

**AUDIT REPORT FOR THE
FISCAL YEAR ENDING
DECEMBER 31, 1993
OFFICE OF THRIFT SUPERVISION
ANNUAL FINANCIAL STATEMENTS**

OIG-94-092

MAY 20, 1994



Office of Inspector General

.....

United States Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220



MAY 20 1994

MEMORANDUM TO: Jonathan L. Fiechter
Acting Director, Office of Thrift Supervision

FROM: Jay M. Weinstein *JM Weinstein*
Assistant Inspector General for Audit

SUBJECT: Audited Annual Financial Statements of the
Office of Thrift Supervision (OTS) for
Calendar Year 1993

The attached Annual Financial Statements for Calendar Year (CY) 1993 were subjected to an audit by an independent public accountant (IPA) under the auspices of the Chief Financial Officers Act of 1990. The Office of Inspector General (OIG) contracted for this audit. Accompanying the financial statements are reports (opinions) by the IPA on OTS' financial statements, its internal control structure, and its compliance with laws and regulations for the year ended December 31, 1993.

The IPA issued an unqualified opinion on the Annual Financial Statements for CY 1993.

The IPA cited two reportable conditions in the report on the internal control structure, both relating to the Electronic Data Processing (EDP) System: 1) access controls need improvement, and 2) a lack of segregation of duties exists within the EDP department. Neither of these conditions were considered material weaknesses. Last year there were five reportable conditions, three of which have been corrected.

The IPA's report on compliance with laws and regulations stated that OTS complied in all material respects with the laws and regulations that may have a direct and material effect on the financial statements.

Drafts of the audit reports were provided to OTS' management for their review. OTS' management provided comments to the draft audit reports indicating their concurrence with all findings and their intention of complying with the auditor's recommendations.

Should you or your staff have any questions, please contact me at (202) 927-5400 or Clifford H. Jennings, Director, Technical Services Audit Program Group at (202) 927-5460.

Attachment



Office of Thrift Supervision

CHIEF FINANCIAL OFFICERS ACT REPORT

1993 Financial Statements and
Performance Measures
(audited)

TABLE OF CONTENTS

	Page Number
MESSAGE FROM THE DIRECTOR	2
PROFILE OF THE OTS	4
PROGRAM HIGHLIGHTS	10
PROGRAM PERFORMANCE	11
FINANCIAL HIGHLIGHTS	25
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE	30
FINANCIAL MANAGEMENT SYSTEMS INITIATIVES	31
FMFIA PROGRAM SUMMARY	33
AUDITOR REPORTS AND FINANCIAL STATEMENTS	35

MESSAGE FROM THE DIRECTOR

Since its creation in 1989, the Office of Thrift Supervision has made great progress in resolving one of the nation's worst financial disasters. In June 1988, there were 3,092 thrifts insured by the Federal Savings and Loan Insurance Corporation and 632 of them, or 20.4 percent, were insolvent. By December 1993, the number of private sector thrifts had decreased to 1,670 institutions; none of which were insolvent. The thrift industry has changed dramatically since 1988. The industry that we now supervise is smaller, healthier and better capitalized than when the OTS was created. The thrift industry earned \$5.03 billion during 1993 and had an average tangible capital ratio of 7.05 percent as of December 31, 1993.

The most critical management challenge confronting the OTS during 1994 is funding its regulatory and supervisory activities from a smaller industry asset base. The OTS is not an appropriated agency; it derives over 90 percent of its income from assessments on the thrift industry. Since there are 1,422 fewer thrifts now than there were in 1988, income from assessments has declined by approximately 40 percent. Since 1990, the OTS has cut its budget by approximately 35 percent and its staffing level by almost 43 percent, yet OTS' income continues to fall faster than its expenses. One of our goals is to develop a long-term budget strategy that will allow the OTS to operate efficiently and optimize the allocation of its resources.

The OTS' financial condition in the coming years will depend in part on the impact of the BIF/SAIF premium differential. At this time the insurance premium for entities insured by the Bank Insurance Fund (BIF) is approximately the same as the insurance premium for entities insured by the Savings Association Insurance Fund (SAIF). In approximately two years, BIF is expected to reach a reserves to insured deposits ratio of 1.25 percent at which time the BIF insurance premiums will be significantly lowered while the SAIF premiums must remain at the current high level (SAIF reserves will not reach the 1.25 percent ratio for several more years). When the BIF premiums are lowered, the insurance premium differential will put those institutions insured by SAIF at a significant competitive disadvantage. The OTS believes that this issue will have to be addressed in the near future.

