Comptroller of the Currency
Administrator of National Banks

Annual Report

Fiscal Year 2003

The Value of the
National Bank Charter

OCC Vision

The Office of the Comptroller of the Currency (OCC) seeks to assure a banking system in which national banks soundly manage their risks, comply with applicable laws, compete effectively with other providers of financial services, offer products and services that meet the needs of customers, and provide fair access to financial services and fair treatment of their customers.

Mission

The Office of the Comptroller of the Currency was created by Congress to charter national banks, to oversee a nationwide system of banking institutions, and to assure that national banks are safe and sound, competitive and profitable, and capable of serving in the best possible manner the banking needs of their customers.

Annual Report

Fiscal Year 2003

Office of the Comptroller of the Currency

John D. Hawke, Jr.

Comptroller of the Currency

The Administrator of National Banks

November 2003

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140 Years of Excellence

A Brief History of the Office of the Comptroller of the Currency

Created as a bureau of the Treasury Department by the National Currency Act of February 25, 1863, the Office of the Comptroller of the Currency (OCC) was charged with the responsibility of organizing and administering a system of nationally chartered banks and a uniform national currency. In June 1864, the legislation underwent substantial amendment and became known as the National Bank Act. It remains the basic statute governing the national banking system today.

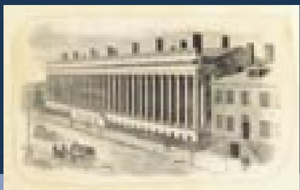
The national banking system was created in response to short- and long-term needs. When the Civil War began, less than $2 million was on hand in the Treasury, and new sources of cash were urgently required. The new law required that bank organizers purchase U.S. governmental bonds in order to obtain a national bank charter, which ultimately generated nearly $130 million for the cash-strapped federal government.

But the founders of the national banking system, including President Lincoln and Secretary of the Treasury Salmon P. Chase, had a longer, more peaceful and more prosperous future in mind. The absence both of a uniform national currency and a safe and sound banking system had been a serious impediment to economic growth before the Civil War. With the National Bank Act, the country obtained both.

The first Comptroller, Hugh McCulloch of Indiana, was among the most distinguished bankers of his day. He had come to Washington as a lobbyist on behalf of state-chartered banks to oppose the National Currency Act. But further study convinced McCulloch that the legislation would be a great benefit to the country, and he accepted Chase's offer to head the new bureau.

Congress built various safeguards into the law to ensure public confidence in the national banking system, and McCulloch developed the policies and procedures to maintain high standards of safety and soundness among national banks. Bank organizers were expected to be people of character and experience; their business plans received careful scrutiny; their activities were strictly circumscribed; and, once under way, their operations were subjected to regular oversight by OCC examiners, who often brought many years of professional experience to their duties.

The essential mission of the OCC has not changed greatly since 1863. National banks continue to underpin the U.S. economy, and the responsibility for their safety and soundness still rests significantly on the supervisory expertise of the OCC. Twenty-seven Comptrollers of the Currency since Hugh McCulloch have presided over a national banking system that has grown dramatically in size and sophistication.

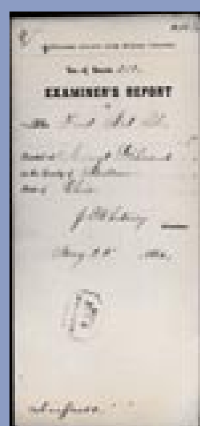


Key Dates in OCC History

1863

President Abraham Lincoln signs the Currency Act of 1863, establishing the Office of the Comptroller of the Currency. The act sets chartering standards for national banks and permits these banks to issue currency.

Hugh McCulloch is appointed the first Comptroller of the Currency. He later becomes Secretary of the Treasury.


EXAMINER'S REPORT

The first national bank charter is issued to the First National Bank of Philadelphia.

The first national bank examination is completed.

The first national bank note is issued.

1865

Congress attempts to drive state banks out of existence by levying a 10 percent tax on state bank notes.

The first national bank failure (First National Bank of Attica, New York) occurs on April 14, the same day that President Lincoln is shot.

1872

John Jay Knox is appointed Comptroller by President Ulysses S. Grant. He served until 1884—the second longest term in the history of the Office of the Comptroller. A low failure rate of 73 banks in 12 years testifies to the effectiveness of the Office.

1908

Lawrence O. Murray is named Comptroller. He places new emphasis on stricter bank chartering standards and insists on onsite bank supervision.

1913

Federal Reserve System is established.

1933

J.F.T. O'Connor becomes Comptroller and restores stability to the national bank system during the Great Depression.

President Franklin D. Roosevelt declares a four-day bank holiday on March 6.

Federal Deposit Insurance Corporation (FDIC) is established.

1935

Banking Act of 1935 retires national bank currency in favor of Federal Reserve notes.

1938

OCC, Federal Reserve Board, and FDIC agree to share responsibility for bank examinations.

1956

Bank Holding Company Act of 1956 places restrictions on interstate bank holding companies.

1961

James J. Saxon is appointed Comptroller. He accelerates the granting of national bank charters, expands national bank powers, and liberates national banks from regulations deemed unnecessarily burdensome.

1974-75

Study by accounting firm of Haskins and Sells recommends that OCC focus its supervision on troubled banks, rather than on all banks equally.

1978

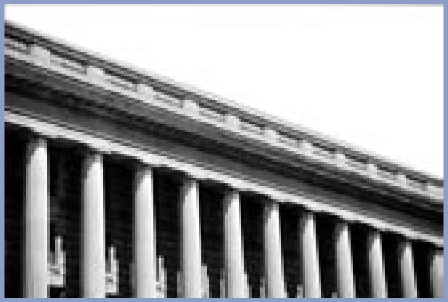
Federal Financial Institutions Examination Council (FFIEC) is established to provide uniform bank supervision.

1989

In response to the 1980s banking crisis, Congress passes the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). This act replaces the Federal Home Loan Bank Board with the Office of Thrift Supervision and provides pay parity among federal financial regulatory agencies.

1991

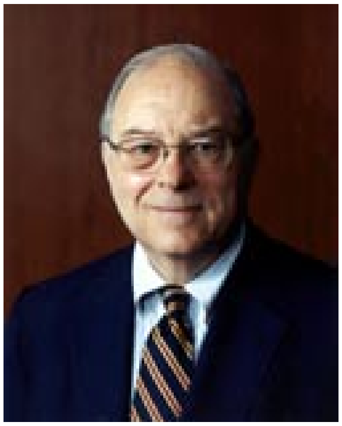
The FDIC Improvement Act (FDICIA) imposes new regulatory requirements on banks and enhances regulatory safeguards.



1998

John D. Hawke, Jr., is named Comptroller. He supports modernization and competitiveness of the national bank charter, works to end disparities in funding of state and national bank supervision, and tightens OCC budget controls.

Comptroller's Viewpoint



I am pleased to report that FY 2003 was a year of growth and success for the national banking system. Continued record earnings were used in part to strengthen bank capital, which was already at record levels. Most major income categories hit historical peaks. Deposits increased, too, as consumers reacted to the weak performance of equity markets by placing funds in the banking system. This increase in deposits, in turn, fueled continued growth in bank assets.

Macroeconomic weaknesses did create some credit quality issues for national banks, particularly in the corporate lending area. But with the rise in corporate earnings, the worst part of the credit quality now appears to be behind us, and asset quality for national banks saw significant improvement last year.

Overall, the national banking system today is safe, sound, and competitive—and the outlook is for further improvement as the economic picture brightens, as most analysts forecast.

2003 also saw improvements in the Office of the Comptroller of the Currency's fiscal and organizational health. Revenue growth was strong, reflecting large increases in national bank assets and net additions to the system through merger, conversion, and de novo charters. Meanwhile, OCC managers continued to demonstrate impressive budgetary and staffing discipline: at year's end, the agency was staffed below its FY 2002 level and below its FY 2003 target.

We took important steps this year to ensure that the OCC was structured to make optimum use of its human and material resources in light of the changes that have taken place in the banking industry and in the way the OCC performs its supervisory responsibilities. We announced the results of our District Structure Study and began to implement many of its key recommendations, including the consolidation of the previous six district offices into four locations, with Kansas City and San Francisco being absorbed into a new Denver district office.

When the results of the District Structure Study were announced, I also announced that the OCC would undertake a parallel study of the functions of the headquarters office. In 2003, we organized a working group, which by year's end, had completed its investigations and prepared recommendations for consideration by the executive committee. By this time next year, I expect that many changes will have taken place to improve headquarters' ability to serve the current and prospective needs of the OCC.

Some key legal and regulatory initiatives continued—and some new initiatives were launched—to ensure that the national bank charter remains fully competitive in the financial marketplace, and that the rights of national bank consumers are protected against unfair and abusive practices.

The OCC defines predatory lending as the aggressive marketing of credit to borrowers who cannot afford it on the terms being offered—typically, on the basis of the liquidation value of the collateral. The OCC issued two advisory letters to national banks, aimed at ensuring that neither they nor their subsidiaries engage in lending that might be considered predatory, and that their lending complies with safety and soundness standards and all applicable consumer protection laws.

A number of states sought to impose their own anti-predatory lending laws on national banks in 2003. In response to an appeal by two national banks and after reviewing public comment, the OCC concluded that a Georgia law that imposed severe restrictions on all lenders operating within the state, did not apply to national banks and their subsidiaries. In issuing this preemption determination, the OCC ruled that the Georgia law interfered with national banks' ability to exercise permissible federal powers and was thus in conflict with federal law.

Although the year saw considerable progress toward completion of a new Basel Capital Accord, the task of developing capital rules that will apply to all internationally active banks proved more complicated than anticipated. The OCC is working with the Basel Committee to develop a conceptually strong framework and ensure the integrity of our U.S. rulemaking process. I am optimistic that the spirit of compromise, cooperation, and commitment will bring us even closer to the end of the long road to Basel II in the coming year.

John D. Hawke, Jr.
Comptroller of the Currency
November 7, 2003

OCC At-a-Glance

The year 2003 marked the 140th anniversary of the OCC. When the OCC was created, its founders could not have imagined that banking institutions would file branch applications electronically using a worldwide computer network. That is just one measure of the OCC's progress. This annual report presents the agency's major activities for fiscal year 2003 and performance toward its long-term strategic goals.

Agency Overview

- The OCC has approximately 2,800 employees of which 1,870 are bank examiners.
- The agency is funded primarily by semiannual assessments levied on national banks.
- A national banking system comprised of 2,150 banks and 53 federal branches of foreign banks.
- Mission is accomplished through four major programs: supervise, charter, regulate, and analyze risk.

Agency Profile

The OCC was established in 1863, as a bureau of the Department of the Treasury. The OCC is responsible for supervising, licensing, and regulating the nation's federally chartered banks.

National banks hold 56 percent of the total assets of all U.S. commercial banks.

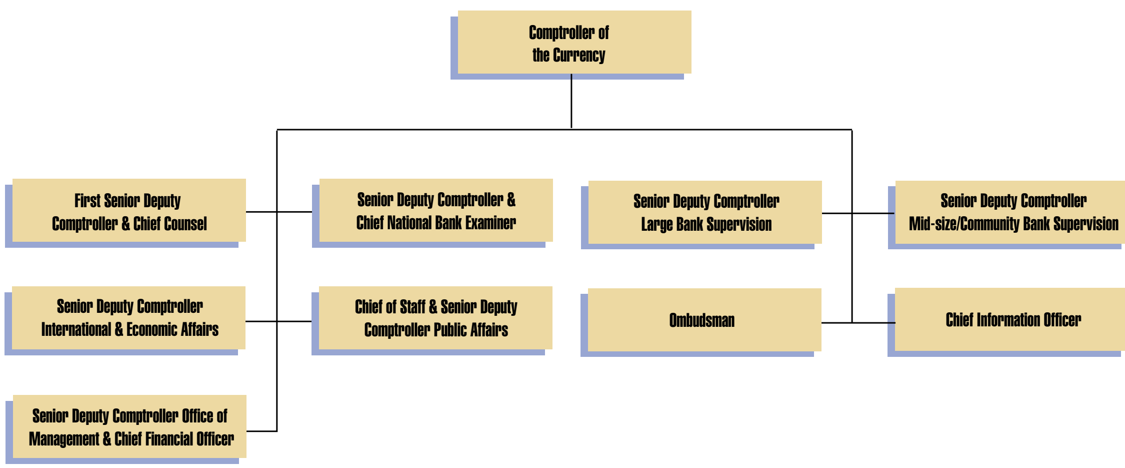
The OCC's operations are funded primarily by semiannual assessments levied on national banks (97 percent), interest revenue from its investments in U.S. Treasury securities (two percent), and licensing and other fees (one percent). The OCC does not receive congressional appropriations to fund any of its operations.

Agency Structure

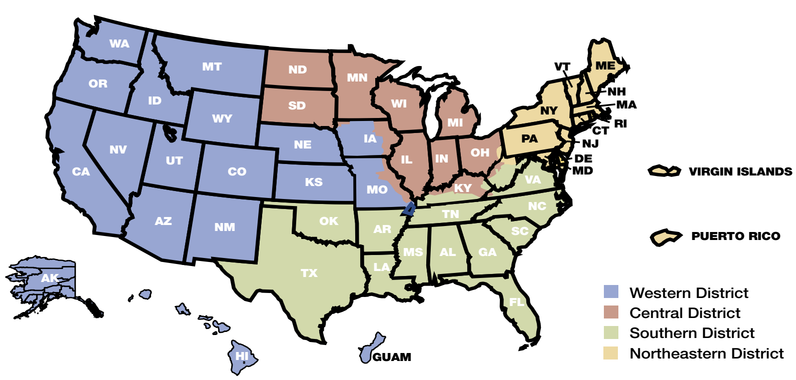
The OCC is headquartered in Washington, D.C., operates a data center in Maryland, and during FY 2003 maintained six district offices in Atlanta, Chicago, Dallas, Kansas City, New York, and San Francisco. Effective October 1, 2003, the OCC reduced the number of its district offices with locations in Chicago, Dallas, Denver, and New York. In addition, the OCC has 48 field offices and 23 satellite locations in cities throughout the U.S., resident examiner teams in the 24 largest banking companies supervised, and an examining office in London, England.

The OCC is headed by the Comptroller of the Currency, who is appointed by the President, with the advice and consent of the Senate, for a five-year term. An executive committee comprised of the senior executives of the major business units advises the Comptroller on policy and operational issues. The OCC's organizational structure is depicted in Figure 1.

Figure 1: OCC Organization Chart and Office Locations



Office Locations



Strategic Goals

The OCC supports the Department of the Treasury's 2000-2003 strategic goals of:

- Promoting domestic economic growth.
- Improving customer satisfaction.
- Improving employee satisfaction.

The OCC has established four strategic goals to achieve its mission and contribute to the achievement of the Department of the Treasury's strategic goals. The OCC's goals, as defined in its Strategic Plan, are:

- A safe and sound national banking system.
- A flexible legal and regulatory framework that enables the national banking system to provide a full competitive array of financial services.
- Fair access to financial services and fair treatment of bank customers.
- An expert, highly motivated and diverse workforce that makes effective use of OCC resources.

Performance Measures

As required by the Government Performance Results Act (GPRA), the OCC issues an annual performance plan outlining the performance goals and measures for the year. The OCC's performance measures help to demonstrate its progress in achieving long-term strategic goals.

The OCC's performance data presented in this report is reliable and complete (see later discussion under Performance Information Reliability). The OCC's performance on the GPRA goals are incorporated under the appropriate program area discussion. A complete list of the OCC's performance measures, workload indicators, customer service standards, and the results achieved during FY 2003, and where the data is available for the three previous years, are presented in Appendix D.

Program Results

- 3,400 examinations conducted to promote a safe and sound national banking system that supports domestic economic growth.
  - 99 percent of national banks are well-capitalized.

- 94 percent of national banks with composite CAMELS[1] ratings of 1 or 2.
- 96 percent of national banks with consumer compliance ratings of 1 or 2.

• 150 substantive inquiries, including formal appeals, processed by the Office of the Ombudsman.

• 205 enforcement actions completed on banks and individuals.

- 32 percent of problem national banks rehabilitated.

• 80,000 calls fielded by the OCC's customer assistance call center.

- 87 percent of the 69,000 consumer complaints closed were within 60 calendar days.

• 2,100 corporate applications received.

- 97 percent of the 1,900 decisions issued were within established time frames.
- 8 percent of all corporate applications and notices were received electronically with the March 2003 implementation of e-Corp, a Web-based application on a secure extranet site.

• 200 bank consultations on community development opportunities were conducted.

- 100 percent of banks within one year of their first large bank Community Reinvestment Act (CRA) examination were offered a consultation.

• 90 responses to requests for legal opinions from banks.

- 87 percent of legal opinions were issued within established time frames.

• Supervision and licensing activities performed in a quality and professional manner.

- External ratings on the OCC's examinations and licensing services exceeded goals for all service standards.

[1]Acronym is for composite rating that banks are given as a result of a bank examination. The letters stand for Capital, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk.

Other noteworthy accomplishments included:

- The OCC continued to guide national banks and the industry on complying with the USA PATRIOT Act requirements and responding to the threat of terrorist financing.

- The OCC, in coordination with the Federal Reserve and the FDIC, completed the shared national credit review that covered 8,232 loan facilities with commitments totaling $1.6 trillion.

- The OCC implemented an organizational realignment to focus resources on increasing complexities unique to mid-size and credit card companies. The OCC also completed its district restructuring to better align its operations for more effective supervision of nationally chartered community banks, and federal branches and agencies of foreign banks.

- To enhance the OCC's risk analysis capabilities, the Large Bank Credit Tool (LBCT) was developed to assess the vulnerability of commercial and industrial (C&I), and commercial real estate loans (CRE) to adverse economic events.

Financial Management Results

- Annual statement of reasonable assurance on the Federal Managers' Financial Integrity Act (FMFIA) and substantial compliance on the Federal Financial Management Improvement Act (FFMIA).

- Unqualified opinion on the FY 2003 financial statements with no material weaknesses.

- Timely and accurate monthly and quarterly financial reporting.

- Enhanced budgeting and performance integration with the implementation of staffing plans and program plans to support budget formulation.

- Achieved 97 percent of the annual target of $213 million for the special and contingency reserves, which brings the OCC to 92 percent of its long-term goal of $225 million.

Operations and Accomplishments

To achieve its strategic goals and accomplish its mission, the OCC aligns its activities into four major program areas: supervise, charter, regulate, and analyze risk. The OCC's budget is formulated and costs are tracked by these programs (Table 1). The OCC's most significant accomplishments and activities for FY 2003 are discussed by program. Where the data is available and as appropriate, comparative data for prior years is included in the discussion.

Table 1: Program Costs and FTE, FY 2003 and 2002

	FY 2003				FY 2002			
	Costs		FTE		Costs		FTE	
	Dollars (in millions)	%	Number	%	Dollars (in millions)	%	Number	%
Supervise Program	$387.5	86%	2,360	86%	$360.4	85%	2,372	85%
Charter Program	11.6	2%	75	3%	11.3	3%	79	3%
Regulate Program	25.9	6%	173	6%	25.0	6%	173	6%
Analyze Risk Program	26.1	6%	153	5%	25.7	6%	168	6%
Total OCC	$451.1	100%	2,761	100%	$422.4	100%	2,792	100%

Supervise Program

This program encompasses the supervision of national banks or their subsidiaries, federal branches and agencies of foreign banks, national trust companies, bank data software vendors, and data processing service providers. The Committee on Bank Supervision establishes and oversees areas of emphasis for the OCC's supervisory activities. The committee is comprised of the Chief National Bank Examiner and the senior deputy comptrollers for Large Bank Supervision and Mid-size/Community Bank Supervision.

The supervise program is by far the largest program and is the core for accomplishing the OCC's mission. The OCC for FY 2003 devoted 2,360 full-time equivalents[2] (FTEs) or 86 percent of total FTEs, to the supervise program. The cost of the supervise program was $387.5 million in FY 2003.

[2] Full-time equivalent is the number of paid hours accumulated during an entire fiscal year by a full-time position (40 hours per week). Generally, this is between 2,080 and 2,096 hours depending on the number of paid days that fall within a given year.

Two business lines reside within the supervise program, large banks and mid-size/community banks. The business line approach recognizes that institutions of varying sizes and complexity present different risks and require unique supervision philosophies.

The OCC's large bank program is responsible for supervising the 24 largest national banking companies, using teams of dedicated onsite examiners. During FY 2003, areas of supervisory emphasis for the large bank program included management performance and board governance, the integrity of banks' financial statements, ensuring adherence to accepted accounting practices, credit underwriting, allowance for loan and lease loss reserve adequacy, operational and technology-related vulnerabilities, and internal controls.

Approximately 23 banking companies are in the OCC's mid-size bank program, and approximately 25 companies are in the OCC's credit card bank program. During FY 2003, the OCC established a new department to supervise mid-size and credit card banks under the responsibility of a deputy comptroller. This organizational realignment focused resources on the increasing complexities unique to mid-size and credit card companies.

The OCC's community bank program generally covers national banks with less than $1 billion in total assets. Banks are assigned to an OCC portfolio manager who oversees the supervisory strategies for the banks. These strategies combine onsite examinations and off-site analysis to monitor bank performance. During FY 2003, areas of supervisory emphasis for the community bank program included credit quality, adequacy of the allowance for loan and lease losses, and banks exhibiting aggressive growth.

The supervise program is divided into three subprograms: examining, enforcing, and ensuring fair access and fair treatment. The OCC's most significant supervision accomplishments are discussed by subprogram.

Examining

Examining activities include conducting regularly scheduled or targeted examinations and off-site analysis. During FY 2003, the OCC conducted almost 3,400 bank examinations to ensure a strong national banking system that helps to sustain the U.S. economy. The vast majority of examinations conducted assessed the safety and soundness of bank operations. The distribution of the types of examinations conducted by the OCC during FY 2003 is presented in Table 2.

Table 2: Type and Number of Bank Examinations, FY 2003

Type of Examination	Number of Exams
Safety and Soundness	1,611
Compliance	835
Community Reinvestment Act	565
Asset Management	378

Overall, national banks have continued to operate in a safe and sound manner as shown by bank examinations and the resulting CAMELS ratings and assessments of capital levels. The OCC exceeded all of its customer service standards for conducting examinations in a competent and professional manner as rated by bank officials. The customer service results were based on 844 examination surveys completed by banks during the year, which was a 40 percent response rate. The survey is based on a five-point scale, in which 1 indicates complete agreement and 5 indicates complete disagreement with the survey statements. The results of the examining and customer service performance measures are shown in Table 3.

