- An acquisition management benchmarking study.
- A review of process improvements related to a merit pay software application.
- An audit of timekeeping procedures.

Opened the District Human Resource Solutions Service Center

The OCC consolidated the human resource (HR) services of four district offices into one service center. The District HR Solutions Service Center in Denver opened for business in April 2005. The center is staffed by a team of HR professionals with experience in all areas of human resources, including recruitment, merit promotion, benefits, retirement, and payroll. Each district continues to have services in employee and labor relations, performance management, and entry-level bank examiner recruitment provided by its local human resources consultant. This new delivery model positions OCC's HR function to better meet the needs of its client base.

The OCC is benefiting immediately from its enhanced capability to monitor and adjust resources according to peak workload times, more effective processes for providing training and hiring new Human Resources staff, and greater consistency in the delivery of services.

Ultimately, OCC anticipates realizing overall cost reductions in the delivery of its services and improved customer satisfaction.

Ensured the Effective Use of Real Estate and Capital Assets

In FY 2005, the OCC successfully exercised a renewal option on its headquarters facility while negotiating modifications to the original lease to bring it into compliance with current federal leasing regulations. During FY 2005, the OCC leased, planned, designed and completed construction of the relocated Northeastern District Office and a District Service Center in Denver, as well as the expansion of the Western District Office. The OCC also relocated three field offices, a large bank office, and a satellite office, and initiated the process of relocating its Central District Office and four field offices before FY 2008. The OCC's capital real estate projects met targets for funding, schedule, and performance. To further control costs and increase productivity, a review of the field office relocation process yielded a leaner process and more useful customer educational tools.

Pursued Information Technology Initiatives

Web-based Services — OCC continued to enhance its Web-based products and services to better support OCC employees, bankers, and other customers. The OCC developed requirements for comprehensively enhancing its

Web services and began instituting governance processes to strengthen the management and effectiveness of its Web programs. In June 2005, OCC implemented a new look for its public Web site (www.occ.gov) to improve service to its 100,000 monthly visitors and reinforce OCC's identity as the premier bank regulatory agency. Additionally, 95 percent of all national banks are registered customers of the OCC's extranet site, National BankNet. In FY 2005, BankNet expanded its service by adding new tools to assist bankers with their business needs. New reporting forms improved the convenience and efficiency of communications with the OCC, and three existing applications were upgraded in response to user suggestions. Those changes resulted in an increase in usage of approximately 25 percent by customers, compared with FY 2004.

Information Security — OCC improved compliance with the Federal Information Security Management Act (FISMA); expanded the OCC secure messaging system that allows OCC employees to exchange sensitive information securely with national banks and other regulators; deployed additional intrusion detection sensors to identify possible compromises of network defenses; scanned all OCC Internet e-mail and Web browsing traffic for viruses and inappropriate content; tested the OCC's Internet security periodically using independent penetration tests; scanned the entire OCC network periodically to identify security vulnerabilities; maintained an incident response capability to respond to viruses, worms, and data-compromising incidents; and

avoided attacks by worms and viruses that crippled other public and private organizations.

At the end of FY 2005, the OCC had certified and accredited 100 percent of its information systems as required by FISMA.

Systems Development Life Cycle — The OCC completed and implemented its systems development life cycle (SDLC) process in April 2005 following an independent assessment. The SDLC is now used for all new system development projects. It provides a series of best practice standards that application developers use to mitigate risks associated with each phase of the cycle. The method also standardizes project documentation to ensure that agency software systems can be updated and modified as needed.

Mainframe Retirement — The OCC plans to retire its mainframe computer by September 2007. The project team is working with business units and other federal financial agencies to coordinate the retirement of mainframe applications and ensure efficient transfers of interagency data. To date, 23 of 63 mainframe applications have been retired.

e-TIME — In June 2005, the OCC implemented e-TIME, a Web-based time and attendance system. All OCC employees are now able to submit their time and attendance data online each pay period, and supervisors certify the data electronically before it is submitted to the OCC's payroll services provider. The data gathered in e-TIME relates not only to the time and attendance of employees, but also helps OCC track where

examinations are being conducted, and what resources are being used to accomplish OCC's mission. The system also interfaces with the OCC's Financial Management and Human Resource systems. This information technology initiative has facilitated final resolution of two prior-year audit findings and provides a solid foundation for important improvements to internal controls.

Licensing Information System — Testing and delivery of the LIS are scheduled for the last quarter of FY 2006. LIS, the replacement for the mainframe-based Corporate Activities Information System (CAIS), is the OCC's primary means for tracking and approving corporate applications from existing or prospective national banks.

Personal Backup Devices for All Personnel — The OCC distributed external hard drives to all employees to provide a convenient, cost-effective method to back up their computer hard drives. Each drive included usage instructions and a program to automate the process for backing up information.

Security Patches — The OCC has successfully implemented a System Management Server (SMS) to manage the automatic deployment of security patches to agency personal computers nationwide. The first enterprise-wide delivery of security patches was performed in July 2005, following extensive testing of the new environment. The automatic process is less intrusive, quicker, and more cost effective than the quarterly production of CD-ROMs formerly mailed to employees.

Tested and Updated Its Continuity of Operations Plan

The OCC Continuity of Operations Plan (COOP) formalizes and integrates IT recovery plans, relocation scenarios, alternative site logistics, emergency communication procedures, lines of succession, delegations of authority, and testing requirements into a comprehensive emergency management plan. The OCC tested elements of its COOP, including completing a comprehensive nationwide relocation/tabletop exercise; participating in the Treasury's Forward Challenge 05 and other interagency exercises; testing the IT recovery plan, completing internal and interagency communications drills; and practicing evacuation drills and shelter-in-place drills at OCC sites. The OCC updated its COOP based on lessons learned from those tests and exercises and incorporated requirements of the revised Federal Preparedness Circular 65 issued by the Federal Emergency Management Agency (FEMA). Key staff members completed training and were certified for the National Incident Management System.

Improved Emergency Preparedness

The OCC revised and enhanced processes and procedures for communicating with, and accounting for, employees during and after emergencies as well as communicating with national bank personnel during emergencies.

