

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 ongoing, 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 "\$SMART"). 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>.

A handwritten signature in black ink that reads "Cheryl F. Davis". The signature is written in a cursive style with a large initial 'C'.

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 (\$SMART). 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.

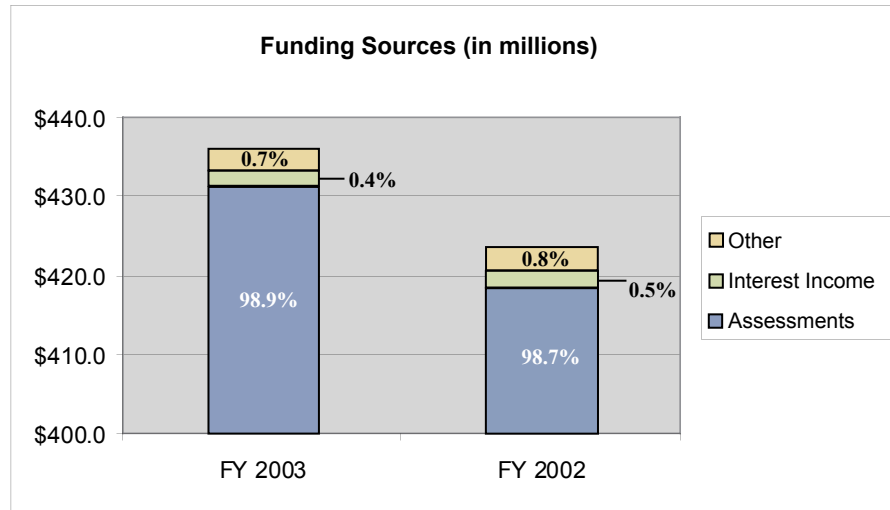
Policies and Procedures

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

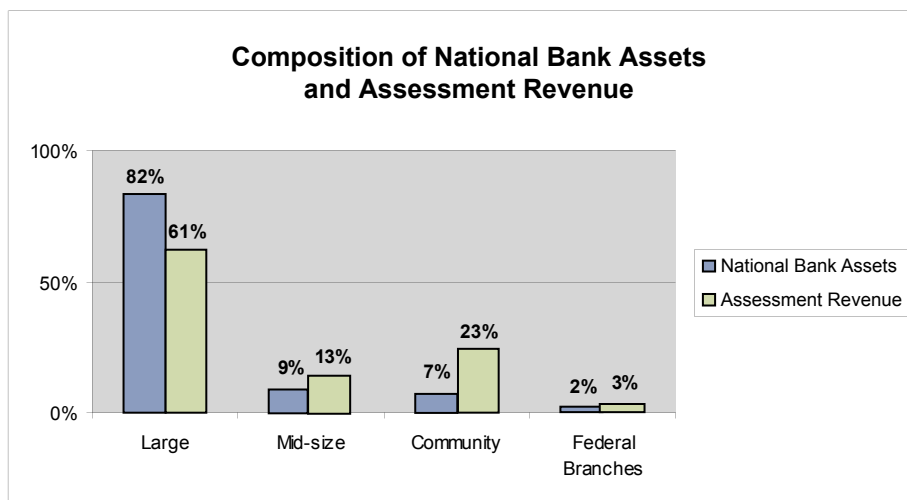
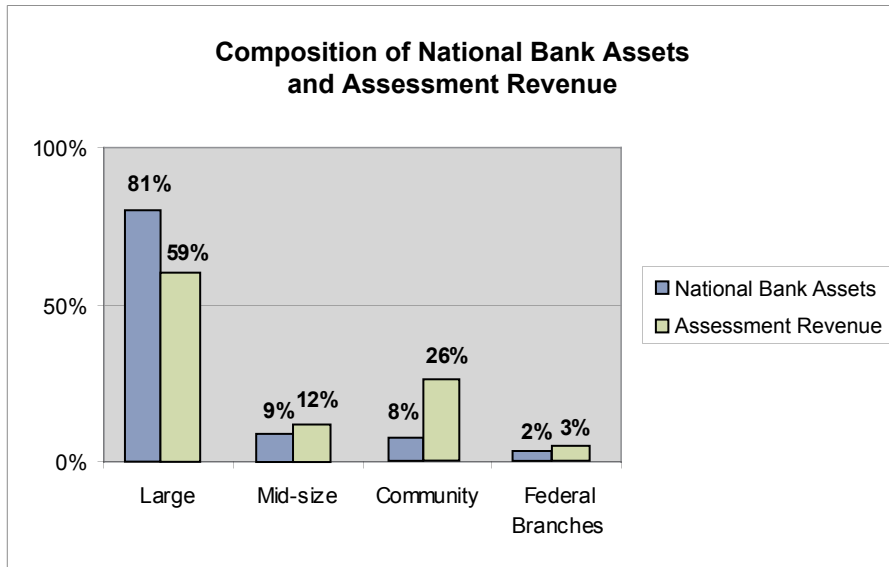