Table 3: Examining and Customer Service Performance Measures, FY 2003

Performance Measures	Target	Actual[3]
Percentage of national banks that are well-capitalized	95%	***99%***
Percentage of national banks with composite CAMELS rating of 1 or 2	90%	***94%***
Average survey response that the examiner-in-charge and the examination team were knowledgeable	≤ 1.5	1.26
Average survey response that the examiner's requests for information before and during the examination were reasonable and justified by the examination scope	≤1.75	1.31
Average survey response that the examination team conducted the examination in a professional manner	≤1.75	1.20
Average survey response that during exit and board meetings, the examiner-in-charge and examination team clearly and effectively communicated their findings and concerns	≤1.75	1.27
Average survey response that the report of examination clearly communicated examination findings, significant issues, and the corrective actions (including time frames) management needed to take	≤1.75	1.26
Average survey response that on-going communication by the examiner-in-charge with senior management and the board was appropriate	≤1.75	1.25

In addition to bank examinations, other significant supervision activities in FY 2003 included anti-terrorist financing initiatives, a bank supervision initiative to refocus mid-size and community bank supervision efforts, and the development or enhancement of computer-based applications designed to improve the analysis of bank and examination data. These activities are discussed in more detail as follows.

[3] Performance numbers shown in bold italics are estimates. Some performance data is obtained from quarterly call reports from banks. The September 30, 2003 call reports are not due until 30 or 45 days after the end of the period. Additionally, examinations concluded late in the fiscal year are not finalized for another 30 to 60 days. As a result, complete fiscal year data is not yet available so estimates have been reported.

Anti-Terrorist Financing Initiatives

Building on FY 2002 activities, the OCC completed additional initiatives to respond to the USA PATRIOT Act requirements and the threat of terrorist financing in the national banking system. These included providing a teleconference for bankers on USA PATRIOT Act requirements and the OCC's examination process and initiatives, implementing a developmental program to expand the OCC's pool of Bank Secrecy Act/Anti-Money-Laundering (BSA/AML) experts, and publishing a reference guide for bankers: "Money Laundering: A Banker's Guide to Avoiding Problems."

The OCC provided the industry guidance on terrorist financing and the USA PATRIOT Act that included instructions on reviewing customer files for potential terrorists and money launderers. The OCC also performed follow-up examinations on banks examined during its FY 2002 program that evaluated bank AML systems, including terrorist financing controls and USA PATRIOT Act compliance. Finally, the OCC provided speakers for industry conferences on the subject of AML and the USA PATRIOT Act and participated in U.S. government anti-terrorist financing and AML initiatives involving other countries.

Bank Supervision Initiative

Bank supervision management implemented an initiative during FY 2003 to refocus mid-size and community bank supervision efforts. This initiative called for developing institution-specific supervisory strategies to ensure effective use of limited examination resources, while concentrating on significant risks to the institution. It relies on enhanced surveillance tools and examiner judgment for early problem identification and resolution. The initiative reduced examiner administrative burden, so that additional time could be devoted to direct bank supervision.

Financial Institution Data Retrieval System

The Financial Institution Data Retrieval System (FINDRS) application allows bank supervision staff quick and easy "self service" access to a database of information about holding companies, banks, EDP servicers, and federal branches. It replaces an aging mainframe system with a Web-based application. The information available through FINDRS comes primarily from bank and holding company reports of condition. The application allows the creation of systemic and comparative analysis reports as well as reports on specific institutions.

National Credit Tool

The National Credit Tool is a new examination tool for improving the efficiency and effectiveness of loan reviews in community and mid-size banks. The National Credit Tool enhances the efficiency and quality of the loan portfolio examination process by automatically producing valid statistical samples for examination, automatically preparing worksheets previously completed manually, and generating standardized reports. The improved efficiency allows examiners to devote more time to the analysis of bank data.

National Bank Appeals

The national bank appeals process resolves individual appeals and inquiries from national banks. The Ombudsman, with the consent of the Comptroller, has the discretion to stay any agency decision or action during the resolution of an appealable matter. The Ombudsman's office processed more than 150 substantive inquiries, including formal appeals, during FY 2003.

The OCC's Receptive Ear

The Office of the Ombudsman oversees the National Bank Appeals Program, the Customer Assistance Group, and the administration of the Examination Questionnaire. The office is steadfastly committed to the core principles of timely and fair dispute resolution and quality customer service.

The Ombudsman's Office was established in 1993 to provide bankers with a method of resolving disputes that persist despite efforts to resolve them at the operational level. The Ombudsman has decision-making authority to resolve appeals - a function similar to that of a binding arbitrator. The office operates independently, outside the agency's bank supervision function.

Through the National Bank Appeals Program, the Ombudsman receives 10-to-15 formal appeals each year along with approximately 150 to 200 substantive inquiries. These issues generate information that allows the OCC to refine and polish policies, processes, and procedures to benefit the industry and the agency. Bankers use this forum to discuss concerns and problems confidentially, brainstorm options, and seek advice.

The Customer Assistance Group (CAG) acts as a liaison between national banks and their customers; however, it is not an advocate for either party. The non-biased assistance with problem resolution is beneficial to all concerned, and reflects the OCC's commitment to ensure fair access to financial services and fair treatment for all national bank customers. The group's constituents include the national banks, customers of national banks, and the OCC's bank supervision divisions. The function moved to the Ombudsman's Office in June 1997, and a centralized, re-engineered function began operation in Houston, Texas, in April 1998.

CAG specialists provide callers with current information on banking regulations, while trying to resolve as many cases as possible at the point of first contact. CAG specialists are able to handle cases in languages other than English. The incorporation of a Web-based complaint resolution process, called CAGNet, a quality assurance program, and 24-hour, 365-days-a-year Internet access have enhanced the CAG's ability to deliver responsive customer service.

Credit cards and checking accounts remain the highest source of consumer complaints. Other subjects of consumer complaints involve a broad spectrum of other bank products and services, including home mortgages, non-deposit investments, insurance products, and asset management.

By facilitating communications between national banks and their customers, the CAG supports industry efforts to sustain a broad and satisfied customer base in a highly competitive financial services market.

The OCC solicits feedback from bankers through the Bank Examination Questionnaire, attached to every report of examination, to improve the effectiveness of bank supervision. The Office of the Ombudsman administers these questionnaires and responses to ensure independence and confidentiality. This function alleviates bankers' concerns over retaliation or retribution and reassures examiners that the questionnaires will not be used in performance management. Responses also allow the OCC to refine and enhance the quality of supervisory efforts.

The Ombudsman or the assistants to the Ombudsman review each questionnaire and decide whether further contact with the banker is warranted. The response rate to the OCC's questionnaire has been good.

Enforcing

Enforcement activities ensure that the laws, regulations, and policies are followed by individual national banks. Activities include the OCC's formal enforcement actions, as well as more informal actions to support prompt detection and mitigation of problems before they affect a bank's viability. The OCC conducts investigations, takes administrative actions, and litigates those actions on behalf of the OCC in enforcement proceedings.

During FY 2003, the OCC took various formal and informal enforcement actions against national banks and institution-affiliated parties who engaged in violations of laws and regulations and/or unsafe or unsound banking practices, including formal agreements; temporary cease-and-desist orders; final cease-and-desist orders; removal and/or prohibition orders; and civil monetary penalties (CMPs). The OCC also continued its Fast Track Enforcement Program (initiated in 1996), which helps ensure that bank insiders and employees who have committed criminal acts involving banks, but who are not being criminally prosecuted, are prohibited from working in the banking system. This program resulted in several prohibition and personal cease-and-desist orders during FY 2003. Table 4 below summarizes all enforcement actions completed in FY 2003.

Table 4: Enforcement Actions, FY 2003

Type of Enforcement Action	Against National Banks	Against Institution-Affiliated Parties
Cease-and-Desist Orders	23	28
Temporary Cease-and-Desist Orders	1	3
Civil Monetary Penalties	7	30
Civil Monetary Penalties Amount	$284,400	$783,500
Formal Agreements	33	1
Memoranda of Understanding	17	-
Commitment Letters	9	-
Letters of Reprimand	-	12
Consent Removal/Prohibition Orders	-	43
Total Enforcement Actions	90	117

A discussion of some noteworthy formal enforcement actions taken by the OCC during this period follows.

Payday Lending

All national banks with known payday lending activities through third-party vendors were ordered in FY 2003 to exit the payday lending business. By undertaking enforcement actions against those banks, the OCC addressed safety and soundness concerns about the management of these payday loan programs, and ended significant consumer protection violations.

- Examiner visits documented that a bank and its vendor routinely violated multiple consumer protection laws and regulations. The vendor was ordered to terminate its payday lending relationship with the bank and to refrain from contracting with another national bank until assured by the OCC that the agency would not object. A second order required the bank to exit the payday lending business and pay a CMP of $175,000.

- The OCC determined that an employee of a bank's third-party vendor improperly directed the disposal of payday loan files, resulting in violations of several laws and the OCC's Customer Privacy Standards. The bank's inability to produce loan records resulted in further violations. The third-party vendor was ordered to discontinue its relationship with the bank and to refrain from contracting with another national bank until assured by the OCC that the agency would not object. The bank was ordered to terminate its payday lending relationship with the vendor and agreed not to re-enter the payday loan business without the OCC assurance that the agency would not object. CMPs in the amount of $225,000 against the vendor and $75,000 against the bank were ordered.

- In addition to finding a variety of deceptive acts or practices and conflicts of interest, the OCC determined that a bank's oversight of its payday lending operation was weak, resulting in significant data integrity errors. The bank failed to correct deficiencies identified by bank audits. The OCC required the bank to terminate its payday lending business through its payday vendors.

Unfair and Deceptive Acts or Practices

The OCC has continued to respond vigorously to business practices of national banks that are abusive, unfair, or deceptive, thereby promoting fair treatment of bank customers and fair access to financial services for all Americans.

- While under a consent order to cease operation, a Competitive Equality Banking Act (CEBA) bank continued to charge customers annual fees, in some cases causing them to exceed their credit limit and generating "overlimit fees." The OCC charged that the bank violated the Federal Trade Commission (FTC) Act, because fairness and clarity would require the bank to have notified customers of the inevitable termination of their cards before the expiration of a full year. Under an OCC Formal Agreement, the bank agreed to refund fees, with total restitution exceeding $2 million.

- The OCC determined that a bank's credit card programs violated section 5 of the FTC Act. The bank's program included a message that the card had "no annual fee," although a monthly fee was charged. The OCC required the bank to establish a $6 million reserve to fund restitution payments to consumers.

- A bank issued private label cards that were used to finance purchases of heating and air conditioning units sold by a third-party air conditioning firm to Spanish-speaking residents in three states. Installation and operations of the units were problematic. The bank, through its third-party vendor, provided faulty disclosures and its remediation program was further flawed. Pursuant to an agreement with the OCC, the bank is providing restitution to affected customers.

Early Intervention

The OCC continued to take an aggressive, proactive approach to supervising problem banks, ensuring prompt corrective action, early intervention, and least-cost resolution. To minimize losses to the FDIC bank insurance fund, the OCC used a program of structured early intervention and resolution strategies for banks that were: being rehabilitated and returned to district supervision; going through voluntary liquidation; being sold or merged; or closed. In those circumstances, OCC orders can require the bank to submit a plan to sell, merge, or liquidate at no loss or cost to the bank insurance fund, should certain triggering events occur affecting the bank's condition.

In proactively supervising problem banks, the OCC took timely and responsible action on banks that became critically undercapitalized. The OCC also worked diligently to rehabilitate problem banks identified at the end of FY 2002. Of the 118 institutions with a CAMELS rating of 3, 4 or 5 on September 30, 2002, 38 had improved CAMELS ratings by fiscal year-end. Sluggish economic conditions influenced the pace of rehabilitation efforts during FY 2003. As a result, the OCC achieved a 32 percent rehabilitation rate rather than the performance target of 40 percent. The results of the OCC's performance on the enforcement related measures are presented in Table 5.

Table 5: Enforcing Performance Measures, FY 2003

Performance Measures	Target	Actual
Percentage of critically undercapitalized banks on which responsible action is taken within 90 calendar days after they become critically undercapitalized	100%	100%
Rehabilitated problem national banks as a percentage of the prior fiscal year-end's problem national banks (CAMELS 3, 4 or 5)	40%	***32%***

Anti-Money Laundering

The OCC continued to ensure that national banks and their institution-affiliated parties comply with federal anti-money laundering provisions. Cases in FY 2003 included restrictions on a bank's acceptance of cash payments on private label credit cards, as well as improvements to BSA policies and procedures.

Credit Card Bank Supervision

The OCC further developed and used new legal tools in FY 2003 to address supervisory concerns relating to CEBA credit card banks. Those tools include Operating Agreements, Liquidity Reserve Deposit Accounts (LRDAs), and Capital Assurance and Liquidity Maintenance Agreements (CALMAs). Operating agreements can be used in a pending corporate application by a bank to address specific areas of supervisory concern. For example, banks can be required to achieve capital levels that exceed regulatory minimums; maintain sufficient liquid assets, as defined by the operating agreement, to meet the bank's daily liquidity needs; or establish and maintain a LRDA at a third-party depository institution or Federal Reserve Bank. CALMAs are agreements entered into between the bank and its parent requiring the parent to provide capital and liquidity support to the bank.

Actions to Combat Insider Abuse

The OCC initiated and litigated enforcement actions against bank insiders and other institution-affiliated parties who engaged in unsafe or unsound practices, unlawful conduct, or breaches of duty. The agency acted when such practices, conduct, or breaches could have caused or did cause harm to a national bank, or other banks, or resulted in financial gain or other benefit for the insider. Several cases resulted in prohibitions, CMPs, restitution, or other personal cease-and-desist orders.

Identity Theft and Computer Intrusion

The OCC enhanced surveillance and enforcement activities involving issues of special concern to the national banking system, such as identity theft and computer intrusion. The OCC detected several cases of theft, misuse, and compromise of customer data, which resulted in prohibition, cease-and-desist, and CMP orders.

Ensuring Fair Access and Fair Treatment

Activities in this subprogram include:

- Reviewing issues related to fair access to financial services and fair treatment of bank customers.
- Educating community and consumer organizations and facilitating their interactions with the OCC.

- Conducting outreach to national banks to assist them in meeting their obligations under the CRA rules.
- Meeting with individuals and groups protesting banks corporate applications.
- Reviewing or approving individual bank community development activities.
- Conducting risk-based fair lending examinations.

The OCC's efforts to ensure fair access and fair treatment focused on integrating compliance risk supervision into the on-going supervision activities for national banks.

Overall, consumer compliance ratings for national banks remained at a high level during FY 2003. The OCC met or exceeded all of its FY 2003 performance targets for ensuring fair access and fair treatment of bank customers as depicted in Table 6.

Table 6: Ensuring Fair Access and Fair Treatment Performance Measures, FY 2003

Performance Measures	Target	Actual
Percentage of national banks with consumer compliance rating of 1 or 2	94%	***96%***
Percentage of community banks that are within one year of their first large bank Community Reinvestment Act examinations in which the OCC offers to provide consultation on community development opportunities	100%	100%
Percentage of consumer complaints closed within 60 calendar days of receipt	80%	87%

Community Affairs

The OCC made consultative offers in FY 2003 to all banks that were within one year of their first large bank CRA examination. The OCC's Community Affairs Department staff conducted 200 bank consultations during FY 2003. In addition, the OCC met with community and consumer organizations, as well as a national civil rights organization, on policy matters related to predatory lending, payday lending, consumer protection, the USA PATRIOT Act, CRA changes, financial literacy, and other consumer issues. These meetings provided the OCC with information about the challenges and opportunities for increased access to financial services for consumers in disadvantaged communities.

Consumer Complaints

The OCC's CAG reviews and processes complaints from customers of national banks. The OCC maintains a call center with trained compliance professionals to deliver responsive customer service. The OCC's philosophy is to resolve cases on the first contact, when possible. During FY 2003, the OCC received more than 80,000 calls, opened over 75,000 consumer complaint cases, and closed over 69,000 cases. The OCC closed 87 percent of consumer complaint cases within 60 calendar days.

Charter Program

The charter program involves activities related to the chartering of national banks as well as the evaluation of the permissibility of structures and activities of national banks and their subsidiaries. This includes the review and approval of new national bank charters, federal branches and agencies[4], mergers, acquisitions, conversions, business combinations, corporate reorganizations, changes in control, operating subsidiaries, branches, relocations, and subordianted debt issues. The charter process incorporates conditions and agreements as needed to support the safe and sound operation of the resulting entities.

For FY 2003, the OCC devoted 75 FTEs or three percent of total FTEs, to the charter program. The cost of the charter program was $11.6 million in FY 2003. The OCC exceeded all of its FY 2003 performance targets and customer service standards for its licensing operations. The customer service results were based on 708 licensing surveys completed by banks during the year, which was a 43 percent response rate. The survey is based on a five-point scale, in which 1 indicates outstanding and 5 indicates significantly deficient. The FY 2003 licensing and customer service performance measures and results are presented in Table 7.

Table 7: Licensing and Customer Service Performance Measures, FY 2003

Performance Measures	Target	Actual
Percentage of licensing applications filed electronically	Baseline	8%
Percentage of licensing applications completed within established time frames	95%	97%
Average survey rating of OCC's timeliness on licensing applications	≤ 1.5	1.16
Average survey rating of the knowledge of OCC's licensing staff	≤1.5	1.14
Average survey rating of the professionalism of OCC's licensing staff	≤1.5	1.09
Average survey rating of the appropriateness of OCC's filing location and contact person for licensing services	≤1.5	1.23
Average survey rating of the overall licensing services provided by OCC	≤1.5	1.14

[4] Federal branches and agencies are branches and agencies licensed by the OCC and operated by foreign banking organizations. Federal agencies are offices that engage in the business of banking, but do not accept deposits or exercise fiduciary powers.

Licensing Decisions

A responsive and efficient licensing operation is essential to meet the needs of banks that are part of, or seek to become part of, the national banking system. The OCC received 2,160 applications and 109 After-the-Fact notices during FY 2003. Table 8 shows the corporate applications received in FYs 2002 and 2003. Corporate applications increased by almost 400 (22 percent) over FY 2002. Of the 1,918 decisions issued on applications during FY 2003, 97 percent were completed within the established time frames, a small increase over FY 2002. Table 9 shows the timeliness of the OCC's actions by type of application for FYs 2002 and 2003. The OCC met its goal while providing a consistently high level of services as rated by applicants. The OCC's consistently high performance in providing licensing services for the last five years is exhibited in Figure 2.

Table 8: Corporate Application Activity, FY 2002 and 2003

	Applications Received		FY 2003 Decisions			
	FY 2002	FY 2003	Approved	Conditionally Approved[4]	Denied	Total
Branches	966	1,439	1,309	4	0	1,313
Capital / sub debt	148	119	86	6	1	93
Change in Bank Control	12	16	9	0	1	10
Charters	29	29	1	13	1	15
Conversions[1]	21	19	14	4	0	18
Federal Branches	4	4	0	5	0	5
Fiduciary Powers	39	37	10	2	0	12
Mergers[2]	84	61	65	7	0	72
Relocations	226	236	229	1	0	230
Reorganizations	128	115	94	6	0	100
Stock appraisals	1	0	0	0	0	0
Subsidiaries[3]	112	85	43	7	0	50
Total	1,770	2,160	1,860	55	3	1,918

[1] Conversions are conversions to national bank charters.

[2] Mergers include failure transactions when the national bank is the resulting institution.

[3] This count does not include 111 After-the-Fact notices received in FY 2002 and 109 After-the-Fact notices received in FY 2003.

[4] On April 14, 2000, the Licensing department issued guidance imposing special conditional approval for all bank charters requiring the OCC to be notified before a significant deviation or change in the operating plan during the first three years of operation.

Table 9: OCC Licensing Actions and Timeliness, FY 2002 and 2003

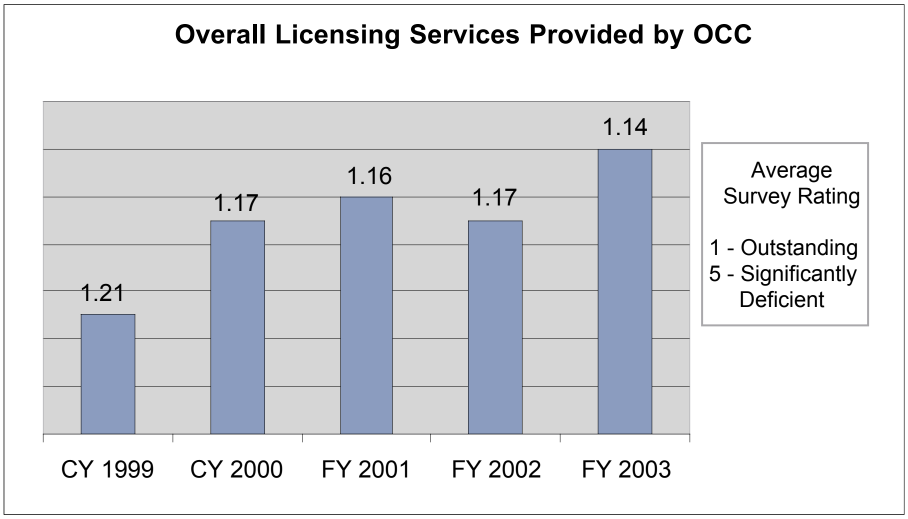
		FY 2002			FY 2003		
			Within Target			Within Target	
Application Type	Target time frames in days[1]	Number of Decisions	Number	%	Number of Decisions	Number	%
Branches	45 / 60	895	875	97.8%	1,313	1,285	97.9%
Capital / sub debt	30 / 45	91	84	92.3%	93	89	95.7%
Change in Bank Control	NA / 60	12	12	100.0%	10	10	100.0%
Charters[2]		30	19	63.3%	15	8	53.3%
Conversions	30 / 90	18	11	61.1%	18	13	72.2%
Federal Branches	NA / 120	0	0	N/A	5	5	100.0%
Fiduciary Powers	30 / 45	13	13	100.0%	12	12	100.0%
Mergers	45 / 60	77	70	90.9%	72	62	86.1%
Relocations	45 / 60	216	214	99.1%	230	227	98.7%
Reorganizations	45 / 60	118	110	93.2%	100	92	92.0%
Stock appraisals	NA / 90	2	2	100.0%	0	0	N/A
Subsidiaries	30 / 60	82	74	90.2%	50	50	100.0%
Total		1,554	1,484	95.5%	1,918	1,853	96.6%

Note: Most decisions (96 percent in 2002 and 97 percent 2003) were decided in the district offices, International Banking and Finance, and Large Bank Licensing under delegated authority. Decisions include approvals, conditional approvals, and denials.