The OCC equipped its headquarters Emergency Operations Center (EOC) with secure communications, upgraded laptop computers, and independent heating and air conditioning units during FY 2005. The EOC allows the OCC Executive Committee to continue to perform critical functions during shelter-in-place emergencies. The OCC enhanced the COOP site shared with other federal agencies to ensure operational readiness at all times. The site meets all federal regulations from the Department of Homeland Security and FEMA for designated alternate operating facilities.

The OCC continued to work with the FBIIC to provide secure communications systems throughout the financial services sector's regulatory community, to coordinate emergency response efforts across agencies, and to identify threats within the financial services industry. The OCC has established protocols for emergency communications and purchased new secure communications equipment for its COOP sites.

The OCC's COOP and emergency preparedness plans were put to the test during Hurricane Katrina. The plans enabled the OCC to assess the status of employees and banks in the affected areas quickly. An emergency response team was put in place to ensure all employees required to evacuate had access to suitable housing and resources to help them through the crisis.

Management Challenges and High-Risk Areas

In FY 2005, the Department of the Treasury Office of Inspector General (OIG), identified concerns for the department that included anti-money laundering and Bank Secrecy Act compliance. Through the year, the OIG conducted related audits and evaluations to assess administration of BSA requirements throughout the department and evaluate the effectiveness of a memorandum of understanding among the financial regulators, including the OCC, and FinCEN. The OIG began an audit of the OCC's supervision and enforcement of anti-money laundering activities at national banks in late FY 2005. The OIG's findings and conclusions will supplement the OCC's internal assessment and action plans for improving BSA/AML supervision.

Letter from the Chief Financial Officer

I am pleased to present the OCC's financial statements as an integral part of the FY 2005 Annual Report and am pleased to say that for FY 2005 the independent auditors rendered an unqualified opinion with no material weaknesses. Strong financial management and oversight is a strategic focus of the OCC, and the stewardship and safeguarding of agency resources remain my highest priority.

Reflecting on FY 2005, I would like to discuss some key achievements. The OCC has again received a "green" rating under the President's Management Agenda (PMA) from the Department of the Treasury for improving financial performance and has met all core criteria for each component of the measure. The OCC is committed to achieving all of the financial-related elements contained in the PMA and recognizes the value the PMA brings to financial management.

The OCC is fully engaged in implementing the stringent new requirements for federal agencies to assess internal controls over financial reporting. The agency is working to document and test internal controls and is developing a communication strategy that will ensure that the OCC has a strong internal control environment throughout the agency. We are committed to implementing the new requirements and continuing our ability to provide reasonable assurance that internal controls are operating effectively across all areas of the agency.

The Budget and Finance Subcommittee, which I chair, continues to play an overarching role in managing the financial performance of the agency. During FY 2005, the subcommittee oversaw the budgeting process and made key recommendations in establishing the direction of the approved FY 2006 budget. The subcommittee focused on ensuring that the budget was not only prudent but that it directly links with the agency strategic goals and objectives. The subcommittee also serves an important role as an investment review board for non-Information Technology investments, such as leasing arrangements. This year the subcommittee reviewed all agency plans for fixed asset replacement including office space. Further, the subcommittee oversaw a review of the agency budget formulation process, which involved benchmarking the budget formulation process of other public and private sector firms. As a result, the timeline of the OCC budget formulation process decreased by two months, without sacrificing the scrutiny needed to ensure the development of a fiscally responsible budget.

Last year, I discussed the Office of Management's (OM's) commitment to best business practices and to becoming a strategic-based, metrics-driven, customer-focused organization. This year I would like to update you on our progress. In FY 2005, the OM implemented the Balanced Scorecard and launched a Lean Six Sigma program. These programs are aligned in their focus on the "Voice of the Customer" in everything that the OM does. The entire OM staff has received

training in Lean Six Sigma, and they have applied the methodology in a wide range of processes, including the monthly financial statement process. Thus far, the OM has completed 11 projects and has 10 on-going projects. We are already reaping the benefits of streamlined processes with reduced duplication and re-work.

Looking forward, the challenges of the coming year are reflective of the changing landscape in federal financial management. It is clear that the emphasis on internal controls will continue to increase, and that federal requirements will continue to evolve as efforts are made to strengthen the financial performance of the government as a whole. In closing, I would like to say that the OCC approach to meeting these challenges will be to ensure that the agency has the finest people and resources dedicated to these efforts and that managing and monitoring the effective and efficient use of agency resources will continue to be the mandate.



Thomas R. Bloom

Financial Discussion and Analysis

Strategic Focus

Financial management in today's environment presents challenges as the OCC responds to the increasing need for strong financial reporting, responsible and effective internal controls, and accountability for results. In FY 2005, the Office of Management's Financial Management department (FM) reconfirmed its dedication to these principles. Managing for results and using widely recognized best practices, such as the Balanced Scorecard and Lean Six Sigma, FM has made significant progress toward achieving key business goals. The Balanced Scorecard is a framework that allows FM to translate strategy into measurable results. Lean Six Sigma incorporates the voice of the customer into processes to ensure their efficiency and effectiveness.

Strategic Goals

The goal for FM is to become an efficient organization that reflects:

- An engaged workforce that is committed to the business strategy of operational excellence.
- A solid understanding of customer needs and expectations.
- Efficient processes that take advantage of system capabilities.

- An effective structure to handle varied levels of workload.
- A focus on developing staff competencies for the evolving organization.
- The effective management of projects and programs.

FM Strategy

The FM operating strategy for FY 2005 is shown in Figure 1. The FY 2005 strategy focuses on achieving and maintaining data integrity across all financial management system components. Data integrity assures FM's ability to provide consistently reliable information to OCC decision makers to manage their programs effectively. Throughout the year, FM carried out initiatives to ensure that all general ledger accounts were reconciled monthly at the transaction level, analyzed, properly supported by source documents, and adjusted as appropriate. To stabilize the core accounting system, FM engaged contractors to perform data analysis and an internal control evaluation. FM implemented all of the recommendations and finished the year with higher assurance in the system and data integrity than has been experienced during the past four years. FM began Lean Six Sigma business process reengineering projects for key processes, such as financial statement report preparation and requisitioning through disbursing. The benefits from such projects are just beginning, and staff expertise in using the Lean Six Sigma methodology is growing.

