

## Section Five

# Financial Management Discussion and Analysis

### Letter From the Chief Financial Officer

I am pleased to present the OCC's financial statements as an integral part of the *Fiscal Year 2012 Annual Report*. For FY 2012, our independent auditors have again rendered an unqualified opinion with no material internal control weaknesses. The financial statements include the assets and liabilities transferred to the OCC from the OTS on July 21, 2011, as required by Dodd–Frank, and are presented in accordance with generally accepted accounting principles (GAAP).

In FY 2012, the OCC provided unqualified assurance that its internal controls over financial reporting operate effectively and have no material weaknesses in their design or operation. The OCC continuously strives for strong internal controls by implementing the guidance found in the Office of Management and Budget's (OMB) Circular A-123, "Management's Responsibility for Internal Control, Appendix A—Internal Control Over Financial Reporting."

The determination, made by the OCC and required by OMB, was based on the OCC Financial Management Department's detailed, annual risk assessment of the financial statements and rigorous tests of controls. The OCC highly values such an evaluation, as it attests to the agency's strong internal control environment, which has never been more important to the federal government. In fact, the majority of the findings noted in the "Independent Auditor's Report on Internal Control Over Financial Reporting" were self-identified by our internal controls staff, and plans of corrective action already have been implemented for all of the findings.

As a nonappropriated federal agency, the OCC receives the majority of its funding by collecting assessment fees from national banks and federal

savings associations. The revenue from these fees is used to fund the OCC's operations. In addition to assessment revenue, the OCC receives interest income on its long-term investments and rental income from the occupancy agreement in place with the CFPB.

The OCC has long recognized the importance of spending only what is necessary to accomplish its mission. Personnel, contractual services, and rent are the OCC's three leading costs, representing 76 percent of its total annual operating budget. In FY 2012, the OCC incurred a one-time cost of \$86.2 million to fully fund the defined benefit pension plan assumed from the OTS. This pension plan, which has not been open to new entrants since 1989, covers 230 current OCC employees and 551 retirees. Dodd–Frank requires that the OCC maintain this plan and be responsible for the ongoing obligation to fund it. After absorbing this and other costs related to the OTS integration, the OCC's overall financial condition remains sound.

At the end of each fiscal year, unused budgetary funds are put into financial reserves. These financial reserves have allowed the OCC to maintain its bank assessment rate structure and, except for annual inflation adjustments, avoid assessment fee increases since 2002. In FY 2012, the asset replacement reserve was utilized to facilitate the consolidation of several office locations in Washington, D.C., into one headquarters



Thomas R. Bloom, Senior Deputy Comptroller for Management and Chief Financial Officer

building. Leasehold improvements and relocation costs are two of the largest costs involved in this project, which is to be completed in February 2013.

In addition to spending only what is necessary to accomplish its mission, the OCC focuses on reducing costs wherever feasible. To that end, the Office of Management (OM) operates a Lean Six Sigma (LSS) program to ensure that administrative processes are continually reviewed and improved. The LSS program is based on a managerial concept that aims to eliminate seven kinds of waste, referred to as Defects, Overproduction, Transportation, Waiting, Inventory, Motion, and Over-Processing. The program has produced significant cost savings. Since the program's implementation in 2005, 199 LSS projects have been completed with total first-year cost savings or avoidance of \$33.6 million. This fiscal year alone, the OCC completed 49 business process improvement or LSS projects resulting in \$1.3 million in total cost

savings. All OM executives have received formal LSS training, and the OCC has 60 staff members who are certified as Master Black Belts, Black Belts, or Green Belts and 33 employees who are actively pursuing their certifications.

With the successful integration of the OTS realized, the OCC continues to focus on its core mission: to supervise, regulate, and charter national banks and federal savings associations. The OCC's strong internal controls environment, solid financial resources, and process improvement programs ensure successful operations in FY 2013 and beyond.



Thomas R. Bloom  
Senior Deputy Comptroller for Management  
and Chief Financial Officer

## Financial Summary

The OCC received an unqualified opinion on its FY 2012 and FY 2011 financial statements. 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 and notes on a comparative basis, providing financial information for FY 2012 and FY 2011. The financial statements were prepared from the OCC’s accounting records in conformity with GAAP. The financial statements include the assets and liabilities that were transferred to the OCC from the OTS on July 21, 2011, the transfer date, as required by Dodd–Frank. The financial statements, followed by notes and the auditor’s opinion, begin on page 42.

The following sections of the report address the OCC’s financial activities in FY 2012 and FY 2011.

### Assets

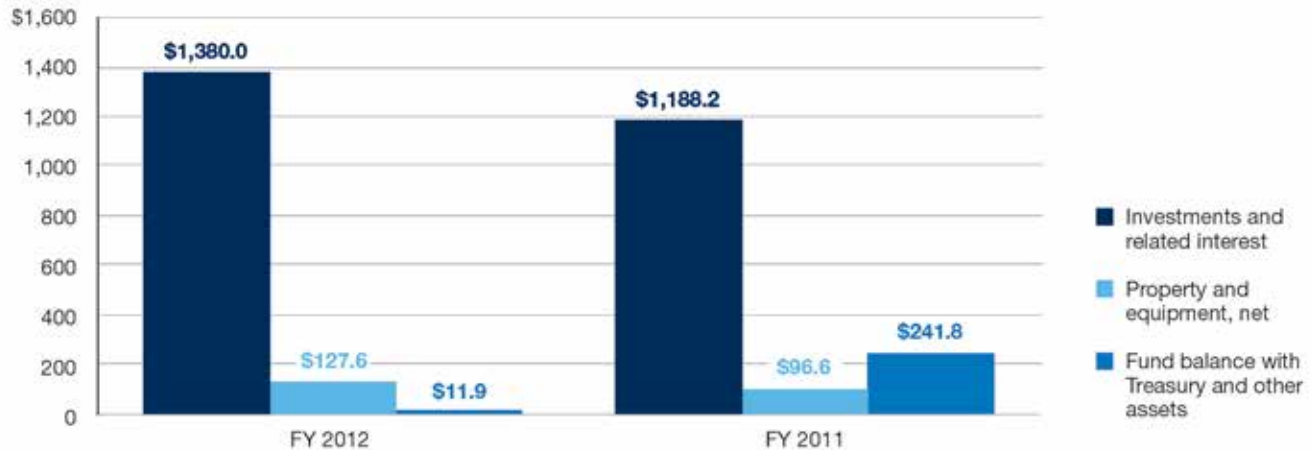
The OCC’s assets include both “entity” and “non-entity” assets. The OCC uses entity assets, which

belong to the agency, to fund operations. Non-entity assets are assets that the OCC holds on behalf of another federal agency. The OCC’s non-entity assets presented as accounts receivable are CMPs due the federal government through court-enforced legal actions.

As of September 30, 2012, total assets were \$1,519.5 million, a decrease of \$7.1 million, or 0.5 percent, from the total assets of \$1,526.6 million reported on September 30, 2011. Factors contributing to the net reduction in total assets include a decrease of \$228.2 million in the fund balance with Treasury (FBWT) used for OCC FY 2012 operating expenses and increases in investments and related interest of \$191.8 million and in property and equipment of \$31.0 million. The increase in property and equipment resulted primarily from the addition of assets related to the leasehold improvement project and equipment purchases for the OCC’s new headquarters building.

Figure 6 shows the OCC’s composition of assets for FY 2012 and FY 2011.

**Figure 6: Composition of Assets (in Millions)**



Source: OCC financial system data.

## Investments

Investments and related interest on September 30, 2012, were \$1,380.0 million, compared with \$1,188.2 million a year earlier. The market value of the OCC's investment portfolio in excess of book value rose this year to \$40.3 million from \$38.9 million on September 30, 2011. The OCC invests available funds in non-marketable U.S. Treasury securities issued through the Treasury Department's Bureau of Public Debt in accordance with the provisions of 12 USC 481 and 12 USC 192. The OCC manages risk by diversifying its portfolio across maturities within established parameters. Diversifying maturities of the individual securities is meant to help manage the inherent risk of interest-rate fluctuations.

The OCC's investment portfolio is composed of overnight and longer-term securities. The portion of the portfolio comprising longer-term (core) investments as of September 30, 2012, and September 30, 2011, was \$846.5 million, or 62.3 percent, and \$645.4 million, or 55.1 percent, respectively. Because of the increase in core investments, the weighted average maturity of the portfolio rose to 2.5 years as of September 30, 2012, compared with 1.6 years as of September 30, 2011. The portfolio earned an annual yield for FY 2012 of 1.9 percent, compared with 2.3 percent in FY 2011.