[1] Those filings that qualify for the "expedited review" process are subject to the shorter of the time frames listed. The longer time frame is the standard benchmark for more complex applications. New time frames commenced in 1997 with the adoption of the revised Part 5. The target time frame may be extended if the OCC needs additional information to reach a decision, permits additional time for public comment, or processes a group of related filings as one transaction.

[2] For independent charter applications, the target time frame is 120 days. For holding-company-sponsored applications, the target time frame is 45 days for applications eligible for expedited review, and 90 days for all others.

Figure 2: Average Survey Rating on Licensing Services, CY 1999—FY 2003



Electronic Filing of Applications and Notices

In March 2003, the OCC implemented a Web-based application, e-Corp, to allow national banks to file applications and notices electronically. During 2003, branch and relocation applications and five types of After-the-Fact notices were made available for all national banks on-line through National BankNet (the OCC's secure extranet site for national banks). The OCC continues to develop e-Corp applications and notices. It is anticipated that 90 percent of applications and 70 percent of notices will be available for electronic filing by the end of FY 2004. During FY 2003, the OCC received 8 percent of applications and notices electronically. The goal is to have 15 percent filed electronically in FY 2004, and to increase that goal annually as national banks develop the processes and ability to file electronically.

Other Licensing Accomplishments

The OCC publishes the 24-booklet *Comptroller's Licensing Manual* electronically. During FY 2003, several *Manual* booklets were revised and posted to the OCC's Web site and made available on compact disc (CD) for examiners and the public. In addition, the OCC issued expanded guidance on insider compensation for new bank charters. This guidance reminds bank organizers that stock benefit or compensation plans should serve the best interests of the bank and be commensurate with the services that an insider provides.

Change in Bank Control

The OCC's objective in administering the Change in Bank Control Act (CBCA) is to enhance and maintain public confidence in the national banking system by preventing identifiable adverse effects resulting from anti-competitive combinations or inadequate financial support and unsuitable management in national banks. The OCC reviews each CBCA notice and disapproves transactions that could have serious harmful effects.

During FY 2003, the OCC changed its CBCA notice procedure to review and determine whether the CBCA standards warrant a CBCA filer to execute an enforceable agreement with the OCC. In certain circumstances, the OCC may require an agreement that imposes substantive requirements equivalent to conditions and pre-opening requirements that apply to a de novo charter. When the notice raises fundamental supervisory or other issues that cannot be mitigated through agreements, the OCC will disapprove the proposal.

The OCC's CBCA activity is reflected in Table 10. The OCC received 16 CBCA notices in FY 2003. During this period, the OCC acted on 10 notices, one of which was disapproved.

Table 10: Change in Bank Control Act,[1] 1988–9/30/2003

Year	Received	Acted On	Not Disapproved	Disapproved	Withdrawn
2003*	16	10	9	1	0
2002	10	10	9	1	0
2001	18	17	17	0	0
2000	16	9	8	1	3
1999	13	13	13	0	1
1998	17	12	11	1	5
1997	24	24	24	0	0
1996	17	13	13	0	2
1995	15	16	16	0	0
1994	15	16	15	1	0
1993	28	26	21	5	4
1992	30	25	21	4	4
1991	20	12	6	6	3
1990	31	37	32	5	5
1989	55	51	48	3	4
1988	45	38	34	4	4

[1] Notices processed with disposition.

* Fiscal Year

Community Reinvestment Act

Consistent with 12 CFR 5, the OCC's procedures for handling CRA issues in applications, including how adverse comments from the public would be treated, are detailed in the "Public Notice and Comments" booklet (February 2003) in the *Manual*.

During FY 2003, the OCC received adverse comments from the public on seven CRA-covered applications. The OCC also reviewed and publicly addressed CRA issues raised in one other application. The decisions on applications presenting CRA issues, listed in Table 11, were published in the OCC's monthly *Interpretations and Actions* and are available on the OCC's Web site.

Table 11: List of Applications Presenting CRA Issues Decided, FY 2003

Bank, City, State	Interpretations and Actions	Document Number
U.S. Bank National Association, Cincinnati, OH	November 2002	CRA Decision No. 112
The Baraboo National Bank, Baraboo, WI	November 2002	CRA Decision No. 113
Banknorth, National Association, Portland, ME	December 2002	CRA Decision No. 114
Charles Schwab Bank, National Association, Reno, NV	February 2003	Conditional Approval No. 577
First National Bank & Trust Company, Beloit, WI	March 2003	CRA Decision No. 115
Household Bank (SB) National Association, Las Vegas, NV	April 2003	Corporate Decision No. 2003-2
Trustmark National Bank, Jackson, MS	September 2003	CRA Decision No. 116

Regulate Program

The regulate program establishes regulations, policies, operating guidance, and interpretations of general applicability to national banks. These regulations, policies, and interpretations may set systemwide standards, define acceptable banking practices, provide guidance on risks and responsibilities facing national banks, or prohibit (or restrict) banking practices deemed to be imprudent or unsafe. This program also includes the establishment of examination policies, handbooks, and interpretations for examiners, as well as representing and defending the OCC's regulatory authorities and interpretations in administrative, judicial, and congressional hearings.

The OCC devoted 173 FTEs or six percent of total FTEs, to the regulate program for FY 2003. The cost of the regulate program was $25.9 million in FY 2003. The OCC issued 87 percent of legal opinions within the established time frames, exceeding the FY 2003 goal of 85 percent.

The OCC issued three final rules, one advanced notice of proposed rulemaking, and seven notices of proposed rulemaking in FY 2003. Some of the most significant rules included:

- *Customer Identification Programs for Banks, Savings Associations, and Credit Unions (31 CFR 103 and 12 CFR 21).* 68 Fed. Reg. 25090 (May 9, 2003). This joint interagency rule implements section 326 of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001. It contains minimum standards that financial institutions must implement: 1) to verify the identity of any person seeking to open an account; 2) to maintain records of the information used to verify the person's identity; and 3) to determine whether the person appears on any lists of known or suspected terrorists or terrorist organizations provided to the financial institution by any government agency.

- *Community and Economic Development Entities, Community Development Projects and Other Public Welfare Investments (12 CFR 24).* 68 Fed. Reg. 48771 (August 15, 2003). The OCC published a final rule amending part 24, the regulation governing national bank investments that are designed primarily to promote the public welfare. The final rule updates the regulation to reflect additional types of permissible public welfare investment structures and incorporates other simplifications and clarifications.

Orders and Legal Opinions

The OCC is empowered to issue orders that have the force and effect of law under specific circumstances. The OCC also issues legal opinions to requesting national banks. Orders and legal opinions issued during FY 2003 included:

- *Determination and Order Preempting the Georgia Fair Lending Act (GFLA)*. In response to a request from National City Bank, National City Bank of Indiana, and their operating subsidiaries, the OCC concluded that the provisions of the GFLA affecting national banks' real estate lending are preempted by federal law and, accordingly, that the GFLA does not apply to National City or to any other national bank or national bank operating subsidiary that engages in real estate lending activities in Georgia. 68 Fed. Reg. 46264 (August 5, 2003).

- *National Banks' Authority to Engage in Multistate Fiduciary Operations.* The OCC opined that: 1) a national bank's trust powers are governed by federal law and derive from 12 USC 92a and part 9 of the OCC's regulations; 2) a national bank looks to the law of the state in which it acts in a fiduciary capacity to determine which capacities are permissible for the bank to act in for customers in that state as well as in other states; and 3) a state's authority to regulate instrumentalities of its own government does not affect the fiduciary authorities granted to national banks as a matter of federal law. Interpretive Letter 973 (August 12, 2003).

- *Electricity Derivatives.* The OCC decided that a national bank may expand its financial intermediation business to include customer-driven, electricity derivative transactions that involve transitory title transfers as an activity incidental to banking, provided that the bank has established, to the satisfaction of the OCC, an appropriate risk measurement and management process. Interpretive Letter 962 (April 21, 2003).

- *Hedging DPC Stock*. The OCC judged that a national bank may legally purchase and hold options on the shares of stock of a company when the bank has acquired shares of that company in satisfaction of debts previously contracted. The bank would hold the options to hedge the market risk associated with changes in the value of the DPC shares. Interpretive Letter 961 (March 17, 2003).

- *Risk Management Activities.* The OCC opined that national banks may provide risk management services as a permissible part of their insurance agency operations. Interpretive Letter 967 (June 16, 2003).

Supervisory Guidance, Policies, and Examination Handbooks

The OCC issued during FY 2003 supervisory guidance, policies, and examination handbooks on various issues and risks affecting national banks.

- *Supervisory Advisories and Guidelines to National Banks to Guard Against Abusive Lending Practices.* The OCC issued two releases establishing nationwide guidance to guard against predatory lending practices among institutions it supervises. The releases are: OCC AL 2003-02, "Guidelines for National Banks to Guard Against Predatory and Abusive Lending Practices," and OCC AL 2003-3, "Avoiding Predatory and Abusive Lending Practices in Brokered and Purchased Loans."

- *Revised Community Bank Supervision Handbook.* The OCC published in July 2003 a revised "Community Bank Supervision" booklet in the *Comptroller's Handbook* series. The revised handbook enhances the OCC's risk-based supervision process by integrating consumer compliance, asset management, and bank technology assessments into the safety and soundness examination process.

- *Revised Internal and External Audits Handbook.* This revised booklet in the *Comptroller's Handbook* series was published in April 2003 to update and incorporate recent events and current directions for internal and external audits within the financial, audit, and regulatory industries. Specifically, the booklet discusses auditor independence issues raised by the Sarbanes-Oxley Act of 2002, implementing rules and regulations of the U.S. Securities and Exchange Commission (SEC), and the revised "Interagency Policy Statement on Internal Audit and Its Outsourcing."

Other supervisory policy initiatives that were conducted during FY 2003 are discussed in the Partnership and Outreach section of this report.

Litigation Activities

The OCC was a party to, or prepared in FY 2003 *amicus* briefs, in several cases relating to bank powers, federal preemption of state law, the OCC's exclusive visitorial authority over national banks, enforcement actions, problem banks, and Title VII actions.

- *Doctrine of complete preemption applied to usury suits brought in state court.* Reversing the 11th Circuit, the Supreme Court, in a 7-2 decision, held that a usury case brought against a national bank in state court could be removed to federal court under the doctrine of complete preemption. Beneficial National Bank v. Anderson, 123 S.Ct. 2058 (2003).

- *OCC's exclusive visitorial powers over national bank operating subsidiaries.* In several recent decisions, a U.S. District Court held that only the OCC may exercise visitorial authority over the operating subsidiary of a national bank, and that the federal law preempts state law imposing certain restrictions on receipt of interest by home mortgage lenders. Wells Fargo, N.A. v. Boutris, 252 F.Supp.2d 1065 (E.D. Cal. 2003); National City Bank of Indiana v. Boutris, 2003 WL 21536818 (E.D. Cal. 2003).

- *State insurance sales law under the Gramm-Leach-Bliley Act (GLBA).* Separate petitions filed by state authorities in West Virginia and Massachusetts sought review of an OCC Preemption Determination and an OCC preemption letter. In the West Virginia case in the Fourth Circuit, a majority of the panel held that the OCC had implicit authority under the GLBA to preempt state statutes, and that the state insurance statutes in question were preempted by the National Bank Act. The panel in the Massachusetts case in the First Circuit held that the OCC's opinion letter did not give rise to a regulatory conflict. Cline v. Hawke, 51 Fed. Appx. 392 (4^{th} Cir. 2002), and Bowler v. Hawke, 320 F. 3d 59 (1st Cir. 2003).

- *"On us" check cashing fees.* National banks may charge a non-accountholder a convenience fee for using a bank teller to cash an "on us" check. A U.S. District Court held that the National Bank Act preempts state law prohibiting the charging of fees for cashing on-us checks. Bank of America v. Sorrell, 248 F. Supp.2d 1196 (ND Ga. 2002). Earlier, another U.S. District Court issued a similar ruling about a Texas state law prohibiting these fees, affirmed in the Fifth Circuit. Wells Fargo v. James, 184 F.Supp.2d 588 (W.D. Tex. 2002).

- *ATM fees.* Two national banks and a savings and loan association brought suit challenging municipal ordinances prohibiting banks from charging ATM fees to non-depositors. Ultimately, a panel of the U.S. Court of Appeals for the Ninth Circuit affirmed, holding that for national banks, the National Bank Act and the OCC's regulations preempted the ordinances. Bank of America, et al. v. City and County of San Francisco, 309 F. 3d 551 (9th Cir. 2002).

- *Mandatory disclosures to credit card holders.* A U.S. District Court held that the National Bank Act preempts California laws requiring compliance with certain combinations of warnings to credit card holders on the possible consequences of paying only the minimum amount each month. American Bankers Association v. Lockyer, 239 F. Supp.2d 1000. (E.D. Cal. 2002).

- *The Fair Credit Reporting Act (FCRA) preempts state laws that impose restrictions on information sharing with affiliates.* A U.S. District Court held that provisions of the FCRA preempt ordinances that impose restrictions on the sharing of confidential consumer information between financial institutions and their affiliates. Bank of America v. Daly City, Nos. C 02-4343 and C 02-943 (N.D. Cal. 2003).

- *Courts lack jurisdiction to compel the OCC to act in a particular manner regarding implementation of an enforcement action.* A U.S. District Court held that it lacked subject matter jurisdiction over a complaint by a national bank seeking to affect the OCC's implementation of an order in which it required the bank to obtain a $78 million letter of credit as a source of funding for the purchase of credit card receivables, and granted the OCC's motion to dismiss. Spiegel Holdings, Inc. v. OCC, 2003 WL 21087707 (D. Or. 2003).

Analyze Risk Program

This program consists of activities to identify, analyze, and respond to emerging systemic risks and trends that could affect an individual national bank or the entire national banking system. During FY 2003, the OCC devoted 153 FTEs or six percent of total FTEs to the analyze risk program. The cost of the analyze risk program was $26.1 million in FY 2003.

The program's key objectives are the early identification of higher-risk institutions, activities, and trends and potential shocks to the system. Areas of analysis include: bank lending and credit risk; economic, finance, and core banking; industry studies; international bank supervision and regulations; emerging risks; evolving business practices and financial market issues; capital markets activities; and asset securitization.

Analytical tools and models were developed under this program to assist supervision in tailoring examination procedures to risk profiles and allocating resources accordingly. The OCC developed a LBCT for examiners during FY 2003 and coordinated many analyze risk program efforts through the District Risk Committees (DRCs) and National Risk Committee (NRC).

Large Bank Analytics

The OCC developed the LBCT to assess the vulnerability of C&I, and CRE loans to adverse economic events, such as recessions. The LBCT provides OCC examiners with a profile of the bank's outlook in comparison to "consensus" and pessimistic 12-month projections of default rates and loss estimates. The OCC uses the LBCT to identify vulnerable industries and metropolitan areas for possible increased supervisory attention. The OCC is leveraging this tool by applying the CRE results to mid-size banks. Further uses of this tool will be explored in FY 2004 as the OCC applies the implications of C&I and CRE vulnerability to the community bank market areas.

Risk Committees

The NRC identifies primary and emerging risks to the national banking system, stays abreast of evolving business practices and financial market issues, advises the OCC's executive committee of material risks facing the national banking system, and recommends OCC supervisory responses to the executive committee and OCC examiners. The DRCs operate in each district. The NRC is chaired by the deputy comptroller for Risk Evaluation. Its members include senior managers from key areas across the OCC as well as DRC chairpersons. The NRC identifies resource and training needs and provides specialized support, examiner guidance, and examiner training in such areas as bank technology, asset management, retail credit, compliance, mortgage banking, derivatives, and interest rate risk management. These efforts are undertaken to ensure consistent and efficient responses to emerging risk issues to preclude redundancies, to encourage the sharing of ideas throughout the OCC, and to serve as a resource to the DRCs.

Partnership and Outreach

The OCC works with other regulators, industry, and community and consumer organizations to further the OCC's mission and to accomplish its strategic goals and objectives in an effective and efficient manner.

Financial Regulators

Primarily through the FFIEC, the OCC works closely with the other federal financial regulators (Board of Governors of the Federal Reserve System (FRB), FDIC, Office of Thrift Supervision (OTS), and National Credit Union Administration (NCUA)) to coordinate supervisory policies, regulations and regulatory reporting requirements, and examiner training on issues that cut across the banking system. These efforts reduce regulatory burden by promoting greater uniformity, consistency, and efficiency in the supervision of insured depository institutions.

The OCC also works with other state, federal, and international regulators and supervisors on matters of mutual interest.

The OCC has entered into information-sharing agreements with 48 state insurance departments and meets regularly with the National Association of Insurance Commissioners.

The OCC works closely with the SEC on various securities, brokerage, and accounting and disclosure issues and with the FTC on various consumer protection and privacy issues. In FY 2003, the OCC consulted with the SEC in connection with the SEC's revisions to its rules implementing the bank broker-dealer provisions of the GLBA, and in developing a process for information sharing among functional regulators of investment advisory activities, required by the act. The OCC is a member of the Administration's Financial and Banking Infrastructure Information Committee (FBIIC) and is working with the Department of the Treasury to implement the President's anti-terrorist initiatives previously discussed under the supervise program.

On the international front, the OCC is participating in the Basel Committee on Banking Supervision's efforts to update and revise the Basel Capital Accord to make the capital standards required of internationally active banks more comprehensive, risk sensitive, and reflective of advances in banks' risk measurement and management practices (Basel II).

The OCC worked closely with other regulators during FY 2003 on projects to address emerging risks and issues facing the industry, reduce regulatory burden, and enhance regulatory efficiency. These efforts have included:

- *Revisions to Risk-Based Capital Standards.* The federal banking agencies (OCC, FDIC, the FRB, and OTS) issued for comment three documents that outline how Basel II might be implemented in the U.S.: an advanced notice of proposed rulemaking that outlines and seeks comment on the regulatory framework for implementing Basel II, and supervisory guidance for the advanced approaches for measuring and assigning capital for corporate credit risk and similar guidance for operational risk. In addition, the agencies held many outreach meetings with industry participants to discuss the proposed Basel II standards and participated in the Basel Committee's third quantitative impact study to assess the potential effects of the revised accord on capital levels across portfolios and institutions.

- *Initiatives to Strengthen Corporate Governance.* The federal banking agencies issued an updated Interagency Policy Statement on the Internal Audit Function and its Outsourcing to reflect provisions of the Sarbanes-Oxley Act and SEC rules on auditor independence. The revised policy statement also provides expanded discussion of the responsibilities of a bank's board of directors and senior management for internal audit and reiterates the need for banks to maintain strong systems of internal controls and high quality internal audit programs. The agencies issued joint final rules to strengthen their ability to address misconduct by accountants. The rules establish procedures for the agencies with good cause to remove, suspend, or bar an accountant or firm from performing audit and attestation services for insured depository institutions with assets of $500 million or more.

- *Expanded Guidance on Technology-Related Risks.* The federal banking agencies have undertaken through the FFIEC a complete revision of the 1996 FFIEC Handbook on Information Systems. The 1996 handbook is being replaced by a series of 12, topical booklets addressing issues, such as business continuity planning, information security, and electronic banking. Six booklets were issued during FY 2003.

The agencies also published updated guidelines for bankers on the risks and risk management of Web linking activities and continue to coordinate with the FBIIC and other agencies to improve the reliability and security of the U.S. financial system. These efforts have included sponsoring critical financial institutions' access to the Telecommunications Service Priority Program that provides priority treatment for the restoration or provisioning of telecommunications services in emergencies. It also resulted in the joint publication by the OCC, FRB and SEC, of an interagency paper on Sound Practices to Strengthen the Resilience of the U.S. financial system. The paper identifies sound practices and steps to protect the U.S. financial system from the systemic effects of a wide-scale disruption.

- *Initiatives to Reduce Unnecessary Regulatory Burden and Enhance Efficiency.* The federal banking agencies and FFIEC began a multi-year project to undertake a review of their regulations to identify outdated, unnecessary, or burdensome regulatory requirements imposed on insured depository institutions. The first step of this project has been to categorize the agencies' regulations by type. Over the next three years, comment will be sought on each category to identify areas of the regulations that may be outdated, unnecessary, or unduly burdensome. This review will enable the industry and other interested parties to look at groups of related regulations (such as consumer protection) and comment on possibilities for streamlining.

  The FFIEC also awarded a multi-year contract to build and operate a shared, central data repository for collecting, validating, storing, and distributing data collected under federal bank regulatory reporting requirements. The data repository will replace aging applications and databases related to the banking agencies' Call Report processing and will provide a state-of-the-art platform for expanded use by the FDIC, Federal Reserve, and OCC. Among the benefits of the new system will be enhanced data quality and expedited data sharing.

- *Joint Examination Programs.* The banking agencies continued during FY 2003 their joint supervisory programs, such as the shared examination programs, including the Shared National Credit (SNC) Program, the Interagency Country Exposure Review Committee, and the interagency examination program for multi-regional data processing servicers.

  The interagency SNC program was implemented in 1977 to review and assess risk in the largest and most complex credits shared by three or more financial institutions. A SNC is defined as any loan or formal loan commitment extended to a borrower by a supervised institution or any of its subsidiaries and affiliates that aggregates $20 million or more and is shared by three or more institutions under a formal lending agreement. The program is governed by an interagency agreement between the Federal Reserve, FDIC, and OCC. The program was designed to provide uniformity and efficiency in analyzing and rating large, complex credits. The program benefits the regulatory agencies and the banks by: 1) eliminating the redundancy of reviewing the same credit in multiple institutions; 2) ensuring that credits are reviewed in a uniform and consistent manner; 3) maximizing resources; and 4) limiting disruptions to banks' operations. The FY 2003 SNC review covered 8,232 loan facilities with commitments totaling $1.6 trillion.