The FM strategy includes building a strong internal control environment to ensure that

internal controls are in place and operating effectively in all processes and activities. FM has begun implementing the new internal control documentation and testing requirements published during FY 2005 in OMB Circular A-123, Appendix A, "Internal Control over Financial Reporting." FM strengthened detection and prevention controls for erroneous payments during FY 2005 and began documenting all processes and controls related to financial reporting. As FM staff review and document processes, management and staff are improving internal controls in all areas.

The OCC has also established an OCC SAT to ensure that the new internal control requirements for federal agencies are implemented effectively and communicated

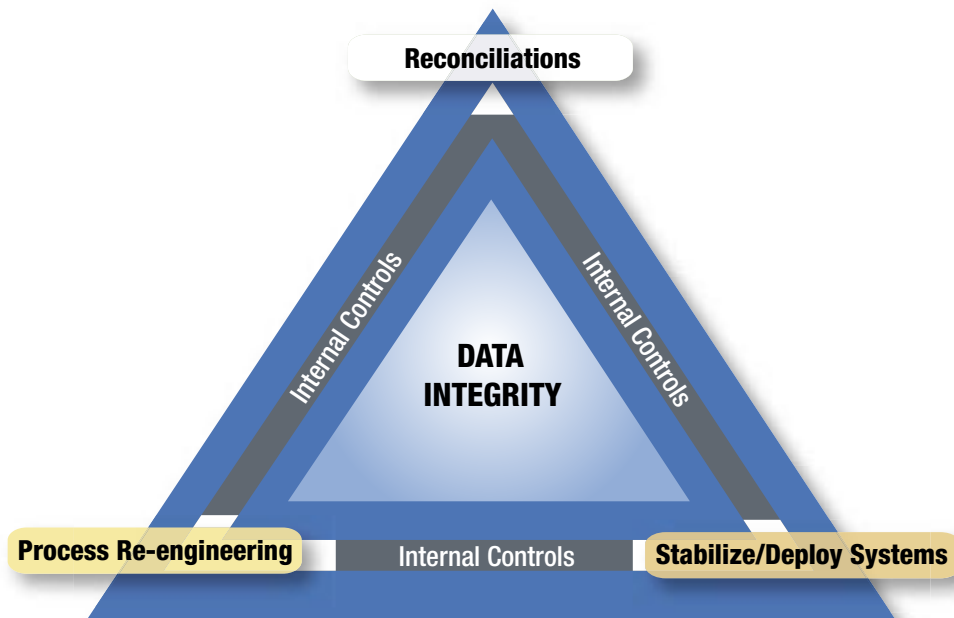
throughout the agency. The SAT will include an effective OCC communication strategy to continue strengthening the agency's internal control environment.

The FM Balanced Scorecard

The FM Balanced Scorecard covers performance measures and initiatives in four perspectives: customer, financial management, internal processes, and learning and growth.

The customer perspective ensures that FM identifies its customers and understands their needs and expectations. FM measures performance based on how well FM products and services meet customer needs and expectations. During FY 2005, FM began a communication strategy to meet regularly with customers and incorporate their input as FM

Figure 1: FY 2005 FM Operating Strategy



products and services are delivered. Using valuable input received from OCC customers, FM has improved the reporting capabilities of the OCC's financial management system. As the OCC's new time and attendance system, e-TIME, was deployed, FM fully incorporated the voice of the customer. From the customer perspective, the e-TIME deployment was clearly the most successful FM system implementation in the past several years. As part of an OM initiative, in August 2005 FM participated in an OCC-wide customer satisfaction survey that will be administered annually in the future. FM management and staff will use the results of this baseline survey to plan FY 2006 and later customer-focused initiatives.

The financial management perspective ensures that FM is using the OCC's financial resources to support the OCC's overall strategic financial goals and objectives. It serves as a mechanism to help FM use financial resources to produce the best value for the OCC. In FY 2005, primarily as a result of increased costs to resolve fully lingering system and data integrity issues, FM did not meet its Balanced Scorecard target of maintaining costs at or below 1.6 percent of total planned OCC operating costs. Actual performance was 1.68 percent. The FM operating strategy of achieving data integrity and strong internal controls increased costs once during FY 2005 and ensured that FM used the additional funds to achieve one of its highest priority business goals to stabilize the financial management system.

The internal processes perspective ensures that FM focuses on improving the processes that are most critical to achieving its business goals. As reflected in the FY 2005 operating and strategic business strategies, the processes that lead to financial reports received the most attention and effort this year. FM initiated several Lean Six Sigma projects, incorporating the voice of the customer as an integral part of the analysis. FM used Lean Six Sigma to enhance the financial reporting production cycle for disseminating financial information to customers. The newly streamlined approach allows FM to produce accurate monthly financial status reports that more fully meet timeliness and reliability standards and the needs of OCC decision makers. FM also began a project to streamline the process for requisitioning goods and services and the payment of invoices. The project thus far has provided useful data to help identify the areas that deserve the most re-engineering attention. Using this data, FM is now beginning four highly focused follow-on projects that will also provide value to its customers.

The learning and growth perspective ensures that FM identifies the critical staff skills needed to achieve its business goals and that management works with staff to ensure those skills are fully developed. During FY 2005, FM participated in OM's initiative to conduct annually the Gallup Q12 employee engagement survey. It also began working on action plans for each unit to improve employee engagement over time. The survey results have been distributed, and each FM unit began developing

action plans to address the survey area identified as most important. FM has begun the transfer of critical knowledge from on-site contractors to its systems staff, and either advanced or refresher training was provided to many FM staff members from the financial system vendor, PeopleSoft. During FY 2005, 100 percent of FM employees received training in Lean Six Sigma, and many have participated in projects this year.