The OCC calculates annual portfolio yield by dividing the total interest earned during the year by the average ending monthly book value of investments.

## Liabilities

The OCC's liabilities represent the resources due to others or held for future recognition and are composed largely of deferred revenue, accrued liabilities, and accounts payable. Deferred revenue represents the unearned portion of semiannual assessments that have been collected but not earned.

As of September 30, 2012, total liabilities were \$446.0 million, a net increase of \$15.2 million, or 3.5 percent, over total liabilities of \$430.8 million on September 30, 2011. The increase of \$5.8 million, or 2.5 percent, in deferred revenue was a result of greater assessment collections during FY 2012, the majority of which are attributable to assessments collected from federal savings associations that the OCC supervises. The majority of the increase of \$11.1 million, or 8.3 percent, in accounts payable and accrued liabilities was primarily the result of additional accruals related to the leasehold improvement project for the OCC's new headquarters building.

Figure 7 illustrates the OCC's composition of liabilities for FY 2012 and FY 2011.

**Figure 7: Composition of Liabilities (in Millions)**



Source: OCC financial system data.

## Net Position

The OCC's net position of \$1,073.5 million as of September 30, 2012, and \$1,095.8 million as of September 30, 2011, represents the cumulative net excess of the OCC's revenues over the cost of operations. The net position is presented on both the Balance Sheets and the Statements of Changes in Net Position.

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 or new requirements and opportunities. The OCC also sets aside funds for ongoing operations to cover undelivered orders, the consumption of assets, and capital investments.

Figure 8 shows the OCC's composition of net position for FY 2012 and FY 2011.

## 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 is available to reduce the impact on the OCC's operations of significant revenue fluctuations, of unanticipated expenses resulting from foreseeable but rare events beyond the OCC's control, or of new requirements and opportunities. Examples of such events might include a major change in the federal banking system, a natural disaster that affects one of the OCC's facilities, or significant impairment of the agency's physical infrastructure that interferes with the OCC's ability to accomplish its mission.

These reserves also allow the OCC to fund special onetime needs, such as the funding of the Pentegra Defined Benefit Plan liability assumed from the OTS

**Figure 8: Composition of Net Position (in Millions)**



Source: OCC financial system data.

in FY 2011 and those that arose from the regulatory restructuring required by Dodd–Frank.

The asset replacement reserve is for the replacement of information technology investments, leasehold improvements, and furniture replacement for future years. In FY 2012, the asset replacement reserve was used to pay for leasehold improvements and relocation costs as part of the OCC’s efforts to consolidate several office locations in Washington, D.C., into one headquarters building.

## Revenues

The OCC’s operations are funded primarily by assessments collected from national banks and federal savings associations, from interest received on investments in U.S. Treasury securities, and from the rent that the CFPB pays the OCC for leasing office space. The OCC, 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 2012 was \$1,226.1 million, which represents an increase of \$349.6 million, or 39.9 percent, over the \$876.5 million budget in FY 2011. The FY 2012 budget increase reflects a full year of operating costs as a combined entity, which includes the staff that transferred from the OTS.

Total FY 2012 revenue of \$999.7 million reflects a \$156.5 million, or 18.6 percent, increase over

FY 2011 revenues of \$843.2 million. The majority of the increase, which was only slightly offset by minor decreases in other revenues, can be attributed to the assessments received from federal savings associations that were not under OCC supervision as of June 30, 2011. Total assets under OCC supervision rose, as of June 30, 2012, to \$10.0 trillion, up 13.6 percent from \$8.8 trillion a year earlier. Correspondingly, the costs of supervising national banks and federal savings associations have risen because of the increasing size and complexity of their assets. Of this total, \$8.0 trillion, or 79.9 percent, is attributable to large national banks. Midsize and community banks’ share is \$931.0 billion, or 9.3 percent, followed by federal branches at \$280.0 billion, or 2.8 percent. Finally, the federal savings association assets totaled \$803.1 billion, or 8.0 percent, as of June 30, 2012.

Interest revenue totaled \$19.7 million in FY 2012, an increase of \$0.3 million, or 1.5 percent, over interest revenue of \$19.4 million reported in FY 2011. Other income is composed of revenue received from reimbursable activities with federal entities and the rental revenue the OCC receives from the CFPB, which totaled \$3.5 million in FY 2012 (see Note 6).

Figure 9 depicts the components of total revenue for FY 2012 and FY 2011.

**Figure 9: Components of Total Revenue (in Millions)**

	FY 2012	FY 2011	Change (\$)	Change (%)
Assessments	\$ 963.6	\$ 814.6	\$ 149.0	18.3%
Interest and other income	36.1	28.6	7.5	26.2%
Total revenue	\$ 999.7	\$ 843.2	\$ 156.5	18.6%

Source: OCC financial system data.

## 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 nonfederal 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 and federal savings associations. For FY 2011, the costs associated with operating these programs for federal savings associations are included beginning July 21, 2011.

Figure 10 illustrates the breakdown of costs of operations by major program for FY 2012 and FY 2011.

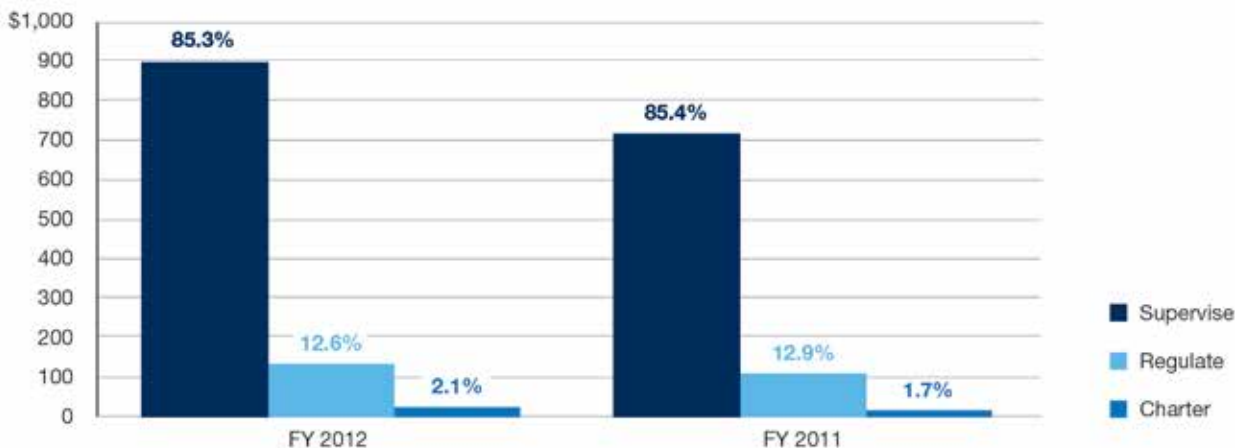
The full cost presented in the Statements of Net Cost includes costs contributed by the Office of Personnel Management (OPM) on behalf of the OCC to cover

the cost of the Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS) retirement plans and the Federal Employees Health Benefits (FEHB) and Federal Employees' Group Life Insurance (FEGLI) plans, totaling \$32.3 million in FY 2012 and \$33.7 million in FY 2011. Total program costs for FY 2012 of \$1,049.6 million reflect an increase of \$211.9 million, or 25.3 percent, from \$837.7 million in FY 2011. The change was due primarily to increased staffing directly related to OTS employees transferred to the OCC. Additional contributing factors included increases to contractual services for systems maintenance and rent.

## Budgetary Resources

The Statements of Budgetary Resources, found on page 45, provide information about how budgetary resources were made available to the OCC for the year and present the status of these resources and the net outlay of budgetary resources at the end of the year. The OCC executed \$1,140.1 million, or 93.0 percent, of the FY 2012 budget of \$1,226.1 million.

**Figure 10: Costs of Operations by Major Program (in Millions)**



Source: OCC financial system data.