- *Updated Supervisory Guidance.* The agencies issued supervisory guidance throughout the year to bankers on risks posed by bank activities and methods banks can use to manage those risks. In addition to the items previously discussed, interagency guidance was issued on:

  1. Sound account management, risk management, and loan loss allowance practices for credit card lending activities.

  2. Technical accounting issues for certain residual assets created in asset securitization activities.

  3. Sound risk management practices for mortgage banking activities.

  4. The Federal Reserve System's new discount window programs and the role such programs can play in banks' liquidity contingency plans.

- *Forms Development*. The OCC, FDIC, the Federal Reserve, and OTS jointly revised the "Interagency Biographical and Financial Report" form for proposed bank officers, directors, and principal shareholders, and the "Interagency Notice of Change in Control" form. The Change in Control form revisions incorporate the collection of information on affiliation with insurance companies or agencies. Those forms are expected to be used in FY 2004, pending Office of Management and Budget (OMB) clearance.

Law Enforcement Authorities

The OCC supports criminal law enforcement agencies by working closely with the interagency Bank Fraud Working Group, chaired by the Department of Justice, and serving as a member of the Attorney General's Council on White Collar Crime, Subcommittee on Identity Theft. At the request of law enforcement authorities, the OCC also provides its expertise and assistance to criminal investigations involving bank fraud and other white-collar crime. Additionally, the OCC continues to participate in a number of interagency groups focused on combating money laundering, including the Bank Secrecy Act Advisory Group.

Industry and Community Outreach

The OCC maintains a dialogue with key constituents that are affected by and interested in the OCC's mission. The Comptroller and senior management seek input and feedback on issues facing the banking industry through outreach meetings with industry and trade associations. "Meet the Comptroller" roundtables were creative responses to the need for continuing dialogue between bankers and senior OCC officials. The OCC participated in or conducted a variety of outreach activities during FY 2003. Specific outreach activities were discussed previously under Anti-Terrorist Financing Initiatives and under Community Affairs.

The OCC's outreach also included a series of telephone seminars for bankers. These seminars allowed bankers to listen to agency experts discuss their experiences and policy imperatives, and to interact with them during a question-and-answer session. Seminar topics included: Information Security Management for Community Banks, Rural Economic Development Lending Opportunities for Community Banks, and the USA PATRIOT Act and Its Impact on Sound Anti-Money-Laundering Programs. More than 23,000 listeners participated in these telephone seminars during the year.

The OCC also conducted workshops on *Understanding OCC's Risk Assessment Process*, for about 225 community bank directors. The goal was to enhance their understanding of risk-based supervision; increase familiarity with major risks in commercial banking; learn the types of questions to ask managers, auditors, and examiners; and review common ways to identify, measure, monitor, and control risk.

OCC's Next Steps

The OCC will continue to monitor and evaluate risks to individual national banks and the national banking system and incorporate the results of these risk analyses into its supervision strategies. Key issues to be addressed by the OCC's supervision activities include: credit quality; adequacy of allowance for loan and lease losses; scrutiny of accounting practices; integrity of management information systems; off-balance sheet activities; funding issues; implementation of the revised Basel Capital Accord; and risks associated with managing third-party service providers.

The OCC plans to expand the e-Corp electronic filing application program by including additional corporate applications. Applications to be added in FY 2004 are capital, operating and financial subsidiaries, Part 24 Community Development Investment filings, and corporate reorganization applications (excluding those that must be notarized). The OCC also will initiate a development project to replace its outmoded mainframe system for reporting and tracking licensing applications, and to increase data warehousing capabilities.

The OCC also plans to work with other federal regulatory agencies to develop a streamlined deposit insurance and charter application form for bank holding companies to use to charter a new bank and an interagency "Branch Application" form. The OCC, the Federal Reserve, FDIC, and OTS will continue a review of their regulations, as required by the Economic Growth and Regulatory Paperwork Reduction Act of 1996. The FFIEC plans to publish six additional booklets as part of its update to the Information Technology Examination Handbook. The OCC published a number of FY 2004 proposals during the year that will result in further regulatory activity. Among the most significant are: risk-based capital guidelines implementing the new Basel Capital Accord; rules, policies and procedures affecting federal branches and agencies; updates and clarifications of bank reorganization into holding companies and mergers with affiliates, director terms, and OCC visitorial powers; clarification of types of state laws that are preempted and not preempted in the context of national bank lending, deposit-taking, and other activities; and guidance on bank response programs for unauthorized access to customer information.

In other developing areas, the OCC is preparing guidance that national banks may use to adopt limited liability governance provisions, and considering revisions of the GLBA privacy rules that would provide for short-form privacy notices to bank customers.

The OCC will perform quarterly reviews of licensing documentation quality in FY 2004 and will perform quality reviews of two major application areas: mergers and bank subsidiary filings. Reviews will continue to focus on identifying best practices, with the goal of enhancing written policies, procedures, and practices within the licensing function.

In FY 2004, the OCC plans to implement a structured system development life cycle (SDLC) methodology that will provide structure, guidelines, and a framework for all information technology projects. Additionally, the SDLC will integrate with the enterprise architecture by defining roles and responsibilities, and requiring development teams to work collaboratively with key business units' representatives and information technology staff involved in planning, security, and infrastructure. The OCC also will complete requirements definition for the Web-Site Of The Future initiative.

Management

The basic tenets underlying the OCC's fourth strategic goal embody many of the issues included in the President's Management Agenda (PMA). Executive level subcommittees were established in FY 2003 to provide more strategic direction in several areas. Some of those subcommittees, Budget and Finance, Audit, Technology and Systems, and Human Capital, are closely aligned to the PMA initiatives. Those subcommittees helped to bring greater focus and attention to critical areas of the PMA. The OCC continued its efforts during FY 2003 to achieve the goals for each PMA initiative, to include the new requirements set forth by the OMB. A brief discussion of the OCC's accomplishments on PMA initiatives follows.

Initiatives

Budget and Performance Integration

The OCC implemented new GPRA performance measures for FY 2003. These new measures better demonstrate the effect of the OCC's regulatory activities on the national banking system. These measures were assessed by the OMB in their evaluation of the OCC's operations at the end of FY 2002, using the Program Assessment Rating Tool (PART). The OMB rated the OCC "effective," and its performance goals were cited as outcome-oriented and program measurements as clear. The OCC will continue to consider the results of this review to improve further budget and performance integration.

The OCC continued to refine its planning, budgeting and evaluation process for the FY 2004 budget cycle. Business units developed their budget requests using staffing plans to determine FTE needs and program plans that identified the activities to be accomplished with the expected outputs and deliverables. The OCC will continue to refine this process for the FY 2005 budget cycle. In addition, the OCC developed a new activity structure for employees to report how they use their time. This activity structure will provide the means to validate staffing methodologies going forward.

Competitive Sourcing

The OCC exceeded the FY 2003 goal established by the OMB requiring agencies to cost compare or commercially compete 10 percent of the FTE positions listed on their Calendar Year (CY) 2000 Federal Activities Inventory Reform Act inventory. For the OCC's inventory, 10 percent equated to 27 positions for cost comparison. During the year, the OCC conducted two streamlined cost comparison studies of 65 of 121 commercial FTEs within Information Technology Services (ITS). Cost comparisons of ITS' Customer Services and Network Services resulted in the OCC retaining this work in-house because it was more cost effective. The OCC met its A-76 competitive sourcing goals for FY 2003, as well as for FY 2004, and has no additional studies planned.

Expanded e-Government

The OCC developed a three-year plan to implement fully the Clinger-Cohen Act and capital planning best practices. The plan was implemented in FY 2003, and significant progress was made during the FY 2004 budget cycle. Real estate investments, including leases and leasehold improvements now have Investment Review Board oversight for selection, control, and evaluation. The FY 2004 capital planning process significantly increased the involvement of all OCC business units, and training was provided on the capital planning program, the PMA, e-Government initiatives, and the OMB's business case development.

The OCC continues to be within 98 percent of planned cost, schedule, and performance targets for its FY 2003 technology investments. Starting in FY 2005, the OCC will evaluate completed projects one year after implementation to ensure that the system is meeting the needs of the users and supporting its mission, using appropriate technology.

The OCC has developed an "as is" or "current" enterprise architecture, based on the federal and the Department of the Treasury models. The OCC has completed its business reference model and is currently evaluating the draft performance, service, and technical reference models for alignment and support of the OCC's mission. The OCC also is evaluating all of its applications and systems to better define mission-related program areas and the architectures that support the mission. The OCC will develop the targeted architecture and begin formalizing the Enterprise Architecture Program in all business units.

Improving Financial Performance

The OCC maintained its "green" rating on the financial performance initiative. The OCC successfully issued its FY 2002 Performance and Accountability Report under the accelerated schedule mandated by the Department, and received an unqualified opinion with no material weaknesses on the accompanying financial statements. The OCC achieved this same level of performance for FY 2003. Throughout FY 2003, the OCC closed its accounting records for month-end financial reporting in both a timely and accurate manner. The OCC continued to make financial reports to the new subcommittee on budget and finance and to the executive committee on a monthly basis, for timely operational decisions. The OCC has no open material weaknesses under FMFIA.

Human Capital

Over the next four years almost 40 percent of the OCC's bank examiner workforce will become eligible to retire. To address resource needs in light of potential retirements, and ensure adequate time to transfer knowledge from our experienced examiner workforce, the OCC embarked on a recruitment program for entry-level bank examiners during FY 2003. This centralized program seeks to hire a well-qualified, diverse group of entry-level bank examiners directly from college and university campuses. Analysis of recruitment success in terms of quality and diversity is on-going, but initial indications are extremely positive.

Newly hired bank examiners are placed on a training team led by experienced examiners. In addition to on-the-job experience, these examiners receive formal classroom training with a goal of completing a formal commissioning examination to become a national bank examiner. The OCC also strengthened the process to ensure that all new hires immediately receive the training and orientation they need to be successful on the job and to ensure that they find the OCC a welcoming place to work. As a companion initiative, the OCC conducted an extensive study of employee retention to explore issues associated with maintaining a high quality, diverse workforce.

The OCC rolled out a new Pre-Commission Training Program to provide new examiners (including new and experienced hires, industry specialists, and examiners from other regulatory agencies) with knowledge, skills, and tools for understanding the purpose and operations of the OCC. The program emphasizes employee and manager accountability, yet remains flexible to accommodate individual and organizational needs. The program and training modules provide a uniform process to monitor each pre-commissioned examiner's training progress and complement existing OCC programs, such as the Examiner Specialized Skills Program (ESSP), Opportunities Board, Sponsorship Program, training teams, and mentoring.

The ESSP is a national training initiative designed to enhance and develop the agency's specialized examination skill areas. These include: asset management, bank information technology, capital markets, compliance, and retail credit. Program goals include maintaining an inventory of specialty examiner skills and facilitating the transfer of knowledge from experienced examiners to examiners participating in the program through on-the-job training. During FY 2003, approximately 650 examiners participated in this program.

In FY 2003, the OCC moved into phase two of its Strategic Plan for Active Recruitment, Retention, and Career Development (SPARC) by integrating the SPARC principles and philosophy into the organization's systems and operations. All employees and managers received diversity training, and affinity groups are active in addressing the issues of their constituencies. Open to all employees, the affinity groups have sponsored awareness and observance month programs and speakers, conducted employee surveys, and created forums for their membership to engage with OCC leadership. SPARC planning and reporting are increasingly integrated into broader workforce planning and development efforts.

All managers and employees had performance plans that included performance accountability measures linked to achievement of the OCC's strategic priorities. The OCC's performance management program is used in concert with a performance-based compensation program. Recent statistical analysis shows that the programs are working as intended, in that high performers receive larger annual merit pay increases and more special increases.

The OCC's Fair Alternatives and Innovative Resolutions (FAIR) Program has been used to resolve workplace issues. FAIR offers a collaborative approach that uses multiple alternative dispute resolution (ADR) techniques to promote open dialogue. In FY 2003, the FAIR program received 25 cases, which potentially could have been Equal Employment Opportunity complaints.

Beyond the PMA, other management initiatives undertaken by the OCC during FY 2003 are discussed below.

Information Technology

- *Realignment of the Chief Information Officer (CIO) Organization.* The office of the CIO was realigned to strengthen customer relationship management, centralize the customer support function, recognize the roles and contributions of staff, develop and strengthen opportunities for career growth and enhancement, and address technical and management succession planning.

- *Information Security.* During FY 2003, the OCC: hired a new Information Security Officer; completed independent risk assessments of all major OCC systems; reviewed the confidentiality, integrity, availability and criticality requirements of more than 200 applications; and successfully avoided the virus/worm attacks that crippled other organizations.

- *Equipment Replacement.* The OCC began the first step of its five-year equipment replacement process, in which annually 20 percent of the production server infrastructure, tape backup devices, and storage area network systems are replaced. This five-year replacement cycle allows for a more disciplined budget process. In addition, the OCC is assured of a current hardware base that is vendor-supported and provides reliable service to the users.

- *Virtual Private Network (VPN).* VPN technology was implemented in January 2003. The VPN allows remote users to establish a more secure network connection. Currently, almost 2,000 users can dial into the OCC network from throughout the U.S. and some international sites. More than 30 of the OCC's smaller field offices and bank sites have been converted to a VPN gate-to-gate, high-speed connection to the network. This technology has provided significant savings over the previous method of connectivity without altering the way users interact with the network.

Workforce Effectiveness

- *Restructuring of District Offices*. The OCC implemented the restructuring of its district offices, closing three offices and transferring affected employees from those offices to the remaining districts and to a new district office in Denver. The OCC established a "safe landing" program to assist the employees in identifying and acting on job preferences. The safe landing program included career counseling, mentoring, outplacement and advocacy assistance, training opportunities for development of new skills, and relocation assistance. In addition, buyouts were offered to employees unable to relocate or whose positions were eliminated. The Resource Group was re-established in FY 2003 to provide temporary employment opportunities for employees affected by district restructuring to ensure that valuable skills continue to remain in the OCC.

- *Labor Relations*. The OCC established a constructive operating relationship with the National Treasury Employees Union, which was certified as the official representative of OCC bargaining unit employees in November 2002. The OCC and the union worked collaboratively in implementing district restructuring activities, establishing an interim agreement, and agreeing on ground rules to begin negotiations on a term agreement. In addition, the OCC hired experts in labor management relations, issued guidance on labor management relations matters, and provided labor management training to all OCC managers as well as attorneys and the human resources staff whose programs will be most affected by union activities.

Administrative Services

- *Real Estate and Facility Changes.* In addition to the major leasing, design, and construction required by the district restructuring, renovations are under way in the Central District Office in Chicago, and a new San Francisco office accommodating large bank and field examiners has been leased and is in the design process.

- *Enterprise-Wide Information Management (EWIM).* An OCC enterprise-wide information management program was established in FY 2003. This enterprise approach to managing information will include document and records management, content management, and, potentially, knowledge management. The program will begin by integrating document and records management into critical supervisory systems. This will be followed by agency-wide initiatives in important areas, such as electronic publishing and web content. An initial contract was awarded for electronic records and document management.

Continuing Education

- *Automated Learning Information Center (ALICE).* This learning management system was implemented in FY 2003 and automates the administration of all training, which will help the OCC better serve its employees. Among its features are around-the-clock, self service course registration, cancellation, and rescheduling, access to employee training transcripts, and individual development plan capabilities.

- *Continuing Education Infrastructure.* The Continuing Education Office was restructured in FY 2003. The changes enabled the division to take optimum advantage of its new ALICE technology. For the future, the restructuring will: allow the division to adapt more readily to changes in technology; encourage greater collaboration between the learning center's managers, the experts in instructional design and technology, and the OCC's experts in specialty areas (e.g., capital markets); and, make training more effective and efficient by facilitating the use of alternative methods of training delivery.

Publishing

During FY 2003, the OCC laid the groundwork for a pilot program for electronic publishing. e-Publishing will automate the OCC's largely paper-based publishing process and create publications in a flexible electronic format for dissemination in a wide range of media. In addition, the OCC continued to pursue a branding strategy for a unified identity, ensuring products and services carry the OCC brand.

Program Evaluations

The OCC has several programs for evaluating the effectiveness and efficiency of programs and operations. The results of internal program reviews are used to improve the management of the OCC. During FY 2003, numerous internal reviews were conducted.

Program Analysis Unit Reviews

The Program Analysis unit (PAU) conducted reviews supporting the Comptroller's expectation for a credible and effective resource management process. The PAU completed reviews of the Community Affairs functions, the Fast Track Enforcement database, licensing applications, the London Office, and restructuring proposals of various offices within the OCC. Reviews involving the computer warehousing function and capital planning process were initiated in FY 2003, with completion expected in the first quarter of FY 2004. The PAU also analyzed policy, programs, budgetary and management issues related to OCC programs.

Supervision Quality Reviews

Quality Assurance reviews are used to improve the effectiveness of bank supervision activities. The FY 2003 reviews included: credit card bank supervision, community bank supervision, mid-size bank supervision, examiner-in-charge rotations, large bank supervision, and the FIRREA Section 914.

The OCC also reviewed its data center operations and the Fast Track Enforcement Program. The Fast Track Enforcement Program was streamlined in FY 2003 to focus the agency's resources on cases of special concern, such as cases involving officers or directors, high dollar loss, identity theft, and computer intrusion.

Licensing Reviews

The OCC has several initiatives to evaluate and enhance its licensing programs. The OCC continues to improve its procedures through the Field Guidance Project. Comprehensive new guidance for conducting field investigation and pre-opening examination activities for charter proposals was made available in FY 2003 via the OCC intranet and to bank examiners on CD-ROM, as well as incorporated into the OCC's automated examination application, Examiner View. The OCC also follows up with every applicant that rates the overall licensing process 3 or worse. This follow-up helps the agency understand the applicant's concerns, so that the OCC can make the appropriate modifications to its licensing process.

Headquarters Study

The OCC completed a comprehensive study of its headquarters operations in FY 2003, similar to the FY 2002 study performed of the district office operations. The executive committee is currently considering the recommendations from this study and implementation decisions will be made in early FY 2004.

Management Challenges and High-Risk Areas

Neither the General Accounting Office (GAO) nor the Treasury's Office of the Inspector General (OIG) has cited any management challenges or high-risk areas specific to the OCC. However, challenges and risks cited for the Department and government-wide are expected to continue to receive audit attention. These issues include: serious deficiencies in programs and operations; linking resources to results; financial management systems; information security; duplicated, wasteful practices; strategic human capital management; protecting information systems supporting the federal government and the nation's critical infrastructure; and federal real property. The OCC has focused on improving these areas within the agency, and they are discussed in more detail under the pertinent sections of this report.

Letter from the Acting Chief Financial Officer

I am pleased to present the OCC's financial statements as an integral part of the FY 2003 Annual Report. For FY 2003, our independent auditors rendered an unqualified opinion with no material weaknesses.

Consistent with the President's Management Agenda (PMA), the OCC continues to make great strides in improving financial management and budget and performance integration. Highlights of some of our significant accomplishments during the past year, include:

- The OCC has again received a "green" rating under the PMA from the Department of the Treasury for financial management by providing accurate and timely interim financial information; having financial management systems that meet federal requirements; having appropriate controls over erroneous payments; and receiving an unqualified and timely audit opinion on our annual financial statements.

- The OCC implemented a major upgrade to its PeopleSoft, Joint Financial Management Improvement Program certified, financial and acquisitions management system (called "$MART"). The upgrade to version 8.4 included switching platforms from server based to a Web-based system. Our major businesses processes related to financial transactions remained the same. Accordingly, the Comptroller issued a certification of reasonable assurance for FMFIA Section 4 and substantial compliance with FFMIA.

- Building on the prior year's integration of planning, budgeting, and the program evaluation process, the OCC implemented refinements during the current fiscal year. During the process of planning and budgeting for FY 2004, the OCC required program plans and staffing plans to justify budget requests, eliminating "maintain current level" budget formulation in support of the PMA.

- The OCC continues to make progress toward implementation of its reserve policy whereby funds are earmarked for rare events that could potentially disrupt on-going operations. The OCC's long-term goal is for the contingency reserve to reach 50 percent of the annual budget authority. The targeted reserve level for the end of FY 2003 was $213 million. By fiscal year-end, the funds for the contingency and special reserves were $207.3 million, 97 percent of the FY 2003 targeted reserve level.

- Corrective actions were implemented to address last year's reportable condition. As a result, the reportable condition was downgraded to a management letter comment.

I am proud that the OCC continues to produce high quality and accurate financial reporting, and I am particularly proud of the important improvements we continue to make to financial management. Our goals for FY 2004 and beyond include implementing new travel and time entry systems, and continuing our progress on the PMA initiatives.

This report has been posted to our Web site at http://www.occ.treas.gov.

Cheryl F. Davis
October 31, 2003

Financial Management Discussion

Major Accomplishments

During FY 2003, the OCC's financial management initiatives focused on improving financial accountability; enhancing financial systems; improving the planning, budgeting and program evaluation process; strengthening internal controls over time entry and travel programs; and documenting financial policies and procedures. A more detailed discussion of these initiatives follows.

Financial Accountability

The OCC continues to place a high priority on providing accurate and reliable financial data to its customers. Toward that end, the OCC consistently met the Department's deadline for a three-day close for producing the OCC's monthly and quarterly financial statements for FY 2003, receiving a "green" rating for data quality. The OCC also met the Department's accelerated schedule for preparing audited financial statements for FY 2003. By meeting this deadline the OCC, along with other Treasury bureaus, will enable the Department to prepare its audited financial statements by the OMB's November 15 deadline, one year before the mandate takes effect.

The OCC received an unqualified opinion on its FY 2003 financial statements with no material weaknesses. Throughout the fiscal year, the OCC focused on correcting prior year audit and financial management issues, thereby strengthening the integrity of its financial data and operations. As a result, the reportable condition from the previous fiscal year was downgraded to a management letter comment, and all other issues were resolved.

Financial Systems

During FY 2003, the OCC implemented an upgrade to the newest version of its integrated financial management and acquisitions system ($MART). The upgrade included switching platforms from server based to a Web-based system. Major business processes related to financial transactions remained the same. However, the upgrade resulted in performance and operational issues. A plan to resolve these issues by the end of the first quarter of FY 2004 was formulated and is currently being executed. The plan calls for adding new hardware and applying software fixes received from the application vendor.