Additional Accomplishments

FM's FY 2005 performance demonstrates that the new strategy is helping to improve OCC financial management now and for the future. Additional notable FM accomplishments during FY 2005 include:

- Deployed e-TIME, a Web-based, self-service time and labor system that replaces the OCC's legacy time entry system.
- Resolved all prior year financial statement findings and consistently met Treasury's deadline for a three-day close for producing financial statements.
- Re-engineered the formal process for data retention and disposition of federal records.
- Increased the use of performance-based contracting.
- Led the development of the new OM information technology strategy.

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. This year the FM organization structure was expanded to include agency records management and procurement, and an upcoming reorganization of the financial management areas of FM was recently announced. As the reorganization is implemented in FY 2006, FM functions and workload will be better aligned to support the achievement of business goals. FM will continue to implement the new A-123 internal control requirements, and to meet the assessment and reporting deadlines for FY 2006. The OCC is considering implementing an e-Travel solution in FY 2006 and pursuing core financial management systems investments to modernize operations in line with OMB's recent Lines of Business guidance.

Funding Sources and Uses

Funding Sources

The OCC does not receive appropriations. The Comptroller, in accordance with 12 USC 482, establishes budget authority for a given fiscal year. The total budget authority available for use by the OCC in FY 2005 was \$519.4 million and \$476.9 million in FY 2004. The OCC's operations are funded primarily by assessments collected from national banks and other income, including interest on investments in U.S. Treasury securities.

Total revenue recognized for FY 2005 amounted to \$577.7 million compared to \$497.8 million in FY 2004. The increase of \$79.9 million in total revenue recognized is due mostly to increased assessments (\$75.5 million) as a result of the more than 26.2 percent growth in bank assets, which includes the assets of new large banks joining the national banking system in FY 2005. Table 9 depicts the components of total revenue recognized for FY 2005 and FY 2004.

Investment income is earned on the investment of available funds in U.S. Treasury securities. The increase in investment income for FY 2005 is due largely to the \$125.7 million increase in the book value of OCC's portfolio during the fiscal year as a result of investing the increased revenue from assessments. The book value of the OCC's portfolio at September 30, 2005 was \$607.3 million compared to \$481.6 million at September 30, 2004.

Bank Assets and Assessment Revenue

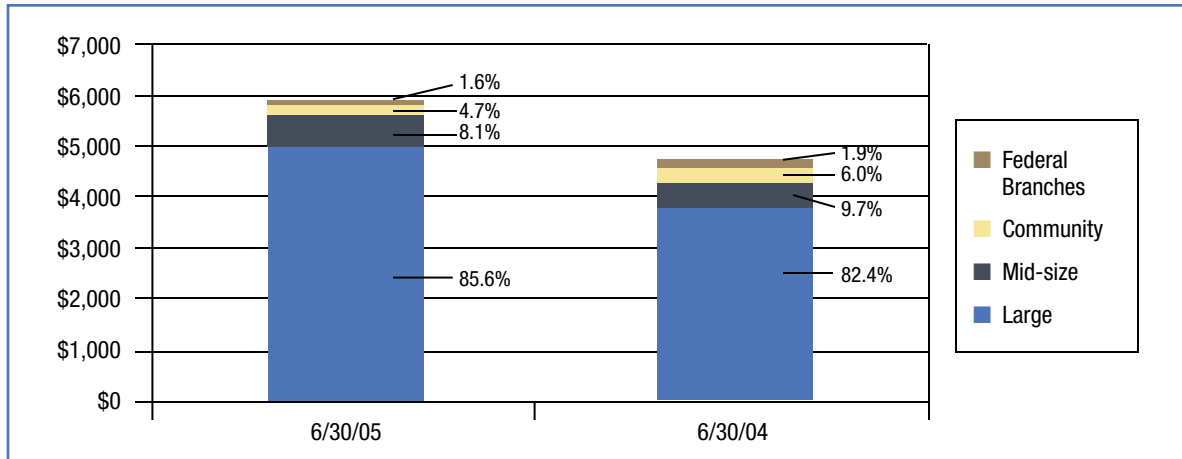
In FY 2005, the composition of national bank assets changed compared with FY 2004. For the same period, the percentage of total OCC assets attributable to large banks increased from 82.4 percent to 85.6 percent, while the mid-size, community, and federal branches share of total assets declined. Accordingly, large bank's share of total assessment revenue increased by 5.4 percentage points while mid-size and community banks' shares declined by 2.3 and 2.9 percentage points, respectively. National bank asset growth and the movement of assets into the national banking system were the impetus for higher assessments for FY 2005. Figure 2 shows the composition of national bank assets by large banks, mid-size banks, community banks, and federal branches for FY 2005 and FY 2004.

Table 9: Components of Total Revenue, FY 2005 and 2004 (in millions)

	FY 2005	FY 2004	Change
Assessments	\$557.8	\$482.3	\$75.5
Investment Income	\$17.0	\$11.3	\$5.7
Other Sources ¹	\$2.9	\$4.2	\$(1.3)
Total Revenue	\$577.7	\$497.8	\$79.9

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

Figure 2: Composition of National Bank Assets as of June 30, 2005 and 2004 (in billions)



Funding Uses

The OCC classifies its funding uses as pay, discretionary, and fixed. Pay encompasses payroll-related costs; discretionary reflects all other funding uses, such as contractual services, travel, training, and capital projects; and fixed primarily includes rent, utilities, and office maintenance. In FY 2005, the OCC's total funds used were \$500.2 million, an increase of 8.0 percent over the level in FY 2004. Of the total funds used in FY 2005, \$335.6 million was categorized as pay, \$128.6 million as discretionary, and \$36.0 million as fixed. The OCC's operations are service-intensive; therefore, the majority of funds are used for pay. The OCC experienced a \$20.6 million increase in non-pay funds used primarily for training, travel, relocations, and contractual services. Figure 3 depicts the uses of the OCC's funding for FYs 2005 and 2004.