Figure 5: FY 2002 Composition of National Bank Assets and Assessment Revenue

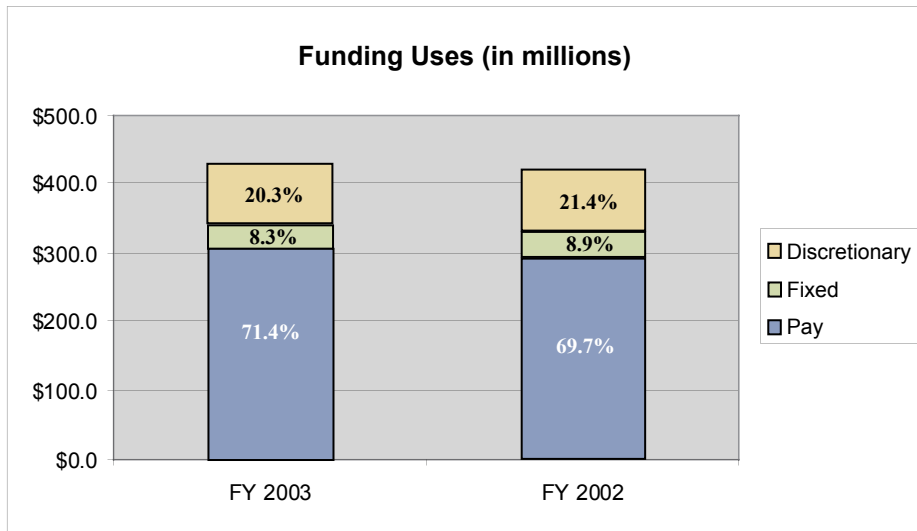


Funding Uses

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

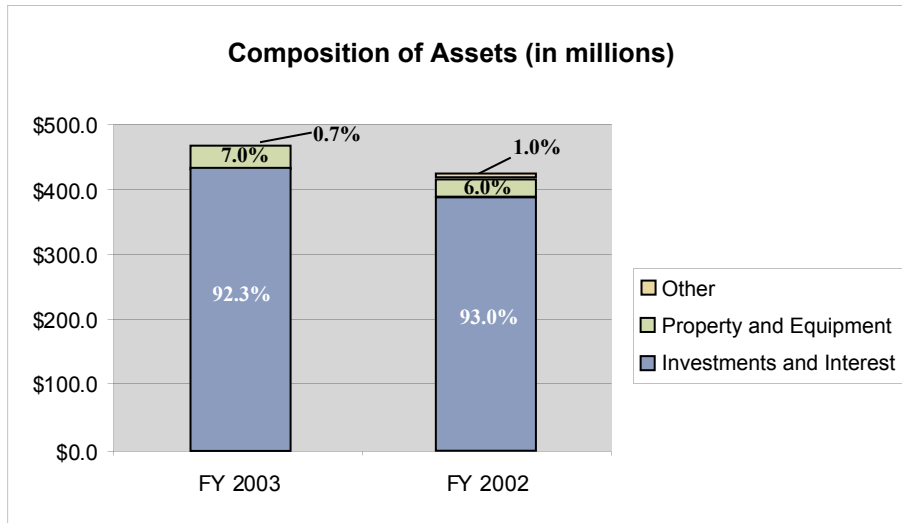
The *Balance Sheet*, as of September 30, 2003 and 2002, presents the amounts that are owned by the OCC and available for use (assets), the amounts due to others or held for future recognition (liabilities), and the amounts that comprise the residual (net position). For clarity in presentation, assets 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.