In a continuing effort to modernize its financial systems, the OCC developed a new activity reporting structure to be used with the new time and labor system, e-TIME. e-TIME will be implemented in FY 2004, and will be a paperless, Web-based self service system that all OCC employees will use to record time and attendance and the activities they perform. This new management system will replace the current time and attendance system, the time reporting portion of the existing travel and labor allocation system, and the ancillary paper systems for maxi flex, overtime, and compensatory time.

The OCC also participated in the e-Government travel initiative and is working toward implementing a new e-travel management system in the future.

Planning, Budgeting, and Program Evaluation Process

During FY 2003, the OCC continued to improve its planning and budgeting processes. These improvements were designed to:

- Assist managers with funding decisions throughout the year by implementing quarterly budgeting.
- Increase manager awareness of budget reprogrammings by requiring advanced approval for dollar transfers between major object classes both within and between OCC business units.
- Improve the OCC's staffing decisions by developing an activity reporting structure to be implemented during FY 2004.
- Provide information that allows management to better understand the financial effect of their business decisions on the future operations of the OCC by developing a five-year variable model using revenue, budget, reserve target, and actual reserve projections to forecast future fluctuations.

Time Entry and Travel Program

The OCC maintained its efforts to improve controls over time entry and travel by continuing two nation-wide audit programs implemented in FY 2002 and a 100 percent review of travel vouchers for all senior executives. The OCC also introduced a travel newsletter to assist employees with travel questions and policy issues. Additionally, the OCC continued its oversight of both individually- and centrally-billed charge card accounts to minimize unauthorized purchases, delinquent accounts, and erroneous payments.

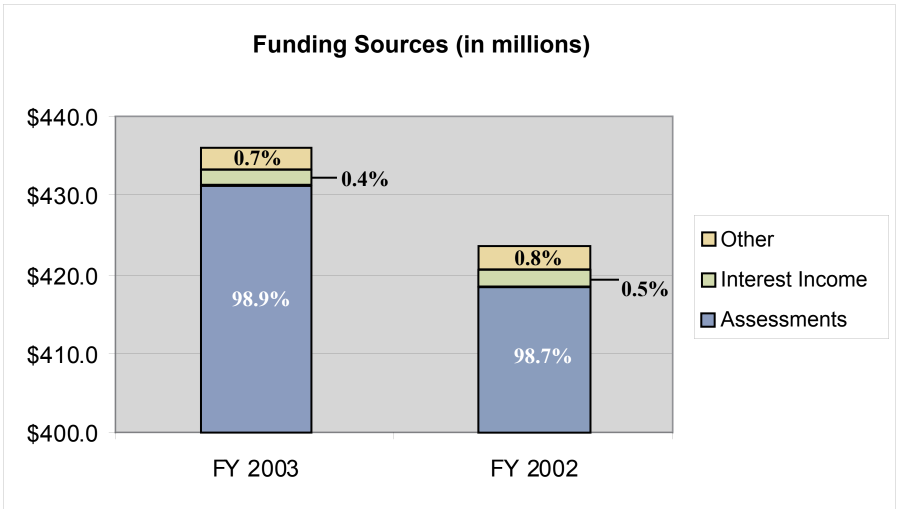
Policies and Procedures

The OCC completed its documentation of financial policies and procedures for a variety of processes, including relocation tax processing, investments, time and travel audit programs, and reconciliation of fund balance with Treasury.

Funding Sources

The OCC does not receive appropriations. Available budget authority for a given fiscal year is established by the Comptroller, in accordance with 12 USC 482. The total budget authority available for use by the OCC in FY 2003 was $436 million and in FY 2002 was $424 million. Operations are funded primarily by assessments collected from national banks and income on investments in U.S. Treasury securities. Figure 3 depicts the sources of the OCC's funding for FYs 2003 and 2002.

Figure 3: FY 2003 and 2002 Funding Sources



The OCC's funding sources increased by $12.3 million principally resulting from a rise in assessments collected in FY 2003. National bank asset growth and the movement of assets into the national banking system were the impetus for higher assessments received in FY 2003. The OCC's non-assessment funding sources declined in FY 2003 due mostly to lower interest rates earned on investments.

In FY 2003, large and community banks each comprised one percent more of national bank assets than in FY 2002. For the same period, large and mid-size banks comprised a greater share of the OCC's assessment revenue, two and one percent respectively. Figure 4 shows the composition of national bank assets and assessments collected from large banks, mid-size banks, community banks, and federal branches for FY 2003. Figure 5 shows the same information for FY 2002.

Figure 4: FY 2003 Composition of National Bank Assets and Assessment Revenue

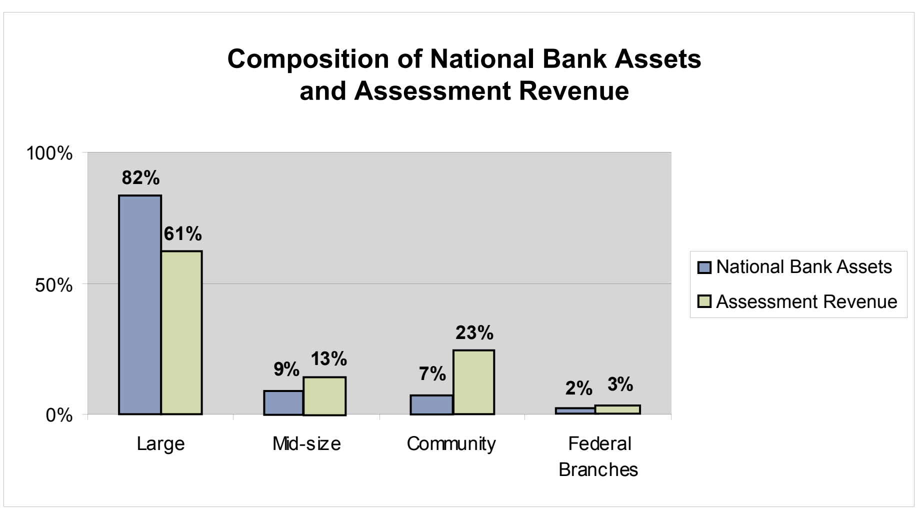
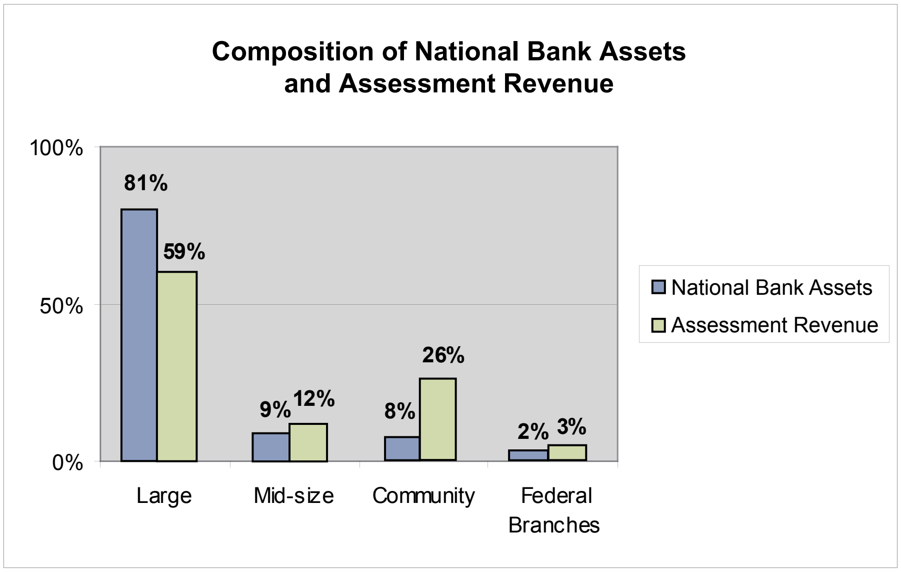


Figure 5: FY 2002 Composition of National Bank Assets and Assessment Revenue

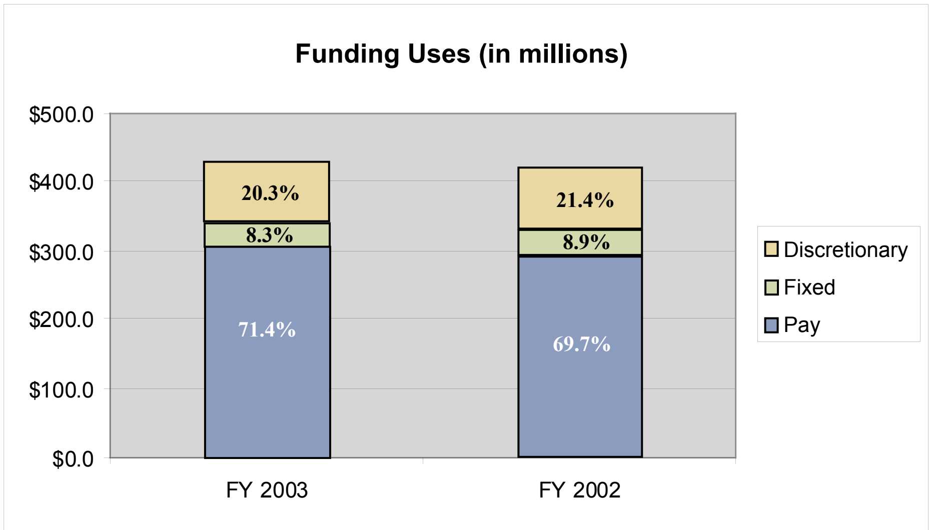


Funding Uses

The OCC classifies its funding uses as pay, fixed, and discretionary. Pay encompasses payroll related costs; fixed primarily includes rent, utilities, and office maintenance; and discretionary reflects all other funding uses, such as contract services, travel, training, and capital asset replacement. In FY 2003, the OCC's total funds used were $427.9 million, an increase of three percent over their level in FY 2002. Of the total funds used in FY 2003, $305.6 million was categorized as pay, $35.5 million as fixed and $86.8 million as discretionary. The OCC's operations are service-intensive, therefore the majority of fund are used for pay. Although overall funds used increased, the OCC experienced a $3.5 million or 2.8 percent decrease in non-pay funds used. Figure 6 depicts the uses of the OCC's funding for FYs 2003 and 2002.

[5] All figures are rounded to the highest number or percent.

Figure 6: FY 2003 and 2002 Funding Uses



Financial Review

The OCC received an unqualified opinion on its FY 2003 and 2002 financial statements. The financial statements include a *Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing*. The financial statements and notes are presented on a comparative basis providing financial information for FYs 2003 and 2002. These financial statements summarize the OCC's financial activity and position. Highlights of information presented on the financial statements are provided below.[5]

Balance Sheet

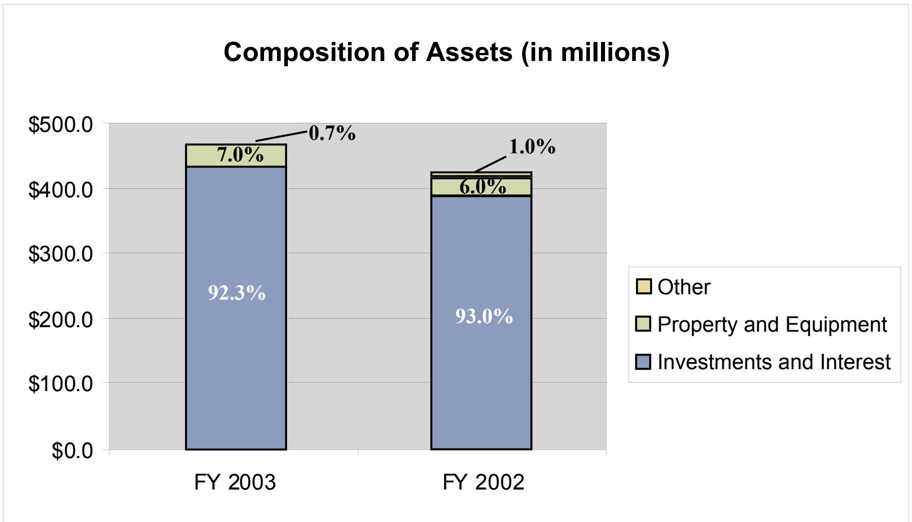
The *Balance Sheet*, as of September 30, 2003 and 2002, presents the amounts that are owned by the OCC and available for use (assets), the amounts due to others or held for future recognition (liabilities), and the amounts that comprise the residual (net position). For clarity in presentation, assets and liabilities are differentiated between those resulting from transactions between the OCC and other federal entities (intragovernmental) and transactions between the OCC and non-federal entities.

Composition of and Trends in OCC Assets

The *Balance Sheet* shows that total assets as of September 30, 2003, increased by $51.6 million from their level at September 30, 2002. The increase of $44.8 million in *Investments and Related Interest* was due to a rise in assessment collections during FY 2003. The increase of $7.8 million in *Property and Equipment* was due primarily to software purchases (see previous discussion under Information Technology). The composition of the OCC's assets is shown in Figure 7.

[5]All figures are rounded to the highest number or percent.

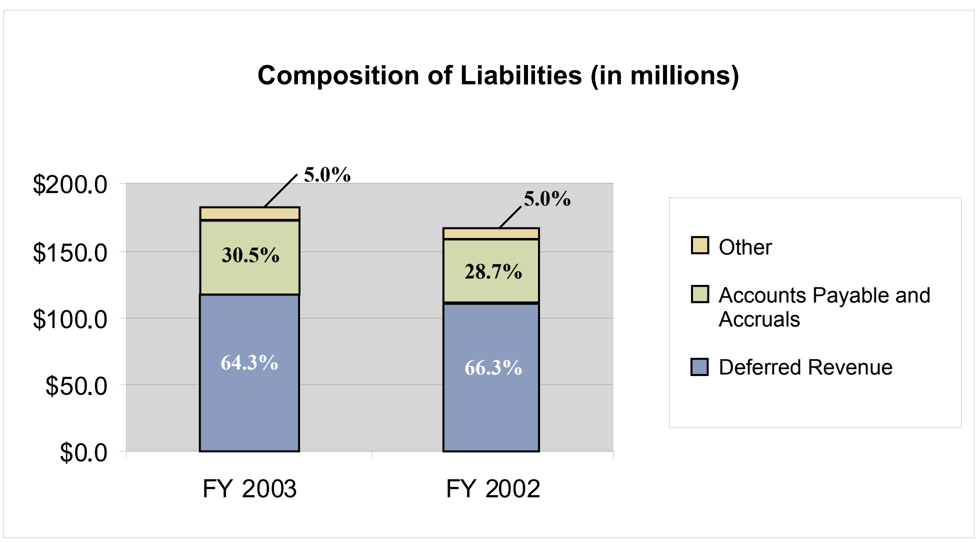
Figure 7: Composition of FY 2003 and 2002 Assets



Composition of and Trends in OCC Liabilities

Total liabilities as of September 30, 2003, increased by a net of $15.9 million over their level at September 30, 2002. The increase of $7.3 million in Deferred Revenue was due to a rise in assessment collections during FY 2003. The increase of $7.7 million in Accounts Payable and Accruals was due to a variance in the accrual period between FYs 2003 and 2002. The composition of the OCC's liabilities is shown in Figure 8.

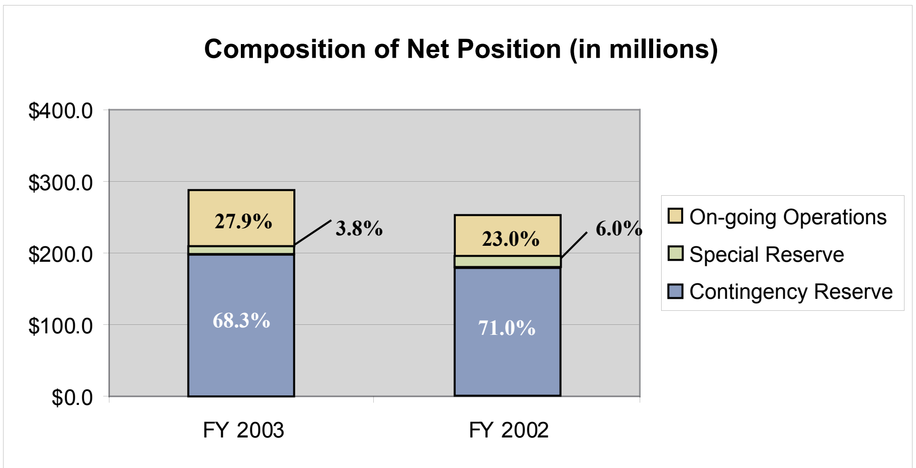
Figure 8: Composition of FY 2003 and 2002 Liabilities



Composition of and Trends in OCC Net Position

The OCC's net position at $287.4 million as of September 30, 2003, and $251.7 million as of September 30, 2002, represents the cumulative net excess of the OCC's revenues over its cost of operations. As discussed in the next section, the OCC reserves the majority of net position to supplement resources made available to fund the OCC's annual budget and to cover unforeseeable events. The composition of the OCC's net position is shown in Figure 9.

Figure 9: Composition of FY 2003 and 2002 Net Position



Reserves

The *Special Reserve* serves to reduce the impact of unforecasted shortfalls or unbudgeted and unanticipated requirements. The *Contingency Reserve* funds foreseeable but rare events, such as a fire, flood, or impairment to the OCC's information technology network that may interfere with the OCC's ability to accomplish its mission. Both reserves are to be used at the discretion of the Comptroller. The OCC has also earmarked funds for on-going operations to cover undelivered orders, the consumption of assets, capital investments, and district office restructuring. Since the OCC does not receive congressional appropriations, the establishment of reserves is integral to the effective stewardship of its resources.

The FY 2004 budget established a replacement reserve. This reserve will incrementally fund the replacement of IT equipment, and leasehold improvements and furniture replacements for future years. The amount in the replacement reserve is determined based on the cost of replacement and the useful life of the assets, and will be reassessed each year during the budget formulation cycle.

Statement of Net Cost

The *Statement of Net Cost* presents the full cost of operating the OCC's programs for the years ended September 30, 2003 and 2002. Costs are differentiated between those resulting from transactions between the OCC and other federal entities (intragovernmental) and transactions between the OCC and non-federal entities (with the public). The full cost includes an Imputed Cost of $20.7 million in FY 2003 and $17.7 million in FY 2002, the cost of the OCC's Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS) plans, paid by the Office of Personnel Management (OPM). The most significant line item is Earned Revenues, which increased by $23.5 million or 5.3 percent. As discussed under Funding Sources, this increase was primarily due to a rise in assessments collected during FY 2003.

Statement of Changes in Net Position

The *Statement of Changes in Net Position* presents the change in the OCC's net position resulting from the net cost of the OCC's operations and financing sources other than exchange revenues for the years ended September 30, 2003 and 2002. The most significant line item on the statement is the *Imputed financing from costs absorbed by others,* which increased by $3 million or 17.1 percent. The OCC's financing source resulted from a contribution of $20.7 million in FY 2003, and $17.7 million in FY 2002, by the OPM toward the OCC's FERS and CSRS retirement plans.

Statement of Budgetary Resources

The *Statement of Budgetary Resources* presents the budgetary resources available to the OCC, the status of these resources, and the net outlay of budgetary resources. The OCC obligated 57 percent of its available budgetary resources for the year. The remaining 43 percent was available primarily to cover the OCC's reserves.

Statement of Financing

The *Statement of Financing* reconciles the resources available to the OCC to finance its operations with the net cost of operating its programs.

Prompt Payment

The Prompt Payment Act and the OMB Circular A-125 require agencies to make payments on time, pay interest penalties when payments are late, and take discounts only when payments are made on or before the discount date. The Department's goal is a prompt payment rate of less than 2 percent. The OCC's prompt payment rate for FY 2003 was 1.37 percent, an improvement over the 2.38 percent achieved in FY 2002. In addition, the number and amount of interest penalties paid in FY 2003 was 47 percent less than FY 2002. Table 12 summarizes the OCC's prompt payment performance for FYs 2003 and 2002.

Table 12: Prompt Payment Performance[6]

		FY 2003	FY 2002
Invoices paid	Number	20,910	20,341
	Dollar amount	$69,210,143	$61,101,069
Invoices paid late	Number	287	484
	Dollar amount	$3,802,695	$4,683,467
Interest penalties paid	Number	127	238
	Dollar amount	$3,960	$7,403

Electronic Funds Transfer

Using electronic funds transfer (EFT) for payments provides greater control over the timing of payments and reduces payment cost compared with paper checks. The Debt Collection Improvement Act of 1996 requires government agencies to issue all contractual and employee payments using EFT. Table 13 summarizes EFT usage for FYs 2003 and 2002.

Table 13: Electronic Funds Transfer Performance

	FY 2003	FY 2002
Vendor payments	99%	99%
Employee payments	100%	100%

Limitations to the Financial Statements

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

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

[6] Number and dollar amount

Systems, Controls, And Legal Compliance

The OCC is dedicated to maintaining integrity and accountability in all of its programs and operations. Management, administrative, and financial systems controls have been designed to ensure that:

- Programs achieve their intended results.
- Resources are used in accordance with the OCC's mission.
- Programs and resources are protected from waste, fraud, and mismanagement.
- Laws and regulations are followed.
- Reliable, complete, and timely data are maintained and used for decision-making.

As previously discussed, the OCC made several noteworthy control system advancements, including formation of an executive subcommittee structure, a staffing plan initiative, and a more rigorous budget review process during FY 2003. In addition to the current Committee on Bank Supervision, the following subcommittees were added: Regulatory Policy, Legal and External Affairs; Budget and Finance; Human Capital; Technology and Systems; and Audit. The new subcommittee structure makes executive committee meetings and deliberations more efficient and effective. The staffing plan initiative and new budget process integrates strategic planning, performance management, and program analysis into the budgeting process and brings the OCC closer than ever to performance-based budgeting.

Management Control Program

The primary objective of the OCC's management control program is to provide a fully supportable annual assurance statement as required by the FMFIA. The responsible division, Program and Management Accountability (P&MA), is managed independent of other OCC programs and reports directly to the Comptroller. The assurance statement is based on information gathered from various sources including management's day-to-day knowledge of existing controls in addition to independent validations from the following P&MA subdivisions:

- *Quality Management.* Ensures management accountability for establishing and maintaining cost-effective management controls. Encourages organizational performance excellence through a regular program of review and other special studies designed to foster continuous organizational improvement.
- *Program Analysis.* Ensures strategic alignment of OCC programs. Evaluates program efficiency and effectiveness.
- *OIG/GAO Liaison*. Facilitates audits, evaluations, and investigations. Tracks open audit recommendations and ensures managers take required corrective actions.