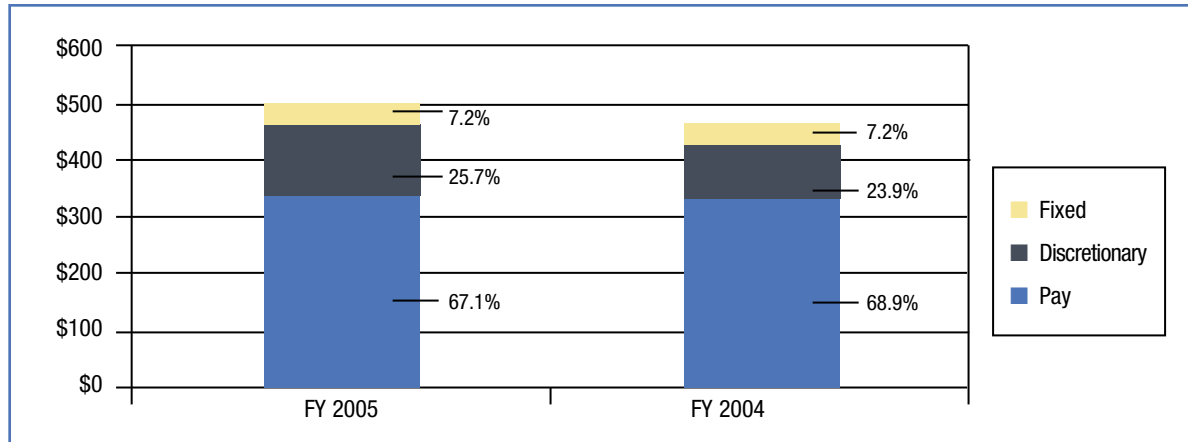
Financial Review

The OCC received an unqualified opinion on its FY 2005 and 2004 financial statements. The financial statements include a Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, Financing, and Custodial Activities. The financial statements and notes are presented on a comparative basis, providing financial information for FYs 2005 and 2004. These financial statements summarize the OCC's financial activity and position. Highlights of information presented on the financial statements follow.

Balance Sheet

The Balance Sheet, as of September 30, 2005 and 2004, presents the resources that are owned by the OCC and available for use (assets), the resources due to others or held for future recognition (liabilities), and the resources

Figure 3: FY 2005 and 2004 Funding Uses (in millions)



that comprise the residual (net position). For clarity in presentation, assets and liabilities are differentiated between those resulting from transactions between the OCC and other federal entities (intragovernmental) and transactions between the OCC and non-federal entities (with the public).

Composition of and Trends in OCC Assets

The Balance Sheet shows that total assets as of September 30, 2005, increased by \$130.9 million from their level at September 30, 2004. The increase of \$124.9 million in Investments and Accrued Interest was attributed to a rise in assessment collections during FY 2005. The increase of \$6.0 million in Property and Equipment was due primarily to hardware, software, and telecommunications equipment purchases. Figure 4 shows the composition of the OCC’s assets.

Composition of and Trends in OCC Liabilities

Total liabilities, as of September 30, 2005, increased by a net of \$32.0 million over their level at September 30, 2004. The OCC’s liabilities are largely comprised of deferred revenue, accounts payable, and accrued liabilities. Deferred revenue represents the unearned portion of semiannual assessments that have been collected but not yet earned. The increase of \$21.6 million in deferred revenue was due to a rise in assessment collections during FY 2005. The increase of \$9.0 million in accounts payable and accrued liabilities was due primarily to an increase in payroll and employee benefits over last year and to disbursement timing differences. Figure 5 illustrates the composition of the OCC’s liabilities.

Figure 4: Composition of FY 2005 and FY 2004 Assets (in millions)

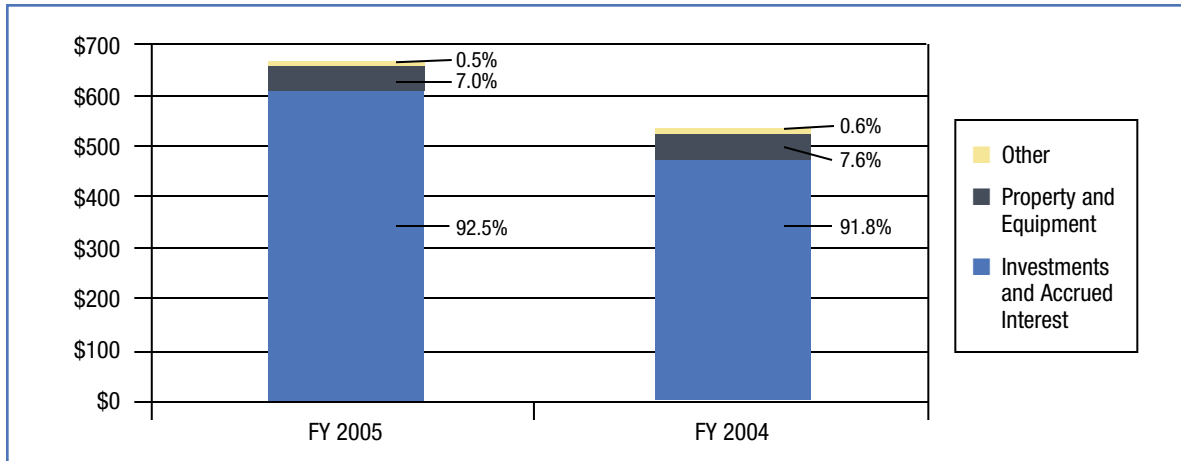


Figure 5: Composition of FY 2005 and 2004 Liabilities (in millions)