## Financial Statements

### Office of the Comptroller of the Currency Balance Sheets

As of September 30, 2012 and 2011

(in Thousands)

	2012	2011
<b>Assets</b>		
<b>Intragovernmental:</b>		
Fund balance with Treasury (Note 2)	\$ 8,814	\$ 237,036
Investments and related interest (Note 3)	1,380,006	1,188,159
Accounts receivable (Note 4)	2,035	3,931
Other assets	558	316
<b>Total intragovernmental</b>	<b>1,391,413</b>	<b>1,429,442</b>
Accounts receivable, net (Note 4)	471	542
Property and equipment, net (Note 5)	127,568	96,617
Other assets	15	24
<b>Total assets</b>	<b>\$ 1,519,467</b>	<b>\$ 1,526,625</b>
<b>Liabilities</b>		
<b>Intragovernmental:</b>		
Accounts payable and other accrued liabilities	\$ 7,913	\$ 3,300
<b>Total intragovernmental</b>	<b>7,913</b>	<b>3,300</b>
Accounts payable	3,571	8,056
Accrued payroll and benefits	40,930	43,811
Accrued annual leave	46,366	47,630
Other accrued liabilities	45,271	30,249
Deferred revenue	241,348	235,514
Other actuarial liabilities (Note 8)	60,611	62,272
<b>Total liabilities</b>	<b>446,010</b>	<b>430,832</b>
<b>Net position (Note 9)</b>	<b>1,073,457</b>	<b>1,095,793</b>
<b>Total liabilities and net position</b>	<b>\$ 1,519,467</b>	<b>\$ 1,526,625</b>

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, 2012 and 2011

(in Thousands)

	2012	2011
<b>Program costs</b>		
<b>Supervise</b>		
Intragovernmental	\$ 115,089	\$ 103,977
With the public	780,112	611,387
<b>Subtotal – supervise</b>	<b>\$ 895,201</b>	<b>\$ 715,364</b>
<b>Regulate</b>		
Intragovernmental	\$ 17,722	\$ 16,003
With the public	114,612	91,977
<b>Subtotal – regulate</b>	<b>\$ 132,334</b>	<b>\$ 107,980</b>
<b>Charter</b>		
Intragovernmental	\$ 2,995	\$ 2,212
With the public	19,071	12,148
<b>Subtotal – charter</b>	<b>\$ 22,066</b>	<b>\$ 14,360</b>
<b>Total program costs</b>	<b>\$ 1,049,601</b>	<b>\$ 837,704</b>
Less: earned revenues not attributed to programs	(999,727)	(843,203)
<b>Net program costs before gain/loss from changes in assumptions</b>	<b>\$ 49,874</b>	<b>\$ (5,499)</b>
Actuarial (gain)/loss (Note 8)	4,335	(196)
<b>Net cost of operations (Note 10)</b>	<b>\$ 54,209</b>	<b>\$ (5,695)</b>

*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, 2012 and 2011  
(in Thousands)

	2012	2011
<b>Beginning balances</b>	\$ 1,095,793	\$ 785,454
<b>Budgetary financing sources:</b>		
Transfer-in without reimbursement	0	259,222
<b>Other financing sources:</b>		
Transfer-in/out without reimbursement	(434)	11,675
Imputed financing (Note 11)	32,307	33,747
<b>Net cost of operations</b>	(54,209)	5,695
<b>Net change</b>	(22,336)	310,339
<b>Ending balances</b>	\$ 1,073,457	\$ 1,095,793

*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, 2012 and 2011

(in Thousands)

	2012	2011
<b>Budgetary resources:</b>		
Unobligated balance brought forward, October 1	\$ 1,162,804	\$ 847,259
Adjustment to unobligated balance brought forward, October 1	0	0
Unobligated balance from prior year budget authority, net	1,162,804	847,259
Balance transfers	0	245,034
Spending authority from offsetting collections	1,001,516	895,505
<b>Total budgetary resources</b>	<b>\$ 2,164,320</b>	<b>\$ 1,987,798</b>
<b>Status of budgetary resources:</b>		
Obligations incurred	\$ 1,077,171	\$ 824,994
Exempt from apportionment	1,087,149	1,162,804
Unapportioned	0	0
Total unobligated balance, end of year	1,087,149	1,162,804
<b>Total budgetary resources</b>	<b>\$ 2,164,320</b>	<b>\$ 1,987,798</b>
<b>Change in obligated balance:</b>		
Unpaid obligation balance brought forward, October 1	\$ 251,164	\$ 184,501
Obligations incurred	1,077,171	824,993
Outlay (gross)	(1,043,822)	(797,892)
Actual transfers, unpaid obligations (net)	0	39,562
Unpaid obligation, end of year	284,513	251,164
Uncollected payment, federal source brought forward, October 1	(7,493)	(3,579)
Change in uncollected payment, federal source	1,515	(3,914)
Uncollected payment, federal source, end of year	(5,978)	(7,493)
Memorandum (non-add) entries		
Obligated balance, start of year	\$ 243,671	\$ 180,922
Obligated balance, end of year	\$ 278,535	\$ 243,671
<b>Budget authority and outlays, net:</b>		
Budget authority, gross	\$ 1,001,516	\$ 895,505
Actual offsetting collections	(1,003,031)	(891,591)
Change in uncollected payment from federal source	1,515	(3,914)
Budget authority, net	0	0
Outlay, gross	1,043,822	797,892
Actual offsetting collections	(1,003,031)	(891,591)
<b>Agency outlay, net</b>	<b>\$ 40,791</b>	<b>\$ (93,699)</b>

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

## Notes to the Financial Statements

### Note 1 – Significant Accounting Policies

#### *Reporting Entity*

The OCC was created as a bureau within the Treasury Department 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. With the passage of Dodd–Frank on July 21, 2010, the OCC also oversees federally chartered savings associations.

The financial statements report on the OCC’s three major programs: supervise, regulate, and charter national banks and federal savings associations. The OCC’s major programs support the agency’s overall mission by ensuring a safe and sound system of national banks and federal savings associations; promoting equal access to financial services and fair treatment of bank customers; maintaining a flexible legal and regulatory framework that enables a strong, competitive system of banks; and having a competent, highly motivated, and diverse workforce.

#### *Basis of Accounting and Presentation*

The OCC’s financial statements are prepared from the agency’s accounting records in conformity with GAAP as set forth by the Federal Accounting Standards Advisory Board (FASAB). The OCC’s financial statements are presented in accordance with the form and content guidelines established by the OMB in Circular No. A-136, “Financial Reporting Requirements.”

In addition, the OCC applies financial accounting and reporting standards issued by the Financial Accounting Standards Board (FASB) only as outlined in Statement of Federal Financial Accounting Standards (SFFAS) 34, “The Hierarchy of Generally Accepted Accounting Principles,” including the “Application of Standards Issued by the Financial Accounting Standards Board.”

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 chose early adoption for the formatting changes of the Statements of Budgetary Resources, which are required in FY 2013 by Circular No. A-136. The OCC presents its financial statements on a comparative basis, providing information for FY 2012 and FY 2011. The accompanying financial statements and notes present the operations of the OCC, which include the functions transferred from the OTS in FY 2011.

The financial statements reflect both the accrual and budgetary bases of accounting. Under the accrual basis of accounting, 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 recorded before 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 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 expense 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, 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. The Statements of Budgetary Resources for FY 2011 has been reclassified to make it comparable to the FY 2012 presentation.

#### *Revenues and Other Financing Sources*

The OCC derives its revenue primarily from assessments and fees paid by national banks and federal savings associations, and from income on investments in non-marketable U.S. Treasury securities. The OCC does not receive congressional

appropriations to fund any of the agency's operations. Therefore, the OCC has no 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 of the Currency. As part of the OTS integration in FY 2011, a second fund symbol was temporarily established. This fund symbol was closed at the end of FY 2012.

### ***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 FASAB SFFAS No. 27, "Identifying and Reporting Earmarked Funds," all of the OCC's revenue meets this criterion and constitutes an earmarked fund.

### ***Fund Balance With Treasury***

The Treasury Department processes the OCC's cash receipts and disbursements. The OCC's Statements of Budgetary Resources reflect the status of the agency's FBWT (see Note 2).

### ***Investments***

It is the OCC's policy to invest available funds in accordance with the provisions of 12 USC 481 and 12 USC 192. The OCC invests available funds in non-marketable U.S. Treasury securities, which may include overnight securities, bills, notes, and bonds. The OCC does not invest funds with state or national banks. The OCC has the positive intent and ability to hold all U.S. Treasury securities to maturity in accordance with FASB Accounting Standards Codification (ASC) Topic 320, "Investments—Debt and Equity Securities" (see Note 3).

### ***Accounts Receivable***

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 (see Note 4).

### ***Property and Equipment***

Property and equipment as well as internal-use software 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 purchases that do not meet the capitalization criteria, such as normal repairs and maintenance, when received or incurred.

In addition, property and equipment are depreciated or amortized, as applicable, over the estimated useful lives using the straight-line method and 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 (see Note 5).