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

The FMFIA requires the Comptroller to establish controls that reasonably ensure that: 1) obligations and costs comply with applicable law, 2) assets are safeguarded against waste, loss, unauthorized use or misappropriation; and, 3) revenues and expenditures are properly accounted for and recorded. In fulfilling these requirements, the Comptroller annually evaluates and reports on the management control and financial systems that protect the integrity of OCC programs.

The evaluation of management controls is a continuous process that extends to each of the OCC's four major programs and is applicable to financial, administrative, and operational controls. Based on a conscientious and thorough evaluation of management controls, systems, and processes in place for FY 2003, the OCC's management controls, as a whole, provide reasonable assurance that necessary management controls are in place and operating effectively. The OCC is aware of no material management control weaknesses or material non-conformances with law that impair the ability to fulfill its mission or significantly weaken established safeguards against waste, fraud, or mismanagement.

Assurance Statement

The Office of the Comptroller of the Currency (OCC), as a whole, has made a conscientious effort during FY 2003 to meet the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). On the basis of a comprehensive assessment of OCC's management control program, I am pleased to report that the objectives of FMFIA have been satisfied and our financial systems substantially comply with the requirements of FFMIA. Based on these findings, I can further certify, with reasonable assurance, that programs achieve their intended results, (2) resources are used in accordance with OCC's mission, (3) programs and resources are protected from waste, fraud and mismanagement, (4) laws and regulations are followed, (5) controls are sufficient to minimize improper or erroneous payments, (6) performance information is reliable, (7) systems security is in substantial compliance with all relevant requirements, and (8) continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels.

John D. Hawke, Jr.
Comptroller of the Currency

In completing the review, the OCC relied on departmental certifications of the Chief Counsel, Chief National Bank Examiner, Chief Financial Officer, Chief Information Officer, and the Senior Deputy Comptrollers for Bank Supervision, supplemented by information received through independent program reviews, and quality assurance activities. Comments of the independent auditors were solicited and incorporated. No material deficiencies were reported concerning this year's financial audit. A statement of reasonable assurance is further supported by the management control evaluations submitted by 62 OCC managers in the FY 2003 Self-Assessment for Management Accountability.

Federal Financial Management Improvement Act of 1995 (FFMIA)

The OCC's financial management and acquisition system ($MART) continues to substantially comply with the requirements of the FFMIA. $MART meets Federal Financial Management System Requirements published by the Joint Financial Management Improvement Program. The upgraded system implemented in FY 2003 continues to remedy the limitations that resulted in qualified assurance in prior years. Specifically, the OCC's financial management system:

- Supports management's fiduciary role without requiring the adoption of extensive manual processes.
- Integrates the budget execution function in the core financial system with accounts payable, accounts receivable, and general ledger.
- Provides the users with on-line access to or daily reports on the status of funds to support the management and delivery of the OCC's programs and program decision-making.
- Provides security over financial information in accordance with Circular A-130, Appendix 3 and support internal controls over the financial system that are designed properly and operating effectively.

Controls to Prevent Erroneous Payments

The OCC is currently exempt from the Erroneous Payments Recovery Act of 2001 and the Improper Payments Information Act of 2002. The P&MA staff nonetheless reviewed financial controls over erroneous payments consistent with the Department's December 31, 2002 guidance.

The OCC controls for the prevention of erroneous payments are satisfactory. The risk of erroneous payments is low given:

- The relatively low transaction volume.
- Eighty percent of vendor relationships are controlled through the Central Contractor Register.
- Segregation of major procurement duties is a built-in feature of the financial management system.
- Automated invoice verification features significantly reduce the potential for duplicate payments.
- The FY 2002 financial statement audit did not reveal control weaknesses in the disbursing area.

The P&MA's review confirmed proper segregation of the purchasing, invoice receipt and verification, and receiving functions. Adequate data file restrictions and user profile maintenance were also observed. The P&MA successfully traced 187 payments to source invoices noting proper authorizations and very few exceptions. Recommendations for minor management information system (MIS) enhancements are being tracked as a result of this review.

Subsequent to the P&MA's review, the OCC made dupicate payments of batched employee travel vouchers in three separate events totaling approximately $274,000 during September 2003 and October 2003. These events were unrelated and resulted from different circumstances where new software deficiencies combined with the failure of data and other manual checks. Corrective software fixes and additonal manual controls were implemented in October 2003 to prevent the reoccurrance of such events. The implementation of a plan for additional corrective actions will be completed in December 2003. The independent auditors of the OCC's FY 2003 financial statements reported this issue and provided recommendations to prevent such occurrences.

Performance Information Reliability

Performance data is tracked using MISs that have sufficient systemic and management controls. The OCC managers certify that their systems of controls are adequate and operating effectively through the annual FMFIA process. In particular, managers certify that their systems of management control ensure that programs achieve their intended results, and reliable and timely information is obtained, maintained, reported, and used for decision-making. In addition, the performance data is reviewed by the independent auditors during their annual audit of the financial statements.

Information Security

The Federal Information Security Management Act of 2002 (FISMA) directs all government agencies to implement, maintain, and oversee an information security program that ensures adequate protection for all information collected, processed, transmitted, or disseminated in general support systems and major applications. The OCC must ensure that systems and applications protect information commensurate with the level of risk and magnitude of harm resulting from loss, misuse, unauthorized access, or modification.

The OCC information system resources are managed, with reasonable assurance, according to the requirements of FISMA and OMB Circular A-130. In compliance with these requirements, the OCC Information Security Program includes:

- An OCC Information Security Policy, which is being updated to align with the recently released Treasury Security Policy TDP 85-01.
- An OCC Information Security Program Handbook that describes the roles, responsibilities, and methods for implementing the OCC Information Security Policy.

- An OCC Computer Incident Response Capability (CIRC) Handbook and Operations Guide.

- Systems Security Plans for OCC General Support Systems and Major Applications (see "Problematic Management Control Issues" for discussion of important limitations).

- A systems certification and accreditation process for all General Support Systems and Major Applications.

- A Security Training Program for all employees, including plans and programs of specialized security training for employees with particularly sensitive security-related responsibilities.

- A formal Business Resumption Plan, including quarterly updates and annual testing. During this reporting period, tests to recover mainframe systems, headquarters servers, electronic mail, and critical server-based systems, including $MART, were completed.

Continuity of Operations

Continuity of operations planning at the OCC is sufficient to reduce risk to reasonable levels. The OCC continued to improve its ability to respond to emergencies. The OCC Continuity of Operations Plan (COOP) was revised to enable the OCC to carry out its critical functions during any emergency. The OCC held two exercises to test the COOP and continues to conduct emergency drills and testing of plans for OCC offices. The OCC Contingency Planning Oversight Committee also developed and tested a Sheltering-In-Place (SIP) Plan for the headquarters facility. Survival kits were purchased and distributed to all OCC employees and contractors. Employees used these kits during the New York City blackout in August 2003.

Extensive disaster recovery testing was performed for server-based production systems. The COOP identified the production systems that are critical to operations. The applications are listed in the priority order of their recovery time (48 hours, one week, etc.). The OCC expanded its contract to provide additional hardware and staff support. The OCC conducted three server-based tests at the contractor's mega-data center. Although testing was successful, a number of challenges are ahead as the OCC moves to new hardware platforms (including dissimilar vendor hardware) and continues to upgrade its application software. In addition, the OCC will test communications access to the contractor's recovery facility from selected OCC district offices.

The OCC has established emergency communications protocols, purchased new secure communications equipment for its COOP sites, and has been participating in recent interagency communications tests.

Problematic Management Control Issues

The OCC is presently tracking the following problematic management control issues. Although these issues are receiving special management attention, they do not rise to the level of materiality.

- *Financial System Infrastructure.* Corrective actions are on-going to remedy operational deficiencies originally disclosed in the FY 2002 assurance statement.

  The OCC did not verify the accuracy of $MART interface documentation and did not review the security over the interfaces. If inaccurate system interface documentation existed, it could conceal security issues over the $MART system, its interfaces, and their data. The independent auditors of the OCC's FY 2003 financial statements reported this issue and indicated that their tests did not identify any inaccurate interface documentation or security issues.

- *Federal Information Systems Management Act.* An initiative to update the OCC's systems inventory is expected to result in the need for additional system certification and accreditation documents.

  When complete, the new information systems inventory is expected to reveal the need for additional program reviews, risk assessments, and certification and accreditation documentation. By December 31, 2003, the OCC will complete the systems inventory process and will have a better understanding of which systems represent "Major Applications" and "General Support Systems" within the context of OMB A-130. The OCC will make a substantial investment in consulting assistance to help get all the required documentation in the proper format for these systems during FY 2004.

- *Tax Implications of Alternate Location Employees.* As a result of a recent analysis of certain employee work arrangements, the OCC may be paying the tax liability for a relatively small group of affected employees.

  The OCC is presently studying "alternate location" employment arrangements. The OCC and less than 50 employees may have a tax liability arising from the reimbursement of travel expenses under these alternative location employment arrangements.

- *Fair Labor Standards Act Compliance*. During FY 2003, it was determined that some OCC positions were misclassified relative to the Fair Labor Standards Act (FLSA). The categorization of affected positions from exempt to nonexempt has been made, and a reserve has been established to account for retroactive overtime claims.

  When the OCC replaced its 25-grade salary structure with a 9-grade salary structure on January 1, 2001, the agency undertook a multi-year implementation strategy that included a study to determine how these changes may have impacted implementation of the FLSA. The FLSA contains standards for determining when a position is considered to be "nonexempt" or "exempt" from the overtime compensation provisions of that act. A review of recent administrative decisions applying those standards was completed to assure that OCC positions were properly classified according to the latest interpretations of the FLSA standards. As a result of this study, the categorization of certain positions was revised from exempt to nonexempt. Employees whose positions were changed to nonexempt are entitled to back pay for hours of overtime work covered by the FLSA and may be entitled to liquidated damages in an amount equal to the back pay.

Independent Auditors' Report

gka
Gardiner Kamya
& Associates, PC
Certified Public Accountants | Management Consultants

Independent Auditors' Report on Financial Statements

The Comptroller of the Currency:

We have audited the accompanying balance sheet of the Office of the Comptroller of the Currency (OCC) as of September 30, 2003, and the related statements of net cost, changes in net position, budgetary resources and financing for the year then ended. These financial statements are the responsibility of the management of the OCC. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying balance sheet of the OCC as of September 30, 2002, and the related statement of net cost, changes in net position, budgetary resources and financing for the year then ended were audited by KPMG LLP whose report dated November 1, 2002, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OCC as of September 30, 2003, and its net costs, changes in net position, budgetary resources, and the reconciliation of budgetary obligations to net costs for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information in the Management section of OCC's fiscal year 2003 Annual Report is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

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

In accordance with *Government Auditing Standards,* we have also issued reports dated October 31, 2003, on our consideration of the OCC's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and these reports should be read in conjunction with this report in considering the results of our audit.

Gardiner, Kamya & Associates, P.C.

October 31, 2003

GARDINER KAMYA
& ASSOCIATES, PC

CERTIFIED PUBLIC ACCOUNTANTS | MANAGEMENT CONSULTANTS

Independent Auditors' Report on Internal Control over Financial Reporting

The Comptroller of the Currency:

We have audited the balance sheet of the Office of the Comptroller of the Currency (OCC) as of September 30, 2003, and the related statements of net cost, changes in net position, budgetary resources, and financing, for the year then ended, and have issued our report thereon dated October 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

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

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

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However, we noted certain matters discussed in the following pages (Reportable Conditions 1 and 2) involving the internal control over financial reporting and its operation that we consider to be reportable conditions. However, we do not consider these reportable conditions to be material weaknesses.

In addition, with respect to internal control related to performance measures determined by management to be key and reported in the Management section of the OCC's Annual Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We also noted other matters involving internal control and its operation that we have reported to the management of OCC in a separate letter dated October 31, 2003.

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

Gardiner, Kamya & Associates, P.C.

October 31, 2003

REPORTABLE CONDITION 1

Reportable Condition 1:
On three occasions during September and October 2003, OCC made duplicate TTRS batch payments to employees for travel reimbursements totaling about $274,000.

<u>Condition</u>

On three occasions during September and October 2003, OCC made duplicate TTRS batch payments comprised of 705 payments to employees for travel reimbursements totaling about $274,000. OCC took immediate action to recover the overpayments. Details are as follows.

Duplicate TTRS Payment made on September 11, 2003

On September 11, 2003, OCC made a duplicate TTRS batch payment comprised of 262 payments to employees for travel reimbursements totaling $96,049.

On September 10, 2003 the PeopleSoft process scheduler that usually existed on the database server, was redirected to an application server to determine whether the process scheduler would perform better. The OCC employee who runs TTRS at night was not aware of the change, and placed the TTRS file on the database server. When the TTRS process was run, it pulled the previous night's TTRS file from the application server and loaded it into $MART.

$MART checks for duplicate invoices, and TTRS checks for duplicates based on pay period end date and employee identification number. Any duplicates discovered are placed in a recycle status. This process has successfully detected duplicates in the past, including two instances in July. However, in this instance, the system failed to detect the duplicates and the vouchers loaded as usual and were scheduled for payment.

On the morning of September 11, 2003, vouchers were selected in the system and a payment file was produced as is normally done. The certification process did not detect the discrepancy. On September 12, 2003, employees who reviewed their e-mails alerted OCC FM to the errors.

OCC subsequently restored the database on a separate server to research the issue and successfully replicated the event. The system did not generate a warning because a refund was included with the TTRS load in the staging tables (a normal, but infrequent event) and the duplicate invoice checking configuration for the refund is different from the duplicate invoice checking configuration for TTRS vouchers. After numerous e-mails from OCC, PeopleSoft identified that the issue was previously reported and a fix was previously released. OCC has now applied the fix.

Duplicate travel and check payments made on October 6, 2003

On October 6, 2003, OCC made a duplicate batch payment comprised of 407 payments to employees for travel reimbursements totaling $169,563.

On July 3, 2003, TTRS and other vouchers were selected for payment but subsequently cancelled when it was identified that some vouchers were missing (a normal, but infrequent process). When the payment schedule was cancelled, flags were set to indicate that these vouchers still needed to be paid. On the next payment cycle, the payment posting process selected these vouchers for payment, but failed to update the flags from pending status to paid status.

These flags had no impact until October 3, 2003 when the normal run of payment post failed in mid-process. When a failure in mid-process occurs, the system rolls back any data updates that have been partially processed. However, based on the pending flags, the process selected for payment the vouchers previously paid on July 3, 2003, and the roll back process did not correct the error. When the payment post process was run on October 6, it completed successfully, including the July 3 payments. Data checks and the certification process did not detect the discrepancy. OCC and PeopleSoft are working to determine the reason for which the software failed to correctly update the payment flags in the cancelled schedule.

Duplicate TTRS payments made on October 20, 2003

On October 20, 2003, OCC made a duplicate TTRS batch payment comprised of 36 payments to employees for travel reimbursements totaling $8,544.

Effective October 15, 2003, an updated version of the TTRS process that pulls expenses payments from the mainframe system for transfer to $MART was put into production. The changes to the process reflected the new activity codes being used for TTRS in fiscal year 2004. The changes to the process also caused the software to skip the update of expense records in TTRS indicating that they had been downloaded for payment. This bug was missed during the testing process.

The updated TTRS nightly process pulled duplicate expenses for payment on October 20, which the $MART duplicate payment check did not detect. Data checks and new reports were not executed by ITS or FM and the duplicate TTRS expenses were paid. The TTRS nightly process pulled additional duplicate expenses for payment on October 21. Data checks run by ITS identified the issue and these payments were not made.

The bug in TTRS was identified and corrected on October 21. Based on OCC's work with PeopleSoft regarding the September 11 issue, PeopleSoft supplied a software patch to correct the duplicate invoice detection bug. This patch was tested and applied to the $MART production system on October 21. Queries were developed and are being produced daily by Financial Management personnel and the production support contractor to identify and prevent potential duplicate payments. Additional queries are still being developed to provide further assurance to the Certifying Officers that controls are in place.

Criteria

"Standards for Internal Control in the Federal Government", U.S. General Accounting Office (GAO), November 1999. GAO/AIMD-00-2.1.3.1 (11/99). Control Activities Specific for Information Systems. Application Control. This category of control is designed to help ensure completeness, accuracy, authorization, and validity of all transactions during application processing. Control should be installed at an application's interfaces with other systems to ensure that all inputs are received and are valid and outputs are correct and properly distributed.

Cause

These events were unrelated and resulted from different circumstances where software problems combined with the failure of data and other manual checks.

Effect

OCC incurred costs to recover the duplicate payments and damaged its reputation with the affected payees.

Recommendations

1. Continue to take immediate action to recover the overpayments.
2. Obtain and apply PeopleSoft software patches as they become available.
3. Re-emphasize the importance of certification and data checks with OCC personnel.
4. Provide certifying personnel with better information to enhance the accuracy of the process.

5. Develop a system development life cycle (SDLC) to be used uniformly throughout OCC.
6. Develop production controls to ensure communication of authorized server changes.

Reportable Condition 2:
OCC did not independently verify the accuracy of the documentation of $MART System interfaces, and OCC did not review the security over $MART System interfaces.

<u>Condition</u>

Our testing found that:

- OCC had no procedures to ensure that $MART system interconnection documentation was accurate.

- OCC did not review the security over the interfaces.

- OCC did not include accuracy or security in its scope of work for its independent verification and validation (IV & V) contractor who was tasked with reviewing $MART system interface documentation for completeness. The IV & V contractor did not review the accuracy of $MART interface documentation and did not review the security over the interfaces (see detail definition of security in the criteria section below).

<u>Criteria</u>

"Standards for Internal Control in the Federal Government", U.S. General Accounting Office (GAO), November 1999. GAO/AIMD-00-2.1.3.1 (11/99). Monitoring: Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. Separate evaluations of control can also be useful by focusing directly on the controls' effectiveness at a specific time. The scope and frequency of separate evaluations should depend primarily on the assessment of risks and the effectiveness of ongoing monitoring procedures. Separate evaluations may take the form of self-assessments as well as review of control design and direct testing of internal control. Separate evaluations also may be performed by the agency Inspector General or an external auditor.

Office of Management and Budget (OMB) Circular A-130, "Management of Federal Information Resources", 8.b. (1) (b) (xi) Establish oversight mechanisms, consistent with

Appendix III of this Circular, to evaluate systematically and ensure the continuing security, interoperability, and availability of systems and their data.

OMB Circular A-130, 8.b. (3) (b) (vi) Identify additional security controls that are necessary to minimize risk to and potential loss from those systems that promote or permit public access, other externally accessible systems, and those systems that are interconnected with systems over which program officials have little or no control.

OMB Circular A-130, Appendix III, B. a. 3), Review of Security Controls. Reviews should assure that management, operational, personnel, and technical controls are functioning effectively. Security controls may be reviewed by an independent audit or a self review.

Cause

Significant reliance has been placed on contractors to maintain $MART following implementation because OCC does not have in-house technical expertise in PeopleSoft software. As a result, OCC did not identify and fulfill all of its responsibilities for monitoring the $MART system and ensuring the continuing security, interoperability, and availability of the $MART system and its interfaces and their data.

Effect

If the $MART system interface documentation is in fact inaccurate, it could conceal security issues over the $MART system, its interfaces, and their data.

Recommendation

OCC management should establish controls to ensure that the accuracy of the documentation of $MART system interfaces is independently verified and that the security over interfaces is reviewed and tested (see detail definition of security in the criteria section above).

Status of Prior Year Findings:

OCC's predecessor auditor recommended that $MART system controls should be strengthened, particularly in the areas of application security, infrastructure security, and IT operational controls such as program changes and disaster recovery testing. In addition, in FY 2001, the predecessor auditor recommended strengthening the controls over Time & Travel Reports (TTRS) disbursements and over timekeeping. Our FY 2003 review revealed that these issues are resolved and are closed.

GARDINER KAMYA
& ASSOCIATES, PC

CERTIFIED PUBLIC ACCOUNTANTS | MANAGEMENT CONSULTANTS

Independent Auditors' Report on Compliance with Laws and Regulations

The Comptroller of the Currency:

We have audited the balance sheet of the Office of the Comptroller of the Currency (OCC) as of September 30, 2003, and the related statements of net cost, changes in net position, budgetary resources, and financing, for the year then ended, and have issued our report thereon dated October 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

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

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

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

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

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

Gardiner, Kamya & Associates, P.C.