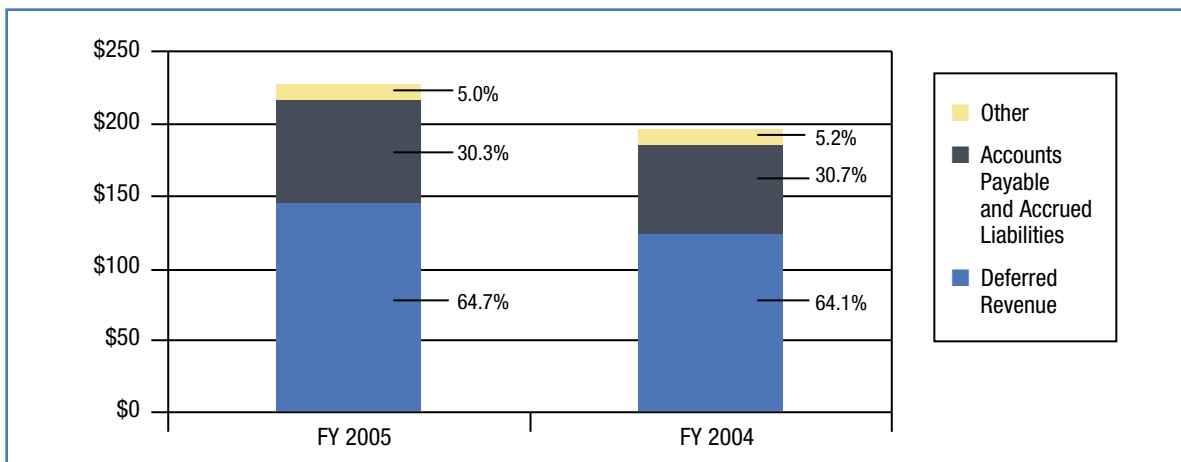
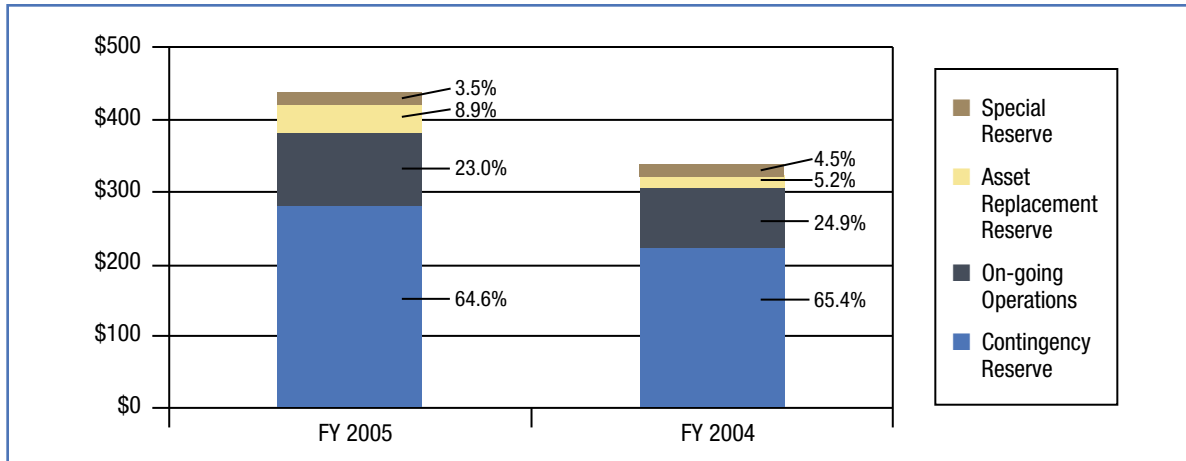


Figure 6: Composition of FY 2005 and 2004 Net Position (in millions)



Composition of and Trends in OCC Net Position

The OCC's net position of \$434.4 million as of September 30, 2005, and \$335.5 million as of September 30, 2004, represents the cumulative net excess of the OCC's revenues over its cost of operations since inception. The net position is presented on both the Balance Sheet and the Statement of Changes in Net Position. As discussed in the next section, the OCC reserves a significant portion of its net position to supplement resources made available to fund the OCC's annual budget and to cover foreseeable but rare events. The OCC also earmarks funds for on-going operations to cover undelivered orders, the consumption of assets, and capital investments. Figure 6 shows the composition of the OCC's net position.

Reserves

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

assets. The Special Reserve reduces the effect of unforecasted shortfalls or unbudgeted and unanticipated requirements.

Statement of Net Cost

The Statement of Net Cost presents the full cost of operating the OCC's programs for the years ended September 30, 2005, and 2004. The net cost of operations is reported on the Statement of Net Cost, the Statement of Changes in Net Position, and on the Statement of Financing. The OCC uses an activity-based time allocation process to allocate costs between the programs. Costs are further differentiated between those resulting from transactions between the OCC and other federal entities (intragovernmental) and transactions between the OCC and non-federal entities (with the public). The full cost includes contributions made by OPM on behalf of the OCC to cover the cost of the Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS) plans, totaling \$22.9 million in FY 2005 and \$22.5 million in FY 2004. The full program cost increased by \$29.5 million, primarily due to increases in pay and benefits, contractual services, imputed costs, and non-capitalized IT investments. The full cost is reduced by earned revenues to arrive at net cost. Earned revenues increased by \$79.9 million because of a rise in assessments collected during FY 2005.

Statement of Changes in Net Position

The Statement of Changes in Net Position presents the change in the OCC's net position resulting from the net cost of the OCC's operations and financing sources other than exchange revenues for the years ended September 30, 2005, and 2004. Imputed financing from costs absorbed by others, increased by \$0.4 million. The OCC's financing source resulted from a contribution of \$22.9 million in FY 2005 and \$22.5 million in FY 2004, by the OPM toward the OCC's FERS and CSRS retirement plans.

Statement of Budgetary Resources

The Statement of Budgetary Resources presents the budgetary resources available to the OCC for the year, the status of these resources at the end of the year, and the net outlay of budgetary resources at the end of the year. The OCC obligated 49.0 percent of its budgetary resources for the year. The remaining 51.0 percent is available to cover FY 2006 first quarter operations and OCC's reserves.

Statement of Financing

The Statement of Financing demonstrates the relationship between the OCC's proprietary (net cost of operations) and budgetary accounting (net obligations) information. For FY 2005, the statement shows \$85.2 million in

excess resources available to finance activities, a net increase of \$49.1 million over September 30, 2004. This net increase resulted from an \$87.2 million increase in resources available netted against the increase of \$37.7 million in resources used (obligations incurred). The increase in net resources available is due primarily to increased assessments and imputed financing, while the increase in resources used results primarily from various office space and IT investments as well as pay and employee benefits.