### ***Liabilities***

The OCC records liabilities for amounts that are likely to be paid as a result of events that have occurred as of the relevant Balance Sheet dates. The OCC's liabilities consist of routine operating accounts payable, accrued payroll and benefits, and deferred revenue. The OCC's liabilities represent the amounts owed or accrued under contractual or other arrangements governing the transactions, including operating expenses incurred but not paid. The OCC accounts for liabilities in accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government."

### ***Accounts Payable***

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 when the invoices are paid within the discount period.

## **Accrued Annual Leave**

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 expensed as incurred.

## **Deferred Revenue**

The OCC's activities are primarily financed by assessments on assets held by national banks, federal savings associations, and the federal branches of foreign banks. These assessments are due March 31 and September 30 of each year, based on their asset balances as of December 31 and June 30, respectively. Assessments are paid mid-cycle and are recognized as earned revenue on a straight-line basis. The unearned portions of collected assessments are classified as deferred revenue.

## **Employment Benefits**

### **Retirement Plans**

All of the OCC's employees participate in one of three retirement systems—the CSRS, FERS, or the Pentegra DB Plan. The CSRS and FERS are administered by OPM. Pursuant to the enactment of Public Law 99-335, which established FERS, most OCC employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired before January 1, 1984, are covered by the CSRS, with the exception of those who, during the election period, joined FERS.

The OCC does not report CSRS or FERS assets or accumulated plan benefits that may be applicable to its employees in its financial statements; OPM reports them. Although the OCC reports no liability for future payments to employees under these programs, the federal government is liable for future payments to employees through the various agencies administering these programs.

The OCC assumed the role of benefit administrator for the Pentegra DB Plan in FY 2011. The Pentegra DB Plan covers some of the transferred OTS employees and is closed to new entrants. The OCC is committed to adhering to sound financial policies

and management oversight of the plan to ensure its sustainability for current and future retirees.

### **Thrift Savings Plan and OCC 401(k) Plan**

The OCC's employees are eligible to participate in the federal Thrift Savings Plan. OCC employees also can elect to contribute a portion of their base pay to the OCC-sponsored 401(k) plan, subject to Internal Revenue Service regulations that apply to employee contributions in both the federal Thrift Savings Plan and the OCC-sponsored 401(k) plan.

As required by law, for OTS employees transferred to the OCC, the OCC continues to offer a separate 401(k) plan. The amount of each participant's matching contribution is based on the applicable retirement system under which each participant is covered.

### **Federal Employees Health Benefits and Federal Employees' Group Life Insurance**

Employees and retirees of the OCC are eligible to participate in the FEHB and FEGLI plans administered by OPM that involve a cost sharing of biweekly coverage premiums by employee and employer. The OCC does not fund post-retirement benefits for these programs. Instead, the OCC's financial statements recognize an imputed financing source and corresponding expense that represent the OCC's share of the cost to the federal government of providing these benefits to all eligible OCC employees.

### **Post-Retirement Life Insurance Benefit Plan**

The OCC sponsors a life insurance benefit plan for current and retired employees. On July 29, 2012, former OTS employees were converted to the OCC life insurance benefit plan. This plan is a defined benefit plan for which the benefit is earned over the period from the employee's date of hire to the date on which the employee is assumed to retire. The valuation of the plan is conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board. Specifically, the OCC uses the actuarial cost method as outlined in FASB ASC Topic 715, "Compensation—Retirement Benefits," to determine costs for its retirement plans. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the

plan. The actuarial assumptions and methods used in calculating actuarial amounts comply with the requirements for post-retirement benefits other than pensions as set forth in FASB ASC Topic 715 and for health benefit plans as set forth in American Institute of Certified Public Accountants Statement of Position 92-6.

In addition, for the one-year period following the transfer date (through July 21, 2012), the OCC continued to administer a separate life insurance plan for those OTS employees transferred to the OCC who met eligibility requirements (see Note 8).

### **Custodial Revenues and Collections**

Non-entity receivables, liabilities, and revenue are recorded as custodial activity and include amounts collected for fines, CMPs, and related interest assessments. Revenues are recognized as cash collected that are transferred to the General Fund of the U.S. Treasury at the end of the fiscal year.

### **Note 2—Fund Balance With Treasury**

The status of the FBWT represents the budgetary resources that support the FBWT and is a reconciliation between budgetary and proprietary accounts. The OCC's FBWT comprises two separate U.S. Treasury fund symbols. The first is designated as a trust fund established by 12 USC 481 that governs the collection and use of assessments and other funds

by the OCC. The second fund symbol is designated as a revolving fund and was established to allow for the transfer of OTS funds to the OCC on July 21, 2011. All transferred funds have been expended, and as of September 30, 2012, the revolving fund was closed.

The OCC's FBWT consists of unobligated and obligated balances that reflect the budgetary authority remaining for disbursement against current or future obligations. The unobligated balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations and is classified as available for future OCC use without further congressional action. The obligated balance not yet disbursed represents funds that have been obligated for goods that have not been received or services that have not been performed. It also represents goods and services that have been delivered or received but for which payment has not been made. The nonbudgetary FBWT account represents adjustments to budgetary accounts that do not affect the FBWT. The OCC's balance represents investment accounts that reduce the status of the FBWT.

As of September 30, 2012, there were no unreconciled differences between U.S. Treasury records and balances reported on the OCC's general ledger.

The figure below depicts the OCC's FBWT amounts for FY 2012 and FY 2011.

#### **Fund Balance With Treasury (in Thousands)**

	FY 2012	FY 2011
<b>Fund balance</b>		
Trust fund	\$ 8,814	\$ 10,623
Revolving fund	\$ 0	\$ 226,413
<b>Total fund balance</b>	<b>\$ 8,814</b>	<b>\$ 237,036</b>
<b>Status of fund balance with Treasury</b>		
Unobligated balance—available	\$ 1,087,149	\$ 1,162,804
Obligated balance not yet disbursed	278,535	243,671
Non-budgetary fund balance with Treasury	(1,356,870)	(1,169,439)
<b>Total</b>	<b>\$ 8,814</b>	<b>\$ 237,036</b>

### Note 3—Investments and Related Interest

The OCC’s 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 interest method. The fair market value of investment securities was \$1,416.3 million on September 30, 2012, and

\$1,223.5 million on September 30, 2011. The overall portfolio earned an annual yield of 1.9 percent for FY 2012 and 2.3 percent for FY 2011.

The yield-to-maturity on the non-overnight portion of the OCC’s investment portfolio ranged from 0.2 percent to 4.5 percent in FY 2012 and from 0.9 percent to 4.5 percent in FY 2011.

#### FY 2012 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Investments, net	Market value disclosure
Intragovernmental securities:					
Non-marketable market-based	\$ 1,386,220	Effective interest	\$ (10,158)	\$ 1,376,062	\$ 1,416,347
Accrued interest	3,944		0	3,944	3,944
<b>Total intragovernmental investments</b>	<b>\$ 1,390,164</b>		<b>\$ (10,158)</b>	<b>\$ 1,380,006</b>	<b>\$ 1,420,291</b>

#### FY 2011 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Investments, net	Market value disclosure
Intragovernmental securities:					
Non-marketable market-based	\$ 1,192,820	Effective interest	\$ (8,224)	\$ 1,184,596	\$ 1,223,491
Accrued interest	3,563		0	3,563	3,563
<b>Total intragovernmental investments</b>	<b>\$ 1,196,383</b>		<b>\$ (8,224)</b>	<b>\$ 1,188,159</b>	<b>\$ 1,227,054</b>



## Note 4—Accounts Receivable

As presented in the OCC’s Balance Sheets, accounts receivable represent monies due from the public for services and goods provided that are retained by the OCC upon collection. The amounts shown for federal receivables represent pension sharing costs for OTS employees transferred to other federal agencies rather than to the OCC. Also included are CMP amounts

assessed against people, national banks, or federal savings associations for violations of law, regulation, and orders; unsafe or unsound practices; and breaches of fiduciary duty. Because CMPs are not debts due the OCC, the amount outstanding does not enter into the calculation for the allowance for uncollectible accounts. The OCC has recognized \$55.4 million and \$41.6 million in CMP non-entity revenue as of September 30, 2012, and 2011, respectively.