October 31, 2003

Financial Statements and Notes

Office of the Comptroller of the Currency
Balance Sheets
As of September 30, 2003 and 2002

	FY 2003	FY 2002
Assets:		
Intragovernmental		
Fund balance with Treasury	$ 1,219,409	$ 2,102,024
Investments and related interest (Note 3)	432,705,466	387,918,577
Advances and prepayments	–	11,475
Total intragovernmental	**433,924,875**	**390,032,076**
Cash	26,092	26,092
Accounts receivable, net	432,773	347,191
Property and equipment, net (Note 4)	32,949,644	25,056,225
Advances and prepayments	1,381,230	1,610,244
Total Assets	**$468,714,614**	**$417,071,828**
Liabilities and Net Position		
Intragovernmental		
Accounts payable	$ 986,610	$ 825,485
Total intragovernmental	**986,610**	**825,485**
Accounts payable	17,230,071	13,699,436
Accrued payroll and employee benefits	13,472,232	10,986,038
Deferred revenue (Note 5)	117,048,226	109,745,735
Accrued annual leave	23,524,329	21,954,061
Post retirement benefit (Note 7)	9,079,706	8,183,025
Total liabilities	**181,341,174**	**165,393,780**
Net position (Note 8)	**$287,373,440**	**$251,678,048**
Total Liabilities and Net Position	**$468,714,614**	**$417,071,828**

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, 2003, and 2002

	FY 2003	FY 2002
Program Costs		
Charter National Banks		
Intragovernmental	$ 1,725,149	$ 1,574,820
With the Public	9,917,892	9,744,747
Subtotal-Charter National Banks	**$ 11,643,041**	**11,319,567**
Regulate National Banks		
Intragovernmental	$ 3,842,098	$ 3,472,050
With the Public	22,088,240	21,484,513
Subtotal-Regulate National Banks	**$ 25,930,338**	**$ 24,956,563**
Supervise National Banks		
Intragovernmental	$ 57,407,843	$ 50,142,410
With the Public	330,039,391	310,273,531
Subtotal-Supervise National Banks	**$387,447,234**	**$360,415,941**
Analyze Risk		
Intragovernmental	$ 3,864,727	$ 3,579,323
With the Public	22,218,335	22,148,299
Subtotal-Analyze Risk	**$26,083,062**	**25,727,622**
Total Program Costs	**$451,103,675**	**$422,419,693**
Less: Earned revenues not attributed to programs	(466,110,295)	(442,655,111)
Net Cost of Operations	**$(15,006,620)**	**$(20,235,418)**

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, 2003 and 2002

	FY 2003	FY 2002
Beginning Balances	$ 251,678,048	$ 213,769,210
Other Financing Sources		
Imputed financing from costs absorbed by others (Note 7)	20,688,772	17,673,420
Net Cost of Operations	15,006,620	20,235,418
Ending Balances	**$ 287,373,440**	**$ 251,678,048**

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, 2003 and 2002

	FY 2003	FY 2002
Budgetary Resources		
Unobligated balance		
Beginning of Period	$ 312,757,649	$281,479,230
Spending Authority from offsetting collections:		
Earned		
Collected	471,264,186	448,885,271
Receivable from Federal Sources	229,167	(204,323)
Subtotal	471,493,353	448,680,948
Total Budgetary Resources	**$784,251,002**	**$ 730,160,178**
Status of Budgetary Resources		
Obligations incurred	$ 444,261,622	$ 417,402,529
Unobligated balance available	339,989,380	312,757,649
Total Status of Budgetary Resources	**$ 784,251,002**	**$ 730,160,178**
Relationship of Obligations to Outlays		
Obligated Balance, net, beginning of period	67,315,029	63,078,883
Obligated Balance, net, end of period:		
Interest Receivable	(5,120,625)	(4,891,458)
Undelivered Orders	23,467,361	17,378,278
Accounts Payable and Accruals, net of assessment refunds	64,292,948	54,828,210
Outlays:		
Disbursements	$ 428,707,802	$ 413,370,706
Collections	(471,264,186)	(448,885,271)
Net Collections in Excess of Disbursements	**$(42,556,384)**	**$(35,514,565)**

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

Office of the Comptroller of the Currency
Statements of Financing
For the Years Ended September 30, 2003 and 2002

	FY 2003	FY 2002
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 444,261,622	$ 417,402,529
Less: Spending authority from offsetting collections	(471,493,353)	(448,680,948)
Net obligations	(27,231,731)	(31,278,419)
Other Resources		
Imputed financing from costs absorbed by others (Note 7)	20,688,772	17,673,420
Total resources used to finance activities	**(6,542,959)**	**(13,604,999)**
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(5,848,595)	(6,460,430)
Resources that finance the acquisition of assets	(14,685,716)	(11,474,517)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(85,582)	(54,064)
Total resources used to finance items not part of the net cost of operations	**(20,619,893)**	**(17,989,011)**
Total resources used to finance the net cost of operations	**(27,162,852)**	**(31,594,010)**
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods:		
Change in Deferred Revenue	7,302,491	9,500,951
Change in Assessment Refunds	(819,835)	819,836
Total components that will require or generate resources in future periods	6,482,656	10,320,787
Components not Requiring or Generating Resources:		
Increase in Accumulated Depreciation	6,792,297	5,209,402
Net Increase in Bond Premium	(1,118,721)	(4,240,884)
Other	–	69,287
Total components that will not require or generate resources	5,673,576	1,037,805
Total components of net cost of operations that will not require or generate resources in the current period	**12,156,232**	**11,358,592**
Net Cost of Operations	**$ (15,006,620)**	**$ (20,235,418)**

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

Note 1—Organization

The OCC was created as a bureau within the U.S. Department of the Treasury by an act of Congress in 1863. The OCC was created for the purpose of establishing and regulating a system of federally chartered national banks. The National Currency Act of 1863, rewritten and reenacted as the National Bank Act of 1864, authorized the OCC to supervise national banks and to regulate the lending and investment activities of federally chartered institutions.

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

By federal statute 12 USC 481, the OCC's funds are maintained in a U.S. government trust revolving fund. The funds remain available to cover the annual costs of the OCC's operations in accordance with policies established by the Comptroller.

The OCC collects CMPs due to the federal government that are assessed through court enforced legal actions against a national bank and/or its officers. CMP collections transferred to the Department's General Fund amounted to $951,089 in FY 2003, and $10,175,092 in FY 2002. The decrease was primarily due to a one-time penalty of $10 million collected in FY 2002. Outstanding CMPs at September 30, 2003 and 2002, amounted to $2,014,502 and $1,218,534, respectively.

The Departmental Offices (DO), another entity of the U.S. Department of the Treasury, provides certain administrative services to the OCC. The OCC pays the DO for services rendered pursuant to established interagency agreements. Administrative services provided by the DO totaled $2,444,650 in FY 2003, and $2,081,306 in FY 2002.

Note 2—Significant Accounting Policies

Basis of Accounting

The OCC's financial statements have been prepared from the OCC's accounting records in conformity with generally accepted accounting principles in the United States of America (GAAP). The financial statements consist of a balance sheet, and the statements of net cost, changes in net position, budgetary resources, and financing. These financial statements are presented on a comparative basis providing information for FYs 2003 and 2002.

The financial statements reflect both the accrual and budgetary bases of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to cash receipt or payment. The budgetary method recognizes the obligation of funds according to legal requirements, which, in many cases, is made prior to the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of federal funds.

Fund Balance with Treasury

The OCC's cash receipts and disbursements are processed by the U.S. Treasury. Sufficient funds are maintained in a U.S. government trust revolving fund and are available to pay current liabilities. The OCC invests all the funds that are not immediately needed in U.S. government securities (Note 3).

Accounts Receivable, net

Accounts receivable represent monies owed to the OCC for services and goods provided. Accounts receivable are reduced to their net realizable value by an Allowance for Doubtful Accounts. The OCC reserves an allowance equal to 100 percent of accounts with outstanding balances exceeding one year, and 50 percent of accounts with balances exceeding six months but less than one year. At September 30, 2003 and 2002, accounts receivable amounted to $451,767 less an allowance of $18,994, and $366,215 less an allowance of $19,024, respectively.

Advances and Prepayments

Advances and prepayments to other government agencies represent amounts paid to the DO prior to the receipt of goods and services. Advances and prepayments to the public consist of rent and insurance paid. The amounts are recorded as prepaid expenses at the time of payment and are expensed when related goods and services are received.

Liabilities

Liabilities represent the amounts owing or accruing under contractual or other arrangements governing the transactions, including operating expenses incurred but not yet paid. Payments are made in a timely manner in accordance with the Prompt Payment Act. Interest penalties are paid when payments are late. Discounts are taken when cost effective, and the invoice is paid by the discount date.

Annual, Sick, and Other Leave

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 current pay rates. Sick leave and other types of leave are expended as taken.

Use of Estimates

The preparation of financial statements, in accordance with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could affect the amounts reported and disclosed herein.

Note 3—Investments and Related Interest

Investments are U.S. Treasury securities stated at amortized cost and the related accrued interest. The OCC plans to hold these investments to maturity. Premiums and discounts are amortized over the term of the investment using the straight-line method, which approximates the effective yield method. The fair market value of investment securities was $434,739,500 at September 30, 2003, and $392,537,740 at September 30, 2002.

Investments and Related Interest Receivable

	FY 2003	FY 2002
Cost	$421,407,000	$378,468,000
Net Unamortized Premium	6,177,841	4,559,119
Net Amortized Value	427,584,841	383,027,119
Interest Receivable	5,120,625	4,891,458
Total	**$432,705,466**	**$387,918,577**

FY 2003 Investment Portfolio

Maturity	Par Value	Coupon Rate
Overnight	$177,407,00	0.950%
During 2003	55,000,000	4.250%
During 2004	40,000,000	5.250%
	55,000,000	5.875%
During 2005	40,000,000	6.500%
	29,000,000	5.750%
During 2006	25,000,000	6.875%
Total	**$421,407,000**	

FY 2002 Investment Portfolio

Maturity	Par Value	Coupon Rate
Overnight	$134,468,000	1.900%
During 2002	80,000,000	5.750%
During 2003	55,000,000	4.250%
During 2004	55,000,000	5.875%
During 2005	29,000,000	5.750%
During 2006	25,000,000	6.875%
Total	**$378,468,000**	

Note 4—Property and Equipment, net

Property and equipment purchased at a cost greater than or equal to the noted thresholds below with useful lives of five years or more are capitalized at cost and depreciated or amortized, as applicable.

Leasehold improvements are amortized on a straight-line basis over the lesser of the terms of the related leases or their estimated useful lives. All other property and equipment are depreciated or amortized, as applicable, on a straight-line basis over their estimated useful lives. The tables presented below summarize property and equipment balances as of September 30, 2003, and 2002.

FY 2003 Property and Equipment, net

Class of Assets	Capitalization Threshold/ Useful Life	Cost	Accumulated Depreciation	Net Book Value
Leasehold Improvements	$50,000 5–20	$25,277,761	$(16,885,879)	$8,391,882
Equipment	50,000 5–10	9,590,672	(6,091,601)	3,499,071
Furniture and Fixtures	50,000 5–10	1,336,779	(843,805)	492,974
Internal Use Software	500,000 5–10	21,876,063	(5,603,148)	16,272,915
Internal Use Software-Dev.	500,000 5–10	4,292,802	–	4,292,802
Total		**$62,374,077**	**$(29,424,433)**	**$32,949,644**

FY 2002 Property and Equipment, net

Class of Assets	Capitalization Threshold/ Useful Life	Cost	Accumulated Depreciation	Net Book Value
Leasehold Improvements	$50,000 5–20	$23,283,734	$(14,357,099)	$8,926,635
Equipment	50,000 5–10	6,414,633	(4,193,900)	2,220,733
Furniture and Fixtures	50,000 5–10	1,035,514	(723,252)	312,262
Internal Use Software	500,000 5–10	13,248,076	(3,357,885)	9,890,191
Internal Use Software-Dev	500,000 5–10	3,706,404	–	3,706,404
Total		**$47,688,361**	**$(22,632,136)**	**$25,056,225**

Note 5—Deferred Revenue

The OCC's activities are primarily financed by assessments on assets held by national banks and the federal branches of foreign banks. These assessments are due January 31 and July 31 of each year based on asset balances as of call dates on December 31 and June 30, respectively. Assessments are paid in advance and are recognized as earned revenue on a straight-line basis over the six months following the call date. The unearned portions are reduced accordingly.

Note 6—Leases

The OCC leases office space for headquarters operations in Washington, D.C., and for district and field operations. The lease agreements expire at various dates through 2009. These leases are treated as operating leases. In FY 2003, operating lease payments decreased due to office consolidations.

FY 2003 Future Lease Payments

Year	Amount
2004	$21,827,454
2005	19,666,349
2006	13,841,164
2007	4,437,938
2008	3,844,151
2009 and beyond	14,705,613
Total	**$78,322,669**

FY 2002 Future Lease Payments

Year	Amount
2003	$22,333,599
2004	19,126,850
2005	17,131,332
2006	11,491,191
2007	2,408,777
2008 and beyond	6,850,754
Total	**$79,342,503**

Note 7—Retirement Plans and Other Benefits

Retirement

OCC employees are eligible to participate in one of two retirement plans. Employees hired prior to January 1, 1984, are covered by the CSRS, unless they elected to join the FERS and Social Security during the election period. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. OCC contributions to CSRS were $6,839,400 in FY 2003 and $7,805,035 in FY 2002. For employees covered by CSRS, the OCC contributes 7.0 percent of their adjusted base pay to the plan, compared to 8.51 percent during FY 2002. For employees covered by FERS, the OCC contributes 10.7 percent of their adjusted base salary. OCC contributions totaled $14,390,270 in FY 2003, and $13,490,210 in FY 2002.

Furthermore, the OPM contributed an additional $20,688,772 toward these retirement plans during FY 2003, and $17,673,420 in FY 2002. The OCC recognized these contributions as "Imputed Costs Absorbed by Others" and an offset in equal amount to "Imputed Financing from Costs Absorbed by Others" as a result of not having to reimburse the OPM.

The OCC does not report in its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts, such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, are presently the responsibility of the OPM.

Other Benefits

OCC employees are eligible to participate in the Federal Thrift Savings Plan (TSP). For those employees under FERS, a TSP account is automatically established, and the OCC contributes a mandatory one percent of adjusted base pay to this account. In addition, the OCC matches employee contributions up to an additional four percent of pay, for a maximum OCC contribution amounting to five percent of adjusted base pay. Employees under CSRS may participate in the TSP, but do not receive the automatic (one percent) and matching employer contributions. The OCC's contributions for the TSP totaled $6,132,018 in FY 2003, and $5,749,904 in FY 2002. The OCC also contributed a total of $11,731,468 for Social Security and Medicare benefits for all eligible employees in FY 2003, and $11,045,830 in FY 2002.

Employees can elect to contribute up to 10 percent of their adjusted base salary in the OCC 401(K) Plan, subject to Internal Revenue regulations. Prudential Securities Incorporated currently administers the plan. Beginning in January 2003, the OCC contributes a fixed two percent of the adjusted base salary to the plan for all participating employees, compared to a one percent contribution in previous years. Approximately 2,400 employees are currently enrolled in the plan, which represents a participation rate exceeding 85 percent. The total cost of the OCC's matching contribution plus associated administration fees amounted to $3,425,093 during FY 2003, and $2,079,283 in FY 2002.

The OCC sponsors a life insurance benefit plan for current and former employees. This plan is a defined benefit plan. Premium payments made during FY 2003 totaled $134,477, and $110,524 in FY 2002.

Accrued Post-Retirement Benefit Cost and Net Periodic Post-Retirement Benefit Cost

Component	FY 2003	FY 2002
Accumulated Post-Retirement Benefit Obligation	$(10,979,016)	$(9,094,149)
Unrecognized Transition Obligation	1,555,545	1,728,382
Unrecognized Net Gain	343,765	(817,258)
Total	**$(9,079,706)**	**$(8,183,025)**
Service Cost	$403,456	$311,064
Interest Cost	599,490	527,384
Amortization of Gain	–	(136,536)
Amortization of Transition Obligation	172,837	172,837
Total	**$1,175,783**	**$874,749**

The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 7.5 percent. Gains or losses due to changes in actuarial assumptions are amortized over the service life of the plan.

Employees and retirees of the OCC are eligible to participate in Federal Employees Health Benefits (FEHB) and Federal Employees Group Life Insurance (FEGLI) plans that involve a cost sharing of bi-weekly coverage premiums by employee and employer. Both of these employee benefit plans are administered by the OPM. Total OCC contributions for active employees who participate in the FEHB plans were $12,577,572 for FY 2003, and $11,319,414 for FY 2002. OCC contributions for active employees who participate in the FEGLI plan were $201,440 for FY 2003, and $196,516 for FY 2002.

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered 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 the OCC's employees under FECA are administered by the U.S. Department of Labor (DOL) and later billed to the OCC. The OCC accrued $5,366,500 of workers' compensation costs as of September 30, 2003, and $4,390,674 as of September 30, 2002. This amount includes unpaid costs and an actuarial estimated liability for unbilled costs incurred as of year-end calculated by the DOL.

Note 8—Net Position

The OCC sets aside a portion of its Net Position as Special and Contingency Reserves to be used at the discretion of the Comptroller. In addition, funds are set aside to cover on-going cost of operations.

The Special Reserve supplements revenue from assessments and other sources that are made available to fund the OCC's annual budget. The Special Reserve serves to reduce the impact on operations of unforecasted revenue shortfalls or unbudgeted and unanticipated requirements or opportunities. The Special Reserve was reduced in FY 2003 to provide funding for the OCC's district restructuring efforts.

The Contingency Reserve supports the OCC's ability to accomplish its mission in the case of unforeseeable but rare events. Unforeseeable but rare events are beyond the control of the OCC, such as a major change in the national banking system, or a disaster, such as a fire, flood, or significant impairment of its information technology systems.

Net Position Availability

Component	FY 2003	FY 2002
Contingency Reserve	$196,479,819	$178,554,013
Special Reserve	10,856,000	15,000,000
Earmarked for On-going Operations:		
Undelivered Orders	23,467,361	17,378,278
Consumption of Assets	40,964,927	32,107,691
Capital Investments	5,426,982	6,138,066
District Offices Restructuring	10,178,351	2,500,000
Net Position	**$287,373,440**	**$251,678,048**

The FY 2004 budget established a replacement reserve in the amount of $17,532,950. This reserve will incrementally fund the replacement of IT equipment ($3,830,950), and leasehold improvements and furniture replacements ($13,702,000) for future years. The amount in the replacement reserve is determined based on the cost of replacement and the useful life of the assets, and will be reassessed each year during the budget formulation cycle.

Note 9—Expenses by Budget Object Classification

The following table illustrates the OCC's costs by major budget object class for FYs 2003 and 2002.

Budget Object Class	FY 2003	FY 2002
Personnel Compensation	$246,172,715	$232,359,148
Personnel Benefits	66,326,330	60,160,137
Benefits to Former Employees	3,359,129	520,099
Travel and Transportation of Persons	26,347,257	25,393,310
Travel and Transportation of Things	1,521,893	830,647
Rent, Communication, and Utilities	32,989,698	33,449,836
Printing and Reproduction	608,477	929,212
Other Contractual Services	34,648,286	37,708,589
Supplies and Materials	2,974,034	2,253,706
Equipment	8,478,600	5,548,567
Land and Structures	128,173	349,433
Insurance Claims and Indemnities	68,014	34,187
Depreciation	6,792,297	5,209,402
Imputed Costs	20,688,772	17,673,420
Total	**$451,103,675**	**$422,419,693**

Note 10—Contingencies

The OCC is reviewing potential contingencies, which may result from the effect of certain policies and procedures currently in place. In the opinion of the OCC's management and legal counsel, the ultimate result of these potential contingencies will not materially affect the financial statements of the OCC.

Appendix A—Comptrollers of the Currency, 1863 to the present

No.	Name	Dates of tenure		State
1	McCulloch, Hugh	May 9, 1863	Mar. 8, 1865	Indiana
2	Clarke, Freeman	Mar. 21, 1865	July 24, 1866	New York
3	Hulburd, Hiland R.	Feb. 1, 1865	Apr. 3, 1872	Ohio
4	Knox, John Jay	Apr. 25, 1872	Apr. 30, 1884	Minnesota
5	Cannon, Henry W.	May 12, 1884	Mar. 1, 1886	Minnesota
6	Trenholm, William L.	Apr. 20, 1886	Apr. 30, 1889	South Carolina
7	Lacey, Edward S.	May 1, 1889	June 30, 1892	Michigan
8	Hepburn, A. Barton	Aug. 2, 1892	Apr. 25, 1893	New York
9	Eckels, James H.	Apr. 26, 1893	Dec. 31, 1897	Illinois
10	Dawes, Charles G.	Jan. 1, 1898	Sept. 30, 1901	Illinois
11	Ridgely, William Barret	Oct. 1, 1901	Mar. 28, 1908	Illinois
12	Murray, Lawrence O.	Apr. 27, 1908	Apr. 27, 1913	New York
13	Williams, John Skelton	Feb. 2, 1914	Mar. 2, 1921	Virginia
14	Crissinger, D.R.	Mar. 17, 1921	Mar. 30, 1923	Ohio
15	Dawes, Henry M.	May 1, 1923	Dec. 17, 1924	Illinois
16	McIntosh, Joseph W.	Dec. 20, 1924	Nov. 20, 1928	Illinois
17	Pole, John W.	Nov. 21, 1928	Sept. 20, 1932	Ohio
18	O'Connor, J.F.T.	May 11, 1933	Apr. 16, 1938	California
19	Delano, Preston	Oct. 24, 1938	Feb. 15, 1953	Massachusetts
20	Gidney, Ray M.	Apr. 16, 1953	Nov. 15, 1961	Ohio
21	Saxon, James J.	Nov. 16, 1961	Nov. 15, 1966	Illinois
22	Camp, William B.	Nov. 16, 1966	Mar. 23, 1973	Texas
23	Smith, James E.	July 5, 1973	July 31, 1976	South Dakota
24	Heimann, John G.	July 21, 1977	May 15, 1981	New York
25	Conover, C.T.	Dec. 16, 1981	May 4, 1985	California
26	Clarke, Robert L.	Dec. 2, 1985	Feb. 29, 1992	Texas
27	Ludwig, Eugene A.	Apr. 5, 1993	Apr. 4, 1998	Pennsylvania
28	Hawke, John D., Jr.	Dec. 8, 1998	—	New York

Appendix B—Senior Deputy and Deputy Comptrollers of the Currency, 1863 to the present