The OTS strongly supports consolidation of federal supervisory responsibilities for all banks and thrifts into a single Federal Banking Commission. At the current time there is significant redundancy in many of the tasks now being performed by the four federal bank and thrift agencies. The four federal bank and thrift regulatory agencies maintain separate regulations, policies, procedures, and expertise in areas that need not vary by charter type. Moreover, under the current system, a single group of affiliated financial institutions may be supervised and examined by two, three, and sometimes even four of the federal bank and thrift regulatory agencies; consolidation would eliminate this regulatory redundancy. The objective of the banking regulators should be to preserve safety and soundness, while not placing an unnecessary burden on the regulated institutions.

The OTS has made significant progress toward achieving its major initial objectives which were set forth at its inception; namely, resolve all nonviable institutions; take supervisory and legal action against those who jeopardized the safety and soundness of the industry; and prepare the industry for the future. In the years ahead, the OTS will strive to enhance the viability of the industry, improve credit availability, and continue to efficiently supervise thrifts.

// S //

Jonathan L. Flechter
Acting Director

PROFILE OF THE OFFICE OF THRIFT SUPERVISION

The Office of Thrift Supervision (OTS) was established as an office of the Department of the Treasury on August 9, 1989, by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). OTS is headed by a Director who is appointed by the President, with Senate confirmation, for a 5-year term. The Director also serves on the boards of the Federal Deposit Insurance Corporation (FDIC) and the Thrift Depositor Protection Oversight Board, is a director of the Neighborhood Reinvestment Corporation, and serves as a member of the Federal Financial Institutions Examination Council.

STATUTORY AUTHORITY

The primary statutory authority for OTS is the Home Owners' Loan Act (HOLA) as amended by FIRREA. Under HOLA, OTS is responsible for chartering, examining, supervising, and regulating federal savings associations and federal savings banks. HOLA also authorizes the OTS to examine, supervise, and regulate state chartered savings associations belonging to the Savings Association Insurance Fund (SAIF), and to provide for the registration, examination, and regulation of savings association affiliates and holding companies.

ORGANIZATION

To carry out its mission, the OTS is organized as follows (a summary organization chart is attached):

- The Director determines policy for OTS and the thrift industry and makes final decisions on regulations governing the industry as a whole and on measures affecting individual institutions.
- Washington Operations develops regulations, directives and other policies to ensure the safe and sound operation of savings institutions as well as their compliance with federal laws and regulations; processes corporate applications; assists undercapitalized thrift institutions in finding new sources of capital, including merger partners; collects and analyzes thrift industry and general economic data; and responds to consumer and discrimination complaints against savings associations.
- Regional Operations oversees the direct examination and supervision of savings institutions by regulatory staff in regional and area offices.
- Chief Counsel provides a full range of legal services to OTS, including drafting regulations, advising on transactional matters, representing OTS in court, rendering legal advice to the OTS staff, and taking enforcement actions against savings institutions and institution-affiliated parties that violate laws.

- **Public Affairs publishes and communicates information about the OTS, its actions and policies to the thrift industry, the public and the news media; provides OTS documents (including certified documents), legal filings and other written material to the public, and acts on Freedom of Information Act inquiries.**
- **Congressional Relations maintains a liaison between OTS and Congress, works with Congressional staffs to draft legislation, keeps members of Congress informed on OTS activities; and responds to all Congressional inquiries.**

OTS MISSION AND 1993 ACCOMPLISHMENTS

The mission of the OTS is to effectively and efficiently supervise thrift institutions to maintain the safety and soundness and viability of the industry, and to support the industry's efforts to meet housing and other community credit and financial services needs. One of the ways in which the OTS seeks to achieve this objective is through the effective examination and supervision of thrifts. Through the examination process, the OTS identifies violations of law and regulation and potential financial problems. During 1993 the OTS' Regional Office staff conducted a total of 3,389 examinations including 1,551 safety and soundness, 1,047 compliance, 437 holding company, 256 electronic data processing, 63 conservatorship and 35 trust examinations. The examination process helps to increase the awareness of both thrift managers and the OTS staff to potentially risky ventures, alerts the OTS to unsafe and unsound practices, and increases the responsiveness of thrift management to community reinvestment issues. In addition, the examination process identifies institutions which are not maintaining their capital at adequate levels and may, therefore, be possible candidates for conservatorship or receivership.

During 1993 the OTS' Corporate Activities Division analyzed 3,744 applications and either approved or denied these applications in accordance with current OTS rules, regulations and policies. The major types of applications analyzed included 1) election of officers and directors, 2) holding company, 3) Oakar (an acquisition by a bank holding company or a commercial bank utilizing the Oakar amendment), 4) Sasser (a Federally chartered, OTS-regulated institution converting to either a state-chartered institution, a commercial bank or a national bank utilizing the Sasser amendment), 5) interstate branching, 6) stock conversions, and 7) mergers. Over ninety-eight percent of these applications were processed within the established timeframes.

During 1993 the OTS' enforcement program participated in the investigations of, and negotiations with, three professional firms that will result in the payment of over \$160 million to the Resolution Trust Corporation (RTC). In addition, the enforcement staff issued 86 Removal and Prohibition orders, 74 Cease and Desist orders, 46 Civil Money penalties, 3 Capital Directives, and 58 Supervisory Agreements.