### FY 2012 Accounts Receivable (in Thousands)

	Gross	Allowance for uncollectible accounts	Account receivable, net
Federal receivables	\$ 2,035	\$ 0	\$ 2,035
Civil money penalty receivables	417	0	417
Nonfederal receivables	79	(25)	54
<b>Total accounts receivable</b>	<b>\$ 2,531</b>	<b>\$ (25)</b>	<b>\$ 2,506</b>

### FY 2011 Accounts Receivable (in Thousands)

	Gross	Allowance for uncollectible accounts	Account receivable, net
Federal receivables	\$ 3,931	\$ 0	\$ 3,931
Civil money penalty receivables	486	0	486
Nonfederal receivables	81	(25)	56
<b>Total accounts receivable</b>	<b>\$ 4,498</b>	<b>\$ (25)</b>	<b>\$ 4,473</b>

## Note 5—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. Depreciation is expensed on a straight-line basis over the estimated useful life of the asset with the exception of leasehold improvements. Leasehold improvements are amortized on a straight-line basis over the lesser of the terms of the related leases or the estimated useful lives. Land, leasehold improvements in development, and internal-use software in development are not depreciated. Major alterations and renovations, including leasehold and land improvements, are capitalized, while maintenance and repair costs are charged to expenses as incurred. All other property and equipment are

depreciated or amortized, as applicable, on a straight-line basis over the estimated useful lives.

For FY 2012 and FY 2011, the OCC reported \$2.2 million and \$1.9 million, respectively, of fully depreciated assets removed from service, which included a \$0.4 million transfer of assets to the CFPB. In FY 2012 and FY 2011, there were no gains or losses on asset disposal. The figures below summarize property and equipment balances as of September 30, 2012, and 2011.

FY 2012 and FY 2011 assets include the land and a building owned by the OTS that were transferred to the OCC on July 21, 2011. The building is a rental-income property that the OCC uses to supplement its operating budget (see Note 6).

### FY 2012 Property and Equipment, Net (in Thousands)

Class of assets	Capitalization threshold	Useful life (in years)	Cost	Accumulated depreciation/amortization	Net book value
Land	NA	NA	\$ 7,101	\$ 0	\$ 7,101
Building	50	50	49,188	(32,865)	16,323
Leasehold improvements	50	5-20	103,553	(58,049)	45,504
Equipment	50	3-10	40,775	(26,882)	13,893
Internal-use software	500	5	80,546	(65,275)	15,271
Internal-use software—development	500	NA	18,627	0	18,627
Leasehold improvements—development	50	NA	10,849	0	10,849
<b>Total</b>			<b>\$ 310,639</b>	<b>\$ (183,071)</b>	<b>\$ 127,568</b>

### FY 2011 Property and Equipment, Net (in Thousands)

Class of assets	Capitalization threshold	Useful life (in years)	Cost	Accumulated depreciation/amortization	Net book value
Land	NA	NA	\$ 7,101	\$ 0	\$ 7,101
Building	50	50	49,188	(31,812)	17,376
Leasehold improvements	50	5-20	78,766	(48,536)	30,230
Equipment	50	3-10	30,918	(24,170)	6,748
Internal-use software	500	5	69,025	(57,797)	11,228
Internal-use software—development	500	NA	19,990	0	19,990
Leasehold improvements—development	50	NA	3,944	0	3,944
<b>Total</b>			<b>\$ 258,932</b>	<b>\$ (162,315)</b>	<b>\$ 96,617</b>

Note: NA means not applicable.

## Note 6—Rental Income

In FY 2012, the OCC entered into a 20-year occupancy agreement with the CFPB for a portion of the former OTS headquarters building transferred to the OCC in FY 2011. After the transfer date, the OCC also assumed ownership from the OTS of its existing non-cancellable operating leases for additional space in that building and began receiving rental income from building tenants. These leases expire at various dates through 2021, and some provide renewal options. The leases provide for annual base rent and additional rents for building operating expenses. Some leases also provide for fixed future increases in rents over the term of the lease.

The future minimum rentals to be received through FY 2018 and thereafter, not including renewals, are shown below.

### FY 2012 Future Rental Income (in Thousands)

Year	Amount
2013	\$ 12,058
2014	12,313
2015	12,287
2016	12,534
2017	12,678
2018 and beyond	210,394
<b>Total</b>	<b>\$ 272,264</b>

### FY 2011 Future Rental Income (in Thousands)

Year	Amount
2012	\$ 2,468
2013	647
2014	599
2015	374
2016	305
2017 and beyond	1,141
<b>Total</b>	<b>\$ 5,534</b>

## Note 7—Leases

The OCC leases equipment and office space for its Headquarters operations in Washington, D.C., and for district and field operations. During FY 2012, the OCC entered into six new lease occupancy agreements that ranged between 54 and 120 months. All of the OCC's leases are treated as operating leases. All annual lease costs under the operating leases are included in the Statements of Net Cost.

The future minimum lease payments to be made through FY 2018 and thereafter, not including renewals, are shown below.

### FY 2012 Future Lease Payments (in Thousands)

Year	Amount
2013	\$ 68,431
2014	54,039
2015	49,694
2016	47,344
2017	48,914
2018 and beyond	378,267
<b>Total</b>	<b>\$ 646,689</b>

### FY 2011 Future Lease Payments (in Thousands)

Year	Amount
2012	\$ 45,569
2013	59,915
2014	48,826
2015	45,078
2016	45,657
2017 and beyond	420,088
<b>Total</b>	<b>\$ 665,133</b>

## Note 8—Other Actuarial Liabilities

The OCC’s other actuarial liabilities are reported on the Balance Sheets and include the following components.

### Actuarial Liabilities Category (in Thousands)

Component	FY 2012	FY 2011
Post-retirement life insurance benefits	\$ 54,101	\$ 47,732
Federal Employees’ Compensation Act	5,825	5,513
Pentegra Defined Benefit Plan	685	9,027
<b>Total actuarial liabilities</b>	<b>\$ 60,611</b>	<b>\$ 62,272</b>

### Post-Retirement Life Insurance Benefits

The OCC sponsors a life insurance benefit plan for current and retired employees. In addition, for one year after the transfer date (through July 21, 2012), the OCC administered a separate life insurance plan for former OTS employees who met eligibility requirements. Transferred OTS plan participants were converted to the OCC-sponsored plan on July 29, 2012. The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 4.25 percent and 4.75 percent for FY 2012 and FY 2011, respectively. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan.

Net periodic post-retirement benefit costs for life insurance provisions under the plans include the components shown on this page. The total benefit expenses are recognized as program costs in the Statements of Net Cost. Any gains or losses from changes in long-term assumptions used to measure liabilities for post-retirement life insurance benefits are displayed separately on the Statements of Net Cost, as required.

The following table presents a reconciliation of the beginning and ending post-retirement life insurance liability and provides material components of the related expenses.

### Reconciliation of Beginning and Ending Post-Retirement Liability and the Related Expense (in Thousands)

Change in actuarial and accrued benefits	FY 2012	FY 2011
Actuarial post-retirement liability beginning balance	\$ 47,732	\$ 45,472
Actuarial expense		
Normal cost	1,153	1,374
Interest on the liability balance	2,280	2,385
Actuarial (gain)/loss		
From experience	(422)	495
From assumption changes	4,757	(691)
Prior service costs	0	80
Total expense	7,768	3,643
Less amounts paid	(1,399)	(1,383)
<b>Actuarial post-retirement liability ending balance</b>	<b>\$ 54,101</b>	<b>\$ 47,732</b>

## Federal Employees' Compensation Act

The Federal Employees' Compensation Act 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 the Federal Employees' Compensation Act are administered by the U.S. Department of Labor and later billed to the OCC. The FY 2012 and FY 2011 present values of these estimated outflows are calculated using a discount rate of 2.3 percent in the first year and 3.1 percent in subsequent years, and 3.5 percent in the first year and 4.0 percent in subsequent years, respectively.

## Pentegra Defined Benefit Plan

In accordance with the provisions of Dodd–Frank, in FY 2011 the OCC assumed the role of benefit administrator for a legacy retirement system—the Pentegra DB Plan. The Pentegra DB Plan is a defined benefit plan that the OTS assumed from its predecessor agency when the OTS was created in 1989. The Pentegra DB Plan is a system in which all costs are paid by the employer into one general account. At retirement, employees may either receive a lump sum payment or opt for an annuity/lump sum split.

As a result of Dodd–Frank, FY 2012 is the first full year disclosed for the Pentegra DB Plan, which ran

from July 1, 2011, through June 30, 2012. Total expenses recognized were \$2.7 million during FY 2012 and \$9.0 million during FY 2011. For actuarial purposes, the liability was fully funded at September 30, 2012, and is therefore not reflected in the FY 2012 Balance Sheets. As of September 30, 2011, the liability was underfunded by \$86.2 million. Total plan assets as of July 1, 2012, were \$562.1 million.