No.	Name	Dates of tenure		State
1	Howard, Samuel T.	May 9, 1863	Aug. 1, 1865	New York
2	Hulburd, Hiland R.	Aug. 1, 1865	Jan. 31, 1867	Ohio
3	Knox, John Jay	Mar. 12, 1867	Apr. 24, 1872	Minnesota
4	Langworthy, John S.	Aug. 8, 1872	Jan. 3, 1886	New York
5	Snyder, V.P.	Jan. 5, 1886	Jan. 3, 1887	New York
6	Abrahams, J.D.	Jan. 27, 1887	May 25, 1890	Virginia
7	Nixon, R.M.	Aug. 11, 1890	Mar. 16, 1893	Indiana
8	Tucker, Oliver P.	Apr. 7, 1893	Mar. 11, 1896	Kentucky
9	Coffin, George M.	Mar. 12, 1896	Aug. 31, 1898	South Carolina
10	Murray, Lawrence O.	Sept. 1, 1898	June 29, 1899	New York
11	Kane, Thomas P.	June 29, 1899	Mar. 2, 1923	District of Columbia
12	Fowler, Willis J.	July 1, 1908	Feb. 14, 1927	Indiana
13	McIntosh, Joseph W.	May 21, 1923	Dec. 19, 1924	Illinois
14	Collins, Charles W.	July 1, 1923	June 30, 1927	Illinois
15	Steams, E.W.	Jan. 6, 1925	Nov. 30, 1928	Virginia
16	Awalt, F.G.	July 1, 1927	Feb. 15, 1936	Maryland
17	Gough, E.H.	July 6, 1927	Oct. 16, 1941	Indiana
18	Proctor, John L.	Dec. 1, 1928	Jan. 23, 1933	Washington
19	Lyons, Gibbs	Jan. 24, 1933	Jan. 15, 1938	Georgia
20	Prentiss, William, Jr.	Feb. 24, 1936	Jan. 15, 1938	Georgia
21	Diggs, Marshall R.	Jan. 16, 1938	Sept. 30, 1938	Texas
22	Oppegard, G.J.	Jan. 16, 1938	Sept. 30, 1938	California
23	Upham, C.B.	Oct. 1, 1938	Dec. 31, 1948	Iowa
24	Mulroney, A.J.	May 1, 1939	Aug. 31, 1941	Iowa
25	McCandless, R.B.	July 7, 1941	Mar. 1, 1951	Iowa
26	Sedlacek, L.H.	Sept. 1, 1941	Sept. 30, 1944	Nebraska
27	Robertson, J.L.	Oct. 1, 1944	Feb. 17, 1952	Nebraska
28	Hudspeth, J.W.	Jan. 1, 1949	Aug. 31, 1950	Texas

No.	Name	Dates of tenure		State
29	Jennings, L.A.	Sept. 1, 1950	May 16, 1960	New York
30	Taylor, W.M.	Mar. 1, 1951	Apr. 1, 1962	Virginia
31	Garwood, G.W.	Feb. 18, 1952	Dec. 31, 1962	Colorado
32	Fleming, Chapman C.	Sept. 15, 1959	Aug. 31, 1962	Ohio
33	Haggard, Holis S.	May 16, 1960	Aug. 3, 1962	Missouri
34	Camp, William B.	Apr. 2, 1962	Nov. 15, 1966	Texas
35	Redman, Clarence B.	Aug. 4, 1962	Oct. 26, 1963	Connecticut
36	Watson, Justin T.	Sept. 3, 1962	July 18, 1975	Ohio
37	Miller, Dean E.	Dec. 23, 1962	Oct. 22, 1990	Iowa
38	DeShazo, Thomas G.	Jan. 1, 1963	Mar. 3, 1978	Virginia
39	Egerston, R. Coleman	July 13, 1964	June 30, 1966	Iowa
40	Blanchard, Richard J.	Sept. 1, 1964	Sept. 26, 1975	Massachusetts
41	Park, Radcliffe	Sept. 1, 1964	June 1, 1967	Wisconsin
42	Faulstich, Albert J.	July 19, 1965	Oct. 26, 1974	Louisiana
43	Motter, David C.	July 1, 1966	Sept. 20, 1981	Ohio
44	Gwin, John D.	Feb. 21, 1967	Dec. 31, 1974	Mississippi
45	Howland, W.A., Jr.	July 5, 1973	Mar. 27, 1978	Georgia
46	Mullin, Robert A.	July 5, 1973	Sept. 8, 1978	Kansas
47	Ream, Joseph M.	Feb. 2, 1975	June 30, 1978	Pennsylvania
48	Bloom, Robert	Aug. 31, 1975	Feb. 28, 1978	New York
49	Chotard, Richard D.	Aug. 31, 1975	Nov. 25, 1977	Missouri
50	Hall, Charles B.	Aug. 31, 1975	Sept. 14, 1979	Pennsylvania
51	Jones, David H.	Aug. 31, 1975	Sept. 20, 1976	Texas
52	Murphy, C. Westbrook	Aug. 31, 1975	Dec. 30, 1977	Maryland
53	Selby, H. Joe	Aug. 31, 1975	Mar. 15, 1986	Texas
54	Homan, Paul W.	Mar. 27, 1978	Jan. 21, 1983	Nebraska
55	Keefe, James T.	Mar. 27, 1978	Sept. 18, 1981	Massachusetts
56	Muckenfuss, Cantwell F., III	Mar. 27, 1978	Oct. 1, 1981	Alabama
57	Wood, Billy C.	Nov. 7, 1978	Jan. 16, 1988	Texas
58	Longbrake, William A.	Nov. 8, 1978	July 9, 1982	Wisconsin
59	Odom, Lewis G., Jr.	Mar. 21, 1979	Nov. 16, 1980	Alabama
60	Martin, William E.	May 22, 1979	Apr. 4, 1983	Texas

No.	Name	Dates of tenure		State
61	Barefoot, Jo Ann	July 13, 1979	Sept. 5, 1982	Connecticut
62	Downey, John	Aug. 10, 1980	Aug. 2, 1986	Massachusetts
63	Lord, Charles E.	Apr. 13, 1981	Mar. 31, 1982	Connecticut
64	Bench, Robert R.	Mar. 21, 1982	Sept. 25, 1987	Massachusetts
65	Klinzing, Robert R.	Mar. 21, 1982	Aug. 21, 1983	Connecticut
66	Robertson, William L.	Mar. 21, 1982	Sept. 26, 1986	Texas
67	Arnold, Doyle L.	May 2, 1982	May 12, 1984	California
68	Weiss, Steven J.	May 2, 1982	—	Pennsylvania
69	Stephens, Martha B.	June 1, 1982	Jan. 19, 1985	Georgia
70	Stirnweis, Craig M.	Sept. 19, 1982	May 1, 1986	Idaho
71	Hermann, Robert J.	Jan. 1, 1983	May 3, 1995	Illinois
72	Mancusi, Michael A.	Jan. 1, 1983	Feb. 17, 1986	Maryland
73	Marriott, Dean S.	Jan. 1, 1983	Jan. 3, 1997	Missouri
74	Poole, Clifton A., Jr.	Jan. 1, 1983	Oct. 3, 1994	North Carolina
75	Taylor, Thomas W.	Jan. 1, 1983	Jan. 16, 1990	Ohio
76	Boland, James E., Jr.	Feb. 7, 1983	Feb. 15, 1985	Pennsylvania
77	Fisher, Jerry	Apr. 17, 1983	Apr. 4, 1992	Delaware
78	Patriarca, Michael	July 10, 1983	Aug. 15, 1986	California
79	Wilson, Karen J.	July 17, 1983	July 3, 1997	New Jersey
80	Winstead, Bobby B.	Mar. 18, 1984	June 11, 1991	Texas
81	Chew, David L.	May 2, 1984	Feb. 2, 1985	District of Columbia
82	Walter, Judith A.	Apr. 24, 1985	Dec. 30, 1997	Indiana
83	Maguire, Francis E., Jr.	Jan. 9, 1986	Aug. 6, 1996	Virginia
84	Kraft, Peter C.	July 20, 1986	Sept. 15, 1991	California
85	Klinzing, Robert R.	Aug. 11, 1986	July 7, 1997	Connecticut
86	Hechinger, Deborah S.	Aug. 31, 1986	Sept. 14, 1987	District of Columbia
87	Norton, Gary W.	Sept. 3, 1986	Jan. 2, 1999	Missouri
88	Shepherd, J. Michael	Jan. 9, 1987	May 3, 1991	California
89	Rushton, Emory Wayne	Jan. 21, 1987	Sept. 20, 1989	Georgia
90	Fiechter, Jonathan	Mar. 4, 1987	Oct. 30, 1987	Pennsylvania
91	Stolte, William J.	Mar. 11, 1987	Mar. 21, 1992	New Jersey
92	Clock, Edwin H.	Feb. 29, 1988	Jan. 3, 1990	California

No.	Name	Dates of tenure		State
93	Krause, Susan F.	Mar. 30, 1988	Oct. 18, 1999	California
94	Coonley, Donald G.	June 29, 1988	May 31, 1996	Virginia
95	Blakely, Kevin M.	Oct. 12, 1988	Sept. 27, 1990	Illinois
96	Steinbrink, Stephen R.	Apr. 8, 1990	May 3, 1996	Nebraska
97	Lindhart, Ronald A.	Apr. 22, 1990	July 27, 1991	Florida
98	Hartzell, Jon K.	July 29, 1990	Dec. 5, 1995	California
99	Cross, Leonora S.	Nov. 4, 1990	Mar. 31, 1998	Utah
100	Finke, Fred D.	Nov. 4, 1990	—	Nebraska
101	Kamihachi, James D.	Nov. 6, 1990	Feb. 18, 2000	Washington
102	Barton, Jimmy F.	July 14, 1991	May 1, 1994	Texas
103	Cross, Stephen M.	July 28, 1991	June 4, 1999	Virginia
104	Guerrina, Allan B.	Apr. 19, 1992	June 23, 1996	Virginia
105	Powers, John R.	Aug. 9, 1992	July 2, 1994	Illinois
106	Alt, Konrad S.	Sept. 5, 1993	Oct. 4, 1996	California
107	Harris, Douglas E.	May 20, 1994	June 21, 1996	New York
108	Williams, Julie L.	July 24, 1994	—	District of Columbia
109	Sharpe, Ralph E.	Oct. 30, 1994	July 6, 1997	Virginia
110	Jee, Delora Ng	May 28, 1995	—	California
111	Britton, Leann G.	Jan. 7, 1996	May 17, 2002	Minnesota
112	Golden, Samuel P.	Mar. 31, 1996	—	Texas
113	Abbott, John M.	Apr. 1, 1996	May 26, 2000	Texas
114	Healey, Barbara C.	June 9, 1996	Jan. 3, 1998	New Jersey
115	Calhoun, Scott G.	Sept. 29, 1996	Aug. 30, 1997	New York
116	Roberts, Matthew	Oct. 7, 1996	Oct. 18, 1997	District of Columbia
117	Nebhut, David H.	Oct. 27, 1996	Apr. 26, 1998	Pennsylvania
118	Rushton, Emory Wayne	May 5, 1997	—	Georgia
119	Reid, Leonard F., Jr.	May 19, 1997	Feb. 15, 1998	District of Columbia
120	Robinson, John F.	June 1, 1997	June 14, 2002	Missouri
121	Bailey, Kevin J.	July 6, 1997	June 27, 1999	Pennsylvania
122	Bodnar, John A.	July 6, 1997	Jan. 3, 2002	New Jersey
123	Bransford, Archie L., Jr.	July 6, 1997	—	Michigan
124	Gibbons, David D.	July 6, 1997	—	New York

No.	Name	Dates of tenure		State
125	Gilland, Jerilyn	July 6, 1997	—	Texas
126	Jaedicke, Ann F.	July 6, 1997	—	Texas
127	Long, Timothy W.	July 6, 1997	—	North Dakota
128	Nishan, Mark A.	July 6, 1997	—	New York
129	Otto, Bert A.	July 6, 1997	—	Indiana
130	Roeder, Douglas W.	July 6, 1997	—	Indiana
131	Yohai, Steven M.	Feb. 17, 1998	Sept. 21, 2001	New York
132	Finister, William	Mar. 1, 1998	July 3, 2000	Louisiana
133	Hanley, Edward J.	Mar. 1, 1998	Aug. 2, 2003	New York
134	Brosnan, Michael L.	Apr. 26, 1998	Aug. 24, 2002	Florida
135	Brown, Jeffrey A.	June 7, 1998	Aug. 2, 1998	Iowa
136	Hammaker, David G.	June 7, 1998	—	Pennsylvania
137	McCue, Mary M.	July 20, 1998	Apr. 9, 1999	New Jersey
138	Sharpe, Ralph E.	Jan. 3, 1999	—	Michigan
139	Engel, Jeanne K.	Mar. 29, 1999	May 5, 2000	New Jersey
140	Kelly, Jennifer C.	Nov. 22, 1999	—	New York
141	O'Dell, Mark L.	Jan. 2, 2000	—	Colorado
142	Fiechter, Jonathan L.	Feb. 27, 2000	May 31, 2003	Pennsylvania
143	Alvarez Boyd, Anna	June 4, 2000	—	California
144	Stephens, Martha B.	July 30, 2000	—	Georgia
145	Wentzler, Nancy A.	Aug. 27, 2000	—	Pennsylvania
146	Gentille, Paul R.	Jan. 14, 2001	Oct. 3, 2003	California
147	Petitt, Cynthia T.	Jan. 14, 2001	—	South Dakota
148	Dailey, Grace E.	Dec. 16, 2001	—	Pennsylvania
149	Fletcher, Jackquelyn	Feb. 24, 2002	—	District of Columbia
150	Dick, Kathryn	Aug. 25, 2002	—	Minnesota
151	McPherson, James	Sep. 9, 2002	—	Georgia
152	Kolatch, Barry	Sep. 22, 2002	—	New York
153	Grunkemeyer, Barbara	Oct. 20, 2002	—	Massachusetts
154	Kowitt, Kay E.	April 6, 2003	—	Washington
155	Antiporowich, Harriet	May 18, 2003	—	Illinois
156	Davis, Cheryl F.	May 18, 2003	—	Illinois
157	DeCoster, James L.	May 18, 2003	—	South Carolina

Appendix C—Glossary of Acronyms

ADR	Alternative Dispute Resolution
ALICE	Automated Learning Information Center
AML	Anti-Money Laundering
ATM	Automated Teller Machine
BSA	Bank Secrecy Act
C&I	Commercial and Industrial
CAG	Customer Assistance Group
CALMA	Capital Assurance and Liquidity Maintenance Agreements
CAMELS	Composite rating standing for Capital, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk
CBCA	Change in Bank Control Act
CD	Compact Disc
CEBA	Competitive Equality Banking Act
CIO	Chief Information Officer
CIRC	Computer Incident Response Capability
CMP	Civil Money Penalty
COOP	Continuity of Operations Plan
CRA	Community Reinvestment Act
CRE	Commercial Real Estate
CSRS	Civil Service Retirement System
CY	Calendar Year
DO	Departmental Offices
DOL	Department of Labor
DRC	District Risk Committee
EEO	Equal Employment Opportunity
EFT	Electronic Funds Transfer
ESSP	Examiner Specialized Skills Program
EWIM	Enterprise-Wide Information Management
FAIR	Fair Alternatives and Innovative Resolutions Program
FBIIC	Financial and Banking Infrastructure Information Committee
FCRA	Fair Credit Reporting Act
FDIC	Federal Deposit Insurance Corporation
FECA	Federal Employees Compensation Act
FEGLI	Federal Employees Group Life Insurance
FEHB	Federal Employees Health Benefits
FERS	Federal Employees Retirement System
FFIEC	Federal Financial Institutions Examination Council

FFMIA	Federal Financial Management Improvement Act
FINDRS	Financial Institution Data Retrieval System
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
FISMA	Federal Information Security Management Act of 2002
FLSA	Fair Labor Standards Act
FMFIA	Federal Managers' Financial Integrity Act
FRB	Federal Reserve System
FTC	Federal Trade Commission
FTE	Full-Time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GFLA	Georgia Fair Lending Act
GLBA	Gramm–Leach–Bliley Act
GPRA	Government Performance Results Act
ITS	Information Technology Services
LBCT	Large Bank Credit Tool
LRDA	Liquidity Reserve Deposit Accounts
MIS	Management Information System
NCUA	National Credit Union Administration
NRC	National Risk Committee
OCC	Office of the Comptroller of the Currency
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OTS	Office of Thrift Supervision
OWCP	Office of Workers Compensation Programs
P&MA	Program and Management Accountability
PART	Program Assessment Rating Tool
PAU	Program Analysis Unit
PMA	President's Management Agenda
SDLC	System Development Life Cycle
SEC	Securities and Exchanges Commission
SIP	Sheltering-In-Place
SNC	Shared National Credit Program
SPARC	Strategic Plan for Active Recruitment, Retention, and Career Development
TSP	Thrift Savings Plan
U.S.	United States
VPN	Virtual Private Network

Appendix D—FY 2003 Performance Measures and Results

The OCC's FY 2003 performance measures, workload indicators, customer service standards, and results follow.

OCC Program	Performance Measure Workload Indicator Customer Service Standard	CY 2000	FY 2001	FY 2002	FY 2003	
					Target	Actual[1]
Supervise	Percentage of national banks that are well-capitalized	N/A	98%	99%	95%	***99%***
	Percentage of national banks with composite CAMELS rating of 1 or 2	N/A	94%	95%	90%	***94%***
	Percentage of critically undercapitalized banks on which responsible action is taken within 90 calendar days after they become critically undercapitalized	N/A	N/A	N/A	100%	100%
	Rehabilitated problem national banks as a percentage of prior fiscal year-end's problem national banks (CAMELS 3, 4 or 5)	N/A	44%	47%	40%	***32%***[2]
	Percentage of national banks with consumer compliance rating of 1 or 2	N/A	N/A	N/A	94%	***96%***
	Percentage of community banks that are within one year of its first large bank Community Reinvestment Act examination in which the OCC offers to provide consultation on community development opportunities	N/A	N/A	N/A	100%	100%
	Percentage of consumer complaints closed within 60 calendar days of receipt	N/A	N/A	N/A	80%	87%
	Number of consumer complaints closed during the fiscal year	N/A	N/A	N/A	75,000	69,044
	Average survey response that the examiner-in-charge and the examination team were knowledgeable	N/A	N/A	N/A	≤ 1.5	1.26
	Average survey response that the examiner's requests for information were reasonable and justified by the examination scope	1.36	1.36	1.36	≤ 1.75	1.31
	Average survey response that the examination team conducted the examination in a professional manner	1.22	1.21	1.21	≤ 1.75	1.20
	Average survey response that the examiner-in-charge and examination team clearly and effectively communicated their findings and concerns	1.30	1.33	1.32	≤ 1.75	1.27
	Average survey response that the report of examination clearly communicated examination findings, significant issues and the corrective actions management needed to take	1.32	1.31	1.30	≤ 1.75	1.26
	Average survey response that on-going communications by the examiner-in-charge with senior management and the board was appropriate	1.29	1.29	1.29	≤ 1.75	1.25

OCC Program	Performance Measure Workload Indicator Customer Service Standard	CY 2000	FY 2001	FY 2002	FY 2003	
					Target	Actual[1]
Charter	Percentage of licensing applications filed electronically	N/A	N/A	N/A	Baseline	8%
	Number of licensing applications filed electronically during the fiscal year	N/A	N/A	N/A	Baseline	182
	Percentage of licensing applications completed within established time frames	96%	96%	96%	95%	97%
	Number of licensing applications completed during the fiscal year	N/A	N/A	N/A	1,900	1,918
	Average survey rating of OCC's timeliness on licensing applications	1.22	1.15	1.19	≤ 1.5	1.16
	Average survey rating of the knowledge of OCC's licensing staff	1.16	1.17	1.19	≤ 1.5	1.14
	Average survey rating of the professionalism of OCC's licensing staff	1.11	1.10	1.12	≤ 1.5	1.09
	Average survey rating of the appropriateness of OCC's filing location and contact person for licensing services	1.20	1.20	1.28	≤ 1.5	1.23
	Average survey rating of the overall licensing services provided by OCC	1.17	1.16	1.17	≤ 1.5	1.14
Regulate	Percentage of external legal opinions issued within established time frames	N/A	N/A	N/A	85%	87%
	Number of external legal opinions issued during the fiscal year	N/A	N/A	N/A	Baseline	92
Agency-wide	OCC's workforce distribution by race, national origin, and gender compares favorably with the civilian labor force	N/A	N/A	N/A	Met	Met
	Percentage of the nine merit system principles that are rated favorably by at least 75 percent of OCC employees surveyed	N/A	N/A	N/A	55%	Deleted [3]
	Ratio of OCC employees to management services support staff at fiscal year-end	N/A	N/A	N/A	13:1	13.2:1
	Percentage of the annual targeted amount for the OCC's reserves that is achieved	N/A	N/A	99.1%	100%	97%[4]
	Percentage reduction in total work-related injuries and illness rate	N/A	Baseline .536	(52%)	100%	(111%) [5]
	Reduction in number of new workers compensation claims accepted by the Office of Workers' Compensation Program	N/A	Baseline 11cases	(109%)	100%	(182%) [6]
	Percent reduction in lost-time case-rate	N/A	Baseline .1675	(22%)	100%	(125%) [7]

[1]Performance numbers shown in bold italics are estimates. Some performance data is obtained from quarterly call reports from banks. The September 30, 2003 call reports are not due until 30 or 45 days after the end of the period. Additionally, examinations concluded late in the fiscal year are not finalized for another 30 to 60 days. As a result, complete fiscal year data is not yet available so estimates have been reported.

[2]During FY 2003, 38 of the 118 institutions with CAMELS rating of 3, 4 or 5 on September 30, 2002, had improved CAMELS ratings. Sluggish economic conditions influenced the pace of rehabilitation efforts during FY 2003. The OCC will continue to work aggressively with these institutions to bring about sound resolution of the problems affecting their CAMELS ratings.

[3]The OCC deleted this performance measure because the tool for obtaining the data is no longer available. This measure was based on the employee satisfaction survey administered by the OPM. The OCC received the results of the OPM's latest survey; however, the survey had been substantially changed from the previous instrument upon which the performance measure was developed. The survey instrument did not specifically address the nine merit system principles, and therefore, the OCC is no longer able to use this performance measure.

[4]The OCC did not achieve the FY 2003 goal for its special and contingency reserves for two reasons: 1) funding the cost of the OCC's district restructuring and 2) earnings on investments were below the anticipated rate of return. The OCC's FY 2003 goal was established based on an estimated rate of return of 3.82 percent on investments; however, the actual rate of return for the year was 2.77 percent.

[5]To achieve the goal of a 100 percent reduction, no accidents could occur during the fiscal year. The base year for comparison was FY 2001 when 16 work-related injuries and illnesses occurred. During FY 2003, there were 33 accidents, but they were less severe than in prior years. Each accident was investigated and there appears to be no patterns to the nature of the accidents and no obvious corrective actions to be taken.

[6]To achieve the goal of a 100 percent reduction, no accidents could be accepted by the OWCP. The base year for comparison was FY 2001 when 11 work-related injuries and illnesses were accepted by the OWCP. There were 31 claims accepted by the OWCP during FY 2003.

[7]To achieve the goal of a 100 percent reduction, no accidents with lost work time could occur during the fiscal year. During FY 2003, there were 11 cases where employees lost work time because of a work-related accident. The costs for the 11 lost-time cases were approximately $3,000 less than the six lost-time cases incurred in FY 2002.

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