Statement of Custodial Activities

The Statement of Custodial Activities identifies revenues collected by the OCC on behalf of others. These revenues result primarily from CMPs that are assessed through court enforced legal actions against a national bank and/or its officers. CMP collections are transferred to the Department of the Treasury's General Fund.

Prompt Payment

The Prompt Payment Act and the OMB Circular A-125 require agencies to make payments on time, pay interest penalties when payments are late, and take discounts only when payments are made on or before the discount date. The OMB's goal is a prompt payment rate of greater than 98 percent. The OCC's prompt pay rate was 99.6 percent in FY 2005 as compared to 98.7 percent in FY 2004. Table 10 summarizes the OCC's prompt payment performance for FYs 2005 and 2004.

Electronic Funds Transfer

The use of EFT rather than a paper check for payments provides greater control over payment timing and reduces payment cost. During FY 2005, the OCC continued to maximize the use of payment mechanisms as required by the Debt Collection Improvement Act of 1996. Table 11 summarizes EFT usage for FYs 2005 and 2004.

Table 10: Prompt Payment Performance, FY 2005 and 2004

	FY 2005 Amount	FY 2004 Amount	FY 2005 Number	FY 2004 Number
Invoices paid	\$81,266,691	\$68,819,284	22,472	21,301
Invoices paid late	\$2,247,318	\$4,645,377	81	281
Interest penalties paid	\$1,198	\$6,642	53	196

Table 11: Electronic Funds Transfer Performance, FY 2005 and 2004

	FY 2005	FY 2004
Vendor payments	99.5%	99.4%
Employee payments	100.0%	99.9%

Erroneous Payments

The erroneous payments program meets the criteria of the Improper Payments Act of 2002 (IPIA) to support the Department of the Treasury’s strategic goal. The goal is to: Ensure Professionalism, Excellence, Integrity and Accountability in the Management and Conduct of the Department of the Treasury. The OCC analyzed payments (excluding payroll) made during FY 2005 and identified 23 erroneous payments totaling \$30,224. The OCC corrected and recovered all erroneous payments made during the year.

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

Methodology for Identifying Improper Payments

The OCC conducts both pre-payment reviews and post-payment audits to identify improper or erroneous payments. 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 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 Lean Six Sigma review of the non-payroll process to bring about efficiencies and to determine the need for additional controls.

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

Limitations to the Financial Statements

The financial statements have been prepared to report the assets, liabilities, and net position of

the OCC, its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, and its custodial activity pursuant to the requirements 31 USC 3515(b).

While the statements have been prepared from the books and records of the OCC in accordance with GAAP and the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity.

Systems, Controls, and Legal Compliance

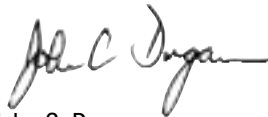
This section of the report provides information on OCC's compliance with FMFIA, FFMIA, and other legal and regulatory requirements.

Fiscal Year 2005 Annual Assurance Statement

The Office of the Comptroller of the Currency (OCC) has made a conscientious effort during fiscal year 2005 to meet the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). 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 all relevant requirements.
- h) Continuity of operations planning is sufficient to reduce risk to reasonable levels.
- i) Financial management systems are in compliance with federal financial system standards.

For all OCC responsibilities, I can provide reasonable assurance that our office achieved the above management control objectives during FY 2005. Specifically, this assurance is provided relative to Sections 2 and 4 of the Federal Managers' Financial Integrity Act. I can further assure that our financial management systems are in substantial compliance with the requirements imposed by the Federal Financial Management Improvement Act.



John C. Dugan
Comptroller of the Currency

Federal Managers' Financial Integrity Act of 1982

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

- Programs achieve their intended results.
- Resources are used in a manner consistent with our mission.
- Programs and resources are protected from waste, fraud, and mismanagement.

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

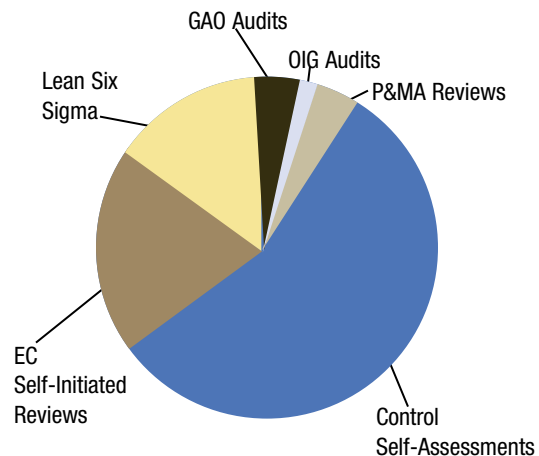
The OCC's evaluation of management controls, financial systems, and administrative processes for FY 2005 revealed that, as a whole, OCC programs are operating efficiently and effectively. The review revealed no material management control weaknesses that impair OCC's ability to fulfill its mission or significantly weaken established safeguards against waste, fraud, or mismanagement.

Management Control Program

The OCC's management control program is a continuous process extending to each major program with oversight responsibility assigned to the Program and Management Accountability Division (P&MA). To ensure identified weaknesses are responded to appropriately, the Executive Committee's Audit Subcommittee provides a forum for monitoring progress, resolving problems, and developing consensus recommendations regarding issues that arise from management control reviews, quality assurance activities, and audits. Each Executive Committee member maintains responsibility for protecting the resources under his or her direction, and is accountable for ensuring that new and existing programs are managed efficiently and effectively, to protect resources from waste, fraud, and mismanagement.

Figure 7 summarizes the distribution of management control assessments for FY

Figure 7: FY 2005 Review Activities



2005. P&MA completed 9 internal reviews and administered 120 management control self-assessments during this period. These reviews are in addition to self-initiated program reviews completed at an Executive Committee member's direction. The Government Accountability Office (GAO) issued an additional nine audit reports resulting in no action items for OCC. The OIG issued one audit report resulting in one recommendation, which has been implemented. No issues directly related to OCC are highlighted in GAO's 2005 high-risk report.