The following table presents a reconciliation of the beginning and ending Pentegra DB Plan liability and provides material components of the related expenses.

### Reconciliation of Beginning and Ending Pentegra DB Plan Liability and the Related Expense (in Thousands)

Change in actuarial and accrued benefits	FY 2012
Actuarial liability beginning balance	\$ 534,637
Actuarial expense	
Normal cost	18,406
Interest on the liability balance	11,186
Actuarial (gain)/loss	
From experience	(15,846)
From assumption changes	(41,390)
Prior service costs	0
Total expense	(27,644)
Less amounts paid	(23,258)
<b>Actuarial liability ending balance</b>	<b>\$ 483,735</b>

## Note 9—Net Position

Net position represents the net result of operations since inception and includes cumulative amounts related to investments in capitalized assets held by the OCC. The OCC sets aside a portion of its 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 its mission by being available to reduce the impact on the OCC’s operations from significant revenue fluctuations, such as those resulting from a major change in the federal banking system. Also covered are unanticipated expenses resulting from foreseeable but rare events beyond the OCC’s control, including a natural disaster that affects one of the

OCC’s facilities and significant impairment of the agency’s physical infrastructure.

The asset replacement reserve funds the replacement of information technology investments, 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 balances for FY 2012 and FY 2011. In FY 2012, the asset replacement reserve was used to consolidate several office locations in Washington, D.C., into one headquarters building. In addition, in FY 2012, the contingency reserve was used for onetime costs associated with the OTS integration.

### Net Position Availability (in Thousands)

Component	FY 2012	FY 2011
Contingency reserve	\$ 648,463	\$ 692,690
Asset replacement reserve	111,600	192,900
Set aside for ongoing operations:		
Undelivered orders	122,505	64,440
Consumption of assets	147,334	112,114
Capital investments	43,555	33,649
<b>Net position</b>	<b>\$ 1,073,457</b>	<b>\$ 1,095,793</b>

## Note 10—Net Cost of Operations

The Net Cost of Operations represents the OCC’s operating costs deducted from assessments and fees paid by national banks and federal saving associations and other income earned. The operating costs include the gain or loss from actuarial experience and assumption changes per the guidance in

SFFAS No. 33. The imputed financing sources for net cost of operations are reported on the Statements of Changes in Net Position and in Note 12, Reconciliation of Net Cost of Operations to Budget.

The following figure illustrates the OCC’s operating expense categories for FY 2012 and FY 2011.

### Net Cost of Operations by Expense Category (in Thousands)

	FY 2012	FY 2011
Personnel compensation and benefits	\$ 741,516	\$ 546,739
Contractual services	124,823	115,912
Rent, communication, and utilities	61,513	50,381
Travel and transportation of persons and things	55,082	51,963
Imputed costs	32,307	33,747
Depreciation	22,554	18,437
Other	16,141	20,329
<b>Total</b>	<b>\$ 1,053,936</b>	<b>\$ 837,508</b>

## Note 11 – Imputed Costs and Financing Sources

In accordance with SFFAS No. 5, “Accounting for Liabilities of the Federal Government,” federal agencies must recognize the portion of employees’ pension and other retirement benefits to be paid by OPM trust funds. These amounts are recorded as imputed costs and imputed financing for other agencies. Annually, 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 OPM trust funds will provide for each agency.

The imputed costs categories for FY 2012 and FY 2011 are listed in the table below. These imputed costs are included on the Statements of Net Cost. The financing sources absorbed by the OPM are reflected on the Statements of Changes in Net Position and in Note 12, Reconciliation of Net Cost of Operations to Budget.

### Imputed Costs Absorbed by the OPM (in Thousands)

Component	FY 2012	FY 2011
Retirement	\$ 14,889	\$ 16,163
Federal Employees Health Benefits	17,375	17,545
Federal Employees’ Group Life Insurance	43	39
<b>Total imputed costs covered by the OPM</b>	<b>\$ 32,307</b>	<b>\$ 33,747</b>

## Note 12—Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget demonstrates the relationship between the OCC’s proprietary accounting (net cost of operations) and budgetary accounting (net obligations) information. For FY 2012, the statement on the next page shows a total use of resources to finance activities of \$108.0 million. This is a net decrease of \$132.6 million from September 30, 2011, when there were excess resources of \$25.1 million. This net decrease resulted primarily from a \$106.0 million increase in resources available (spending authority from offsetting collections) netted against the increase of \$252.2 million in resources used (obligations incurred), and the \$1.4 million decrease in imputed financing. The majority of the increase in resources was used to fully fund the Pentegra DB Plan.

**Office of the Comptroller of the Currency**  
**Reconciliation of Net Cost of Operations to Budget**

For the Years Ended September 30, 2012 and 2011

(in Thousands)

	2012	2011
<b>Resources used to finance activities</b>		
Budgetary resources obligated		
Obligations incurred	\$ 1,077,171	\$ 824,994
Less: Spending authority from offsetting collections	(1,001,516)	(895,505)
Net obligations	75,655	(70,511)
Other resources		
Transfer-in (out) without reimbursement	(433)	11,675
Imputed financing sources (Note 11)	32,307	33,747
<b>Total resources used to finance activities</b>	<b>107,529</b>	<b>(25,089)</b>
<b>Resources used to finance items not part of the net cost of operations</b>		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	(24,170)	10,903
Resources that finance the acquisition of assets	(53,937)	(25,821)
Adjustment to net obligated balance that does not affect net cost of operations	433	(11,675)
Total resources used to finance items not part of the net cost of operations	(77,674)	(26,593)
<b>Total resources used to finance the net cost of operations</b>	<b>\$ 29,855</b>	<b>\$ (51,682)</b>
<b>Components of the net cost of operations that will not require or generate resources in the current period</b>		
Components requiring or generating resources in future periods		
Change in deferred revenue	5,834	41,071
Increase in exchange revenue receivable from the public	2	9,478
Total components that will require or generate resources in future periods	5,836	50,549
Components not requiring or generating resources		
Depreciation and amortization	22,554	18,437
Net increase (decrease) in bond premium	(4,036)	1,742
Other	0	(24,741)
Total components that will not require or generate resources	18,518	(4,562)
<b>Total components of net cost of operations that will not require or generate resources in the current period</b>	<b>24,354</b>	<b>45,987</b>
<b>Net cost of operations</b>	<b>\$ 54,209</b>	<b>\$ (5,695)</b>



### **Note 13—Commitments and Contingencies**

The OCC recognizes and discloses contingencies in accordance with SFFAS No. 12, “Recognition of Contingent Liabilities Arising From Litigation.” The OCC is party to various administrative proceedings, legal actions, and claims brought against the agency, including threatened or pending litigation involving federal employment claims, some of which may ultimately result in settlements or decisions against the federal government.

As of September 30, 2012, there were four contingencies for litigations involving the OCC where

the risk of loss was reasonably possible. For three of these, there was a reasonable possibility that the OCC could incur a loss of \$1.5 million, which comprises \$600,000 in back pay and \$900,000 in compensatory damages. For the fourth contingency, the OCC could incur a loss of up to \$675,000.

As of September 30, 2011, the OCC reported \$1.5 million for contingencies where the loss was reasonably possible and \$191,000 for a contingency where the risk of loss was probable.



## Independent Auditor's Report on Financial Statements

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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, 2012 and 2011, and the related statements of net cost, changes in net position and budgetary resources (hereinafter referred to as "financial statements") 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*, as amended. 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, 2012 and 2011, 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.

U.S. generally accepted accounting principles require that the information in Section Five, pages 35 through 41, and pages 69 and 70 be presented to supplement the basic financial statements referred to in the first paragraph of this report. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential

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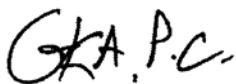
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part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information in the *Comptrollers Viewpoint*, Sections One, Two, Three and Four of OCC's fiscal year 2012 Annual Report is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2012, on our consideration of the OCC's internal control over financial reporting and a report dated October 31, 2012, on our tests of its compliance with 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.

Handwritten signature in black ink, appearing to read "G.A.P.C." with a stylized flourish.

October 31, 2012

## Independent Auditor's Report on Internal Control over Financial Reporting

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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, 2012 and 2011, and have issued our report thereon dated October 31, 2012. 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*, as amended.