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

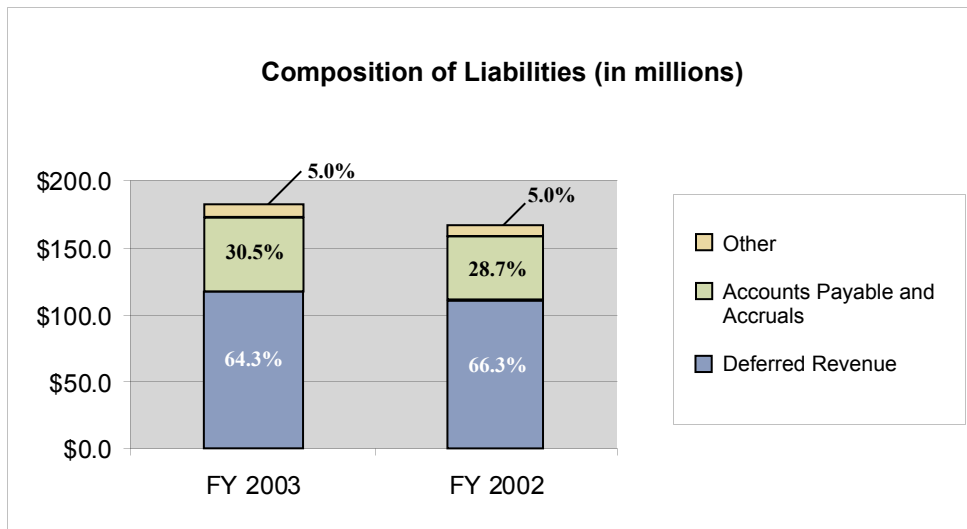
Figure 7: Composition of FY 2003 and 2002 Assets



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.

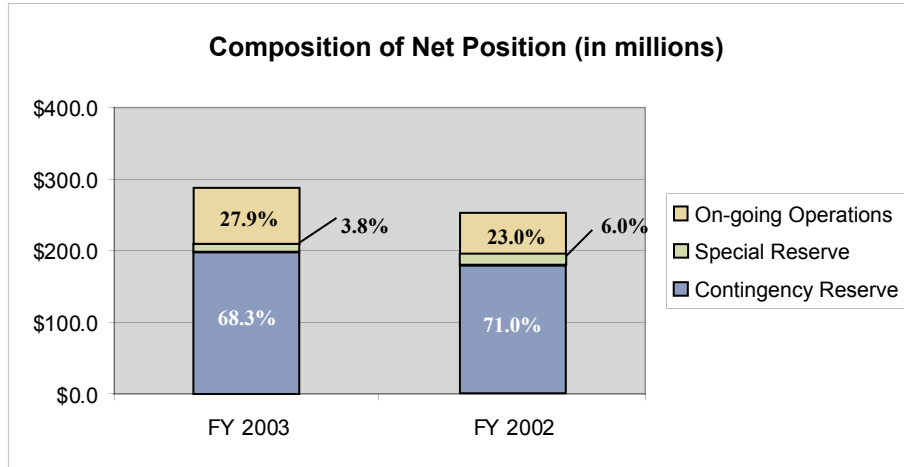
Figure 8: Composition of FY 2003 and 2002 Liabilities



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 Performance⁶

	FY 2003	FY 2002
	20,910	20,341
Invoices paid	\$69,210,143	\$61,101,069
	287	484
Invoices paid late	\$3,802,695	\$4,683,467
	127	238
Interest penalties paid	\$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)

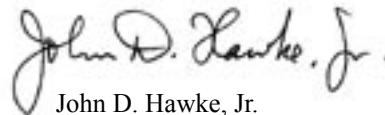
The FMFIA requires the Comptroller to establish controls that reasonably ensure that: 1) obligations and costs comply with applicable law, 2) assets are safeguarded against waste, loss, unauthorized use or misappropriation; and, 3) revenues and expenditures are properly accounted for and recorded. In 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.

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.

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

Federal Financial Management Improvement Act of 1995 (FFMIA)

The OCC's financial management and acquisition system (\$SMART) continues to substantially comply with the requirements of the FFMIA. \$SMART 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 duplicate 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 additional manual controls were implemented in October 2003 to prevent the reoccurrence 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 \$SMART, 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 \$SMART interface documentation and did not review the security over the interfaces. If inaccurate system interface documentation existed, it could conceal security issues over the \$SMART 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.