Executive Committee Program Certifications

In support of the management control program, each Executive Committee member submits a departmental certification that, in combination with the aforementioned internal reviews and external audits, forms the analytical basis of the annual Assurance Statement. The EC certifications are based on information gathered from various sources, including executive management's personal knowledge of day-to-day operations as supplemented by quality assurance activities, program reviews, and other management-initiated evaluations.

Risk Assessment Program

During FY 2005, P&MA worked closely with the Audit Subcommittee to formulate and establish a risk assessment program to determine risks and mitigating factors relative

to the strategic goals and objectives outlined in OCC's Strategic Plan. This process resulted in the development of P&MA's Audit Plan for FY 2005 and FY 2006.

Audited Financial Statements

The Government Management Reform Act of 1994 amended the requirements of the Chief Financial Officers Act by requiring preparation and audit of department-wide financial statements for 24 major executive departments and agencies. As a bureau of the U.S. Department of the Treasury, OCC supports department-wide compliance with this requirement by means of an annual, independent audit of its financial statements.

Federal Financial Management Improvement Act of 1996

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

OCC implemented a FFMIA-compliant system in FY 2002, and upgraded to a Web-based platform during FY 2003. The system substantially complies with federal financial management system requirements.

Other Key Legal and Financial Regulatory Requirements

OCC is required to implement controls and periodically submit information to the Department of the Treasury in support of various department-wide compliance initiatives. Specific examples include compliance under FISMA, IPIA, the Erroneous Payments Recovery Act of 2002, and GPRA. The OCC continues to monitor its performance under these acts and has been responsive to each related data call from Treasury. The FY 2005 management control assessment considered OCC's level of compliance with each of these acts and concluded, with reasonable assurance, that OCC is achieving satisfactory results in each case.

OCC's Next Steps

The OCC will continue to closely monitor financial sectors and markets in FY 2006. The proliferation of non-traditional home mortgage products, rapid growth of home equity lines of credit, and the acceleration of home prices require close attention. A sudden and sustained rise in interest rates, or drop in housing prices, could present potential vulnerabilities to real

estate-related portfolios, as well as other consumer-lending portfolios.

The OCC will continue its focus on compliance with the Bank Secrecy Act and anti-money laundering regulations, as well as maintain a watchful eye on issues related to privacy, predatory lending, and fairness in home mortgage lending practices.

Corporate governance, accounting transparency, strong internal controls and audit, and compliance programs remain important points of focus for the banking industry — and large banks in particular.

The OCC will work to ensure that banks that rely on models to measure risk and determine minimum regulatory capital, develop and implement effective control mechanisms and validation practices to govern the proper use of such models. This work will be done in accordance with the revisions to the Basel Capital Accord.

Credit quality, adequacy of ALLL, off-balance-sheet activities, liquidity, and interest-rate risk management will continue to require close supervisory attention by the agency.

Industry consolidation and earnings pressures will continue to create incentives for banks to reduce overhead costs, outsource technology operations and labor-intensive tasks to third party vendors, and search for new or expanded products and services. Assessing the adequacy and effectiveness of how banks manage the resulting risks will be a critical component of OCC's supervisory strategies.

In the aftermath of Hurricane Katrina, national banks in affected areas resumed services as quickly as possible and were operating within a few days, although some branches and facilities remained closed. Since then, national banks continue to cooperate with each other, their state bank counterparts, and federal, state and local officials to accommodate the needs of communities struck by the disaster. The OCC will remain in contact with these institutions to provide assistance as recovery and rebuilding efforts continue. Through the bank supervision process, the OCC will work with its federal counterparts to monitor the long-term economic impact of this disaster and take appropriate bank supervisory actions.

INDEPENDENT AUDITORS' REPORT



CERTIFIED PUBLIC ACCOUNTANTS | MANAGEMENT CONSULTANTS

Independent Auditors' Report on Financial Statements

The 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, 2005 and 2004, and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity for the years then ended. These financial statements are the responsibility of the management of OCC. Our responsibility is to express an opinion on these financial statements based on our 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 the Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OCC as of September 30, 2005 and 2004, and its net costs, changes in net position, budgetary resources, the reconciliation of budgetary obligations to net costs, and custodial activities for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information in the 2005 Profile, Operations and Accomplishments, and Management sections of OCC's fiscal year 2005 Annual Report is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and accordingly, we express no opinion on it.

Member of the American Institute of Certified Public Accountants

1717 K STREET, NW SUITE 801
WASHINGTON, DC 20006
P 202-637-1777 F 202-637-1778
WWW.GKACPA.COM

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

In accordance with *Government Auditing Standards*, we have also issued reports dated October 27, 2005, on our consideration of the OCC's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and these reports should be read in conjunction with this report in considering the results of our audits.

A handwritten signature in black ink that reads "Lisa Lee, Kanga & Associates". The signature is written in a cursive, flowing style.

October 27, 2005

Independent Auditors' Report on Internal Control over Financial Reporting

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


We have audited the balance sheets of the Office of the Comptroller of the Currency (OCC) as of September 30, 2005 and 2004, and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity for the years then ended, and have issued our report thereon dated October 27, 2005. 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 Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

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

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

In addition, with respect to internal control related to performance measures determined by management to be key and reported in the 2005 Profile, Operations and Accomplishments, Management, and the Appendix sections of the OCC's Annual Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and, accordingly, we do not provide an opinion on such controls. We noted no matters involving internal control and its operation that we considered to be material weaknesses as defined above. However, we noted other matters involving internal control and its operation that we have reported to the management of OCC in a separate letter dated October 27, 2005.

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



October 27, 2005

This page left intentionally blank.

Independent Auditors' 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 of the Office of the Comptroller of the Currency (OCC) as of September 30, 2005 and 2004, and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity, for the years then ended, and have issued our report thereon dated October 27, 2005. 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, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

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

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

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

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

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

Isabel, Kanya + Account

October 27, 2005