In planning and performing our fiscal year 2012 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 as a basis for designing 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 the effectiveness of OCC's internal control over financial reporting. Consequently, we do not provide an opinion on the effectiveness of OCC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

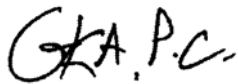
A significant deficiency is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

We noted certain matters discussed in Exhibit 1 involving internal control over financial reporting and its operation that we consider collectively to be a significant deficiency.

OCC management's response to the significant deficiency has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the response or the effectiveness of any corrective action described therein.

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.

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October 31, 2012

**EXHIBIT 1**  
**SIGNIFICANT DEFICIENCY**

## **Improvements Needed in Information Technology General Controls over OCC's Financial Systems. (Repeat Condition)**

During our audit, we identified certain weaknesses in OCC's IT general controls that are summarized below. Detailed findings and related recommendations will be provided to management in a separate Sensitive But Unclassified management report dated October 31, 2012.

### **Security Management**

An entity wide information security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. As a result of our audit, we concluded that OCC Information System Security Plans (SSP) were not fully consistent with the requirements of the NIST Special Publication 800-18 Guide for Developing Security Plans for Federal Information Systems. Additionally, OCC needs to strengthen its controls over implementation of requirements pertaining to the administration of the role based security training; reviewing SMART interfaces and interconnections and ensuring that appropriate interconnection or data sharing agreements are in place.

### **Access Controls**

Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. During our audit, we determined that OCC needs to strengthen its controls over implementation of requirements pertaining to password configuration settings; revoking unnecessary access accounts; completion of the exit process for terminated individuals, recordkeeping of management approval and recertification of access accounts.

### **Contingency Planning**

Losing the capacity to process, retrieve, and protect information maintained electronically can significantly affect an agency's ability to accomplish its mission. As a result of our audit, we determined that OCC needs to strengthen its controls over the implementation of requirements pertaining to developing an executable recovery strategy, the update and maintenance of consistency between Contingency Planning documents; and periodically testing backup tapes in accordance with OCC policy.

## **Configuration Management**

Configuration management policies, plans, and procedures should be developed, documented, and implemented at the entity wide, system, and application levels to ensure an effective configuration management process. During our audit, we determined that: OCC needs to strengthen its controls over the update of virus definitions for all relevant servers, configure information systems in accordance with documented baseline configurations, and update SMART patches and disable unnecessary services. Additionally, OCC needs to prevent developers from moving their own code into production, and ensure that operating system changes are authorized, documented and controlled through the Information Technology Services change control process.

### **MANAGEMENT'S RESPONSE**

OCC's management concurs with the significant deficiency described in this report. Corrective actions are under way to address each recommendation, and management is confident that they will be able to rectify these deficiencies before the next *Annual Report* cycle is completed.



## 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, 2012 and 2011, and have issued our report thereon dated October 31, 2012. 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*, as amended.

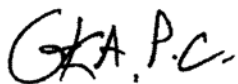
The management of the OCC is responsible for complying with laws and regulations applicable to the OCC. As part of obtaining reasonable assurance about whether the OCC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations 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 Section 803(a) of 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 or other matters 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.

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.

A handwritten signature in black ink that reads "G.A.P.C." with a stylized flourish at the end.

October 31, 2012

## Other Accompanying Information

### Performance Measures and Results

The OCC's FY 2012 performance measures, workload indicators, customer service standards, and results are presented in figure 11.

**Figure 11: Performance Measures, Workload Indicators, Customer Service Standards, and Results**

Strategic goal	Performance measure workload indicator customer service standard	FY 2009	FY 2010	FY 2011	FY 2012	
					Target	Actual <sup>a</sup>
I. A safe and sound national banking system and federal savings associations						
	Percentage of national banks and federal savings associations with composite CAMELS rating of 1 or 2 <sup>b</sup>	82%	72%	75%	90%	<b>76%</b>
	Rehabilitated problem national banks and federal savings associations as a percentage of the problem national banks one year ago (CAMELS 3, 4, or 5) <sup>b</sup>	29%	22%	22%	40%	<b>27%</b>
	Percentage of national banks and federal savings associations that are well capitalized <sup>b</sup>	86%	91%	93%	95%	<b>92%</b>
	Percentage of critically undercapitalized banks and thrifts on which responsible action is taken within 90 calendar days after they become critically undercapitalized	100%	100%	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 <sup>c</sup>	1.34	1.47	1.45	≤1.75	1.41
II. Fair access to financial services and fair treatment of national bank and federal savings association customers						
	Percentage of national banks and federal savings associations with consumer compliance rating of 1 or 2. For institutions with assets over \$10 billion, these ratings reflect only those laws and regulations for which the OCC has enforcement and supervisory authority.	97%	96%	96%	94%	<b>93%</b>
	Percentage of community banks that are within one year of their first Intermediate Small Bank or Large Bank Community Reinvestment Act examination for which the OCC offers to provide consultation on community development opportunities	100%	100%	100%	100%	100%
	Percentage of consumer complaints closed within 60 calendar days of receipt	8%	3%	44%	80%	56%
	Number of consumer complaints opened/closed or referred during the fiscal year <sup>d</sup>	58,810/ 32,533	80,336/ 79,660	85,127/ 85,128	72,000/ 70,000	66,161/ 59,130
III. A flexible legal and regulatory framework that enables national banks and federal savings associations to provide a full, competitive array of financial services consistent with statutory and prudential safety and soundness constraints						
	Percentage of external legal opinions issued within established time frames	88%	85%	91%	86%	90%
	Number of external legal opinions issued during the fiscal year	53	64	77	60	59
	Percentage of licensing applications and notices filed electronically	51%	44%	53%	35%	42%
	Number of licensing applications and notices filed electronically during the fiscal year	1,681	1,440	1,610	1,200	1,374
	Percentage of licensing applications and notices completed within established time frames	95%	96%	97%	95%	98%
	Number of licensing applications and notices completed during the fiscal year	1,471	1,344	1,382	1,700	1,614
	Average survey rating of the overall licensing services provided by the OCC <sup>e</sup>	1.25	1.15	1.31	≤1.5	1.22
IV. A competent, highly motivated, and diverse workforce that makes effective use of OCC resources						
	Total OCC costs relative to every \$100,000 in assets regulated	\$8.81	\$9.28	\$8.76	\$9.22	<b>\$10.51</b>

Note: Before FY 2012, OCC performance measures included only supervision of national banks. On July 21, 2011, the OCC assumed responsibility for regulating federal savings associations. Therefore, FY 2012 is the new baseline year for the OCC, with new measures that include both national banks and federal savings associations. All data before FY 2012 include only national banks.

<sup>a</sup> The FY 2012 performance numbers shown in bold italics are estimates. Some performance data are obtained from quarterly call reports from banks. The September 30, 2012, 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.

<sup>b</sup> These performance measures for FY 2012 are below target primarily because of the difficult economic situation the entire financial industry is facing. The OCC continues to closely monitor the capital levels and performance of all its banks and, when necessary, initiates formal and informal agreements to enhance its level of supervision.

<sup>c</sup> The examination survey is based on a five-point scale, in which 1 indicates complete agreement and 5 indicates complete disagreement.

<sup>d</sup> The total complaint numbers include referrals to the Federal Reserve Board, the FDIC, the National Credit Union Administration, or any other agency or entity that is not a national bank, as well as those complaints serviced on behalf of the CFPB.

<sup>e</sup> The licensing survey is based on a five-point scale, in which 1 indicates outstanding and 5 indicates significantly deficient.

## Improper Payments Elimination and Recovery Act

The Improper Payments Elimination and Recovery Act of 2012, as implemented by the OMB, requires federal agencies to review all programs and activities annually and identify those that may be susceptible to significant erroneous payments. The OCC analyzed payments (excluding payroll) made during FY 2012 and identified 11 erroneous payments requiring adjustments totaling \$573. 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 12 summarizes the OCC's erroneous payments for FY 2012 and FY 2011.

**Figure 12: Erroneous Payments**

	FY 2012	FY 2011
Number of payments	11	52
Dollar value of adjustments	\$573	\$17,060

Source: OCC data.

## Assurance Statement

The Office of the Comptroller of the Currency (OCC) met 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 during fiscal year (FY) 2012.

The OCC's systems of management control 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) system 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 unqualified assurance that the above listed management control objectives were achieved by the OCC without material weakness during FY 2012. Specifically, this assurance is provided relative to Sections 2 and 4 of the FMFIA.

The OCC conducted its assessment of the effectiveness of its 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 unqualified assurance that its internal control over financial reporting was operating effectively as of June 30, 2012, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

I am reporting substantial compliance with the requirements imposed by the FFMIA. The agency's internal assessment and the external auditors' report

on internal control identified a significant control deficiency related to information technology general controls in the areas of security management, access controls, contingency planning, and configuration management. A plan of corrective action is in place to address these issues during FY 2013.

I am also providing unqualified assurance that our supervision programs achieved intended results despite the extraordinary challenges that continued to confront national banks and federal savings associations (collectively, banks).

Operating environments for the OCC and the banking industry remain challenging. While domestic conditions are improved overall, U.S. banks with Eurozone banking operations confront significant risks associated with potential sovereign defaults or countries' exit from the Eurozone. Nevertheless, on average, balance sheets are stronger, earnings are improving, and the number of problem institutions and institutional failures, while still too high, is declining.

The industry continues to recover from the credit and capital market challenges of the financial crisis. At the same time, however, operational risk, generally defined as the risk of loss due to failures of people, processes, systems, and external events, is increasing. Such risk is heightened when these systems and procedures are most complex.

The OCC is responding to these challenges with enhanced supervision, effective policy development, rulemaking, risk monitoring, and examination support. Through joint efforts with other federal banking agencies, the OCC also continues to implement provisions of the Dodd–Frank Act. While minimizing regulatory burden, managing the complexity of and interaction between Dodd–Frank and other statutory and regulatory provisions will continue to require extensive interagency consultation and coordination.

This fiscal year, the OCC completed the integration of 668 Office of Thrift Supervision (OTS) employees, successfully moving to one regulator with one mission to supervise national banks and federal savings associations. Continued progress in integrating OTS and OCC policy and examination platforms remains a top priority. Early in 2013, the OCC will launch

an aggressive cross-credentialing program to enable examiners to become certified to lead examinations of both national banks and federal savings associations. Our goal is to have many examiners cross-credentialed for maximum resource efficiency and flexibility.

Other important initiatives include extensive examiner assignment rotations, extensive examiner training in risk specialties under the tutelage of experienced team leaders, and the recruitment of individuals with industry or examination experience in specialty areas such as commercial and retail credit, operational risk, Bank Secrecy Act/Anti-Money Laundering (BSA/AML), and consumer compliance.

We are also devoting considerable resources to developing or improving risk assessment and monitoring analytical tools, including an internal radar risk rating and ranking process for the banking system; a customized package of early warning indicators to detect risks and trends building in the system; and enhanced periodic reports to identify and monitor risks. The OCC's National Risk Committee has begun publishing a *Semiannual Risk Perspective* report to give bankers, examiners, and the public the OCC perspective on key risks and issues facing national banks and federal savings institutions. The first public version of this report was issued in July 2012. In the Eurozone area, added risks include the disruption of financial market infrastructure, the potential devolution of the Euro and introduction of new currencies, the redenomination of financial instruments, and the introduction of capital and exchange controls by a country that exits the Eurozone. In our supervisory role, we are evaluating the range of exposures our institutions could face from direct investment, contagion, and operating risks and actions taken to mitigate or contain those risks. This evaluation involves reviewing banks' contingency plans; monitoring progress through regular meetings with bank and thrift management; and ensuring that capital, reserves, and liquidity are strong and resilient.

The OCC communicated its elevated expectations for corporate governance and oversight to the large banks under its supervision. We are also measuring progress in achieving: board of directors' willingness to provide credible challenge; talent management

and compensation; defining and communicating risk appetite across the company; development and maintenance of strong audit and risk management functions; and sanctity of the national bank and federal savings association charters.

The OCC continues to be represented in various interagency and international groups, including the Federal Financial Institutions Examination Council, the Financial Stability Oversight Council, the Basel Committee on Banking Supervision, and the Financial Stability Board.

In addition, the OCC continues to work closely with an interagency group to develop comprehensive and consistently applied and enforced national foreclosure servicing standards. We are ensuring that the largest regulated mortgage servicers under our consent orders correct identified deficiencies, and we remain committed to transparency in this process. We released an updated "Interim Status Report" and joined with other regulators to release the "Interagency Guidance on Mortgage Servicing Practices Concerning Military Homeowners With Permanent Change of Station Orders." We also published a foreclosure management bulletin to alert large banks to oversight and management expectations, and we are examining for compliance.

To reaffirm the importance of strong risk management, we issued guidance to bankers including an updated concentrations handbook, a capital planning bulletin, a statement on accounting and reporting troubled debt restructurings, and interagency guidance on stress testing for banks with more than \$10 billion in consolidated assets as a means to better understand the range of a banking organization's potential risk exposures. To clarify expectations for community banks, we issued separate guidance on the use of stress testing in community banks. While we expect community banks to identify and assess key vulnerabilities and incorporate those assessments into their risk management, business strategies, and capital planning processes, the guidance emphasizes that there is a range of fairly simple tools they can use for such analyses. Concurrent with that guidance, we also made available to national banks and federal savings associations a stress-testing tool to assess key

vulnerabilities in community banks' income-producing commercial real estate portfolios.

In addition to rulemaking, bulletins, and other guidance, the OCC is investing significant resources to conduct outreach programs on national, regional, and local levels. During the year, the OCC hosted banking outreach sessions throughout the country for bankers and bank directors to provide updates and educational materials on current issues and supervisory expectations. In addition to these face-to-face meetings, we conducted several teleconferences on supervisory topics, including small business lending. We also hosted a series of annual workshops for bank and thrift directors, a program that is a direct outgrowth of interaction with the industry.

We have increased our staffing levels at the large banks we supervise, improving communication while aiding prompt monitoring and assessment.

Members of our nation's armed forces and their families sacrifice much to safeguard the liberties we enjoy. Because of the extraordinary hardships of military service, the law provides certain protections to our servicemembers. In FY 2012, the OCC and the U.S. Department of Justice have helped ensure that servicemembers received every benefit they were entitled to under the law, and we are directing national banks and federal savings associations to correct any found violations of the Servicemembers Civil Relief Act (SCRA). We are also revising and strengthening our examination policies for SCRA compliance.

Another area of the agency's focus is BSA/AML compliance, and we have implemented new approaches to BSA/AML to ensure that deficiencies are considered in a safety and soundness context. The OCC is committed to ensuring that the institutions under its supervision have effective controls in place to safeguard them from being used as vehicles to launder money for drug traffickers and transnational and other criminal organizations, or to facilitate the financing of terrorist acts.

The OCC recognizes that it must be vigilant against the determination and ingenuity of those who commit financial crimes. We also recognize that technical innovations, new and more convenient financial

services products, and globalization trends are rapidly changing the BSA/AML landscape. These are major challenges for both the financial services industry and its regulators, and we are committed to meeting those challenges.

The OCC also continues to address its disaster recovery capability with a comprehensive phased plan for the next three years to meet the organization's information technology needs. Phase one is underway, with the OCC moving to a new, state-of-the-art, highly secure, and fully redundant data center. Phase two is also underway, with the OCC's critical e-mail infrastructure, including BlackBerry servers, already hosted at a fully redundant data center in Charleston, W. Va. By June 30, 2014, I anticipate receiving a proposal for phase three, the OCC's new disaster recovery strategy and roadmap.

## **Analytical Basis of Assurance Statement**

The OCC evaluated its management controls in accordance with the FY 2012 Secretary's Assurance Statement Guidance of June 22, 2012, and considered the following guidance:

- OMB Circular A-127, Financial Management Systems;
- OMB Circular A-130 Revised, Management of Federal Information Resources;
- OMB Circular A-11, Preparation, Submission, and Execution of the Budget;
- OMB Bulletin 06-03, Audit Requirements for Federal Financial Statements;
- Statement on Auditing Standards No. 115, Communicating Internal Control Related Matters Identified in an Audit; 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;
- FFMIA certification submitted by our Chief Financial Officer;
- The 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 control self-assessments completed by OCC managers in FY 2012;
- Audit reports and evaluations issued by the Government Accountability Office (GAO) and the Office of the Inspector General;
- Results of other external and internal reviews;
- Assessment of the Improper Payments Elimination and Recovery Act submitted to the U.S. Department of the Treasury in FY 2012;
- GAO Core Financial System Requirements Checklist;
- FFMIA Risk Model and Financial Management System Self-Assessment Checklists submitted to the Treasury Department in July 2012;
- Unqualified and timely audit opinion on FY 2011 financial statements; and
- Certified public accountant Gardiner, Kamyra and Associates' October 11, 2012 status report on the FY 2012 financial statement audit.



Thomas J. Curry  
Comptroller of the Currency