The OTS has made significant progress in the cleanup of the thrift industry. At year-end 1990, there were 450 troubled thrifts (MACRO ratings of "4" or "5"); as of year-end 1993, the number of troubled thrifts had declined to 101, a decrease of 77.5 percent. During 1993, eight institutions with assets totaling \$6.1 billion were removed from the private sector via transfer to the Resolution Trust Corporation (RTC). In addition, one institution, with assets of \$865 million was transferred to the Federal Deposit Insurance Corporation. As of year-end 1993 there were no insolvent thrift institutions remaining in the private sector.

In order to complete the resolution of failing thrifts, with the least possible cost, the OTS and the RTC created the Accelerated Resolution Program ("ARP Program") to market failing thrift institutions. The ARP program markets institutions while they are open and operating under close OTS supervision. Once an acceptable buyer is found, via a competitive bid process, the institution is placed in an RTC receivership and immediately sold. No financial assistance is given to the former owners of failed institutions. During 1993, one institution with \$42.9 million in assets was resolved through the ARP process.

ASSESSMENTS

FIRREA granted to the OTS the authority to fund its operations through periodic assessments charged to the thrift industry. The current Assessment Regulation was developed in 1990. This regulation establishes assessment rates based on each thrift institution's MACRO rating (a supervisory rating of safety and soundness) and its total assets. The establishment of standard and premium rates are based on two premises: 1) larger institutions cost less to regulate/supervise per asset dollar; and 2) institutions with poor MACRO ratings cost more to regulate/supervise per asset dollar.

Assessments constitute the largest component in the OTS' income usually comprising close to 90 percent; in 1993 assessments comprised 90.6 percent of total income. The OTS also receives funds from application fees, interest, recovery of enforcement expenses, and other miscellaneous sources.

Since the establishment of the OTS in 1989, the thrift industry has experienced a dramatic decline in the number of institutions and the level of industry assets. From a high of \$1,345 billion in unconsolidated assets held by 2,949 Federal Savings and Loan Insurance Corporation (FSLIC)-insured institutions in December 1988, the private-sector thrift industry has declined to 1,670 institutions with \$778 billion in assets as of December 31, 1993, a reduction of \$567 billion or 42.2 percent.

Due to the shrinkage of the thrift industry, income from assessments has declined substantially. In 1990 assessments totaled \$265.8 million; in 1993 this figure had fallen to \$166.6 million, a decrease of 37.3 percent in four years.

RESTRUCTURING FOR IMPROVED EFFICIENCY

In October 1989, OTS was composed of its Washington Office, 12 district offices and numerous area offices. In April 1990, an Internal study group concluded that the OTS could significantly reduce its operating costs, minimize assessments on the thrift industry and maximize OTS' effectiveness and efficiency through a process of consolidation and restructuring. Since that time, OTS operations have been streamlined. In 1990, 12 supervisory district offices were consolidated into five regional offices. During 1991, six field offices were eliminated. During 1992, subleases and other agreements reduced the Washington office space by 33,404 square feet and the five Regional offices reduced their rented office space by 85,260 square feet. During 1993, the Washington office space was reduced by another 17,000 square feet and the five Regional offices reduced their rented office space by an additional 46,000 square feet. The reduction in rented office space during the period January 1992 to December 1994 will save the OTS a total of approximately \$4,929,460 in base rent.

CONTINUING FINANCIAL CHALLENGES

The OTS receives no appropriated funds. In 1993, 95.8 percent of OTS' operating revenue was derived from the thrift industry that it regulates which includes both assessment and application fee income.

In 1993, OTS' income fell faster than its expenses, largely due to the decline in assessment revenues which fell by \$19.4 million to a level of \$166.6 million. As a consequence, even though expenditures were cut in almost every major spending category, the OTS experienced an operating loss of \$7.9 million plus non-operating losses totaling \$20.2 million made up of the FAS #106 liability, worker's compensation liability, and the loss on disposal of equipment, for a total loss of \$28.1 million.¹ Retained earnings decreased from \$93.5 million to \$65.5 million or by a total of \$28.1 million.

Due to the continuing decrease in assessment revenues, OTS management has dramatically cut operating expenses. In addition, the OTS staff has been significantly reduced. The OTS budget has been reduced from \$295 million in 1990 to an actual 1993 spending level of \$191.7 million, a 35.1 percent reduction, exclusive of the aforementioned post retirement benefit liability, worker's compensation liability, and loss on disposal of equipment. The OTS staff has been reduced from 3,379 as of October 1989 to 1,933 as of January 1994, a reduction of 42.8 percent.

¹ FAS #106 requires the acknowledgment of the cost of providing health and life insurance coverage for current employees and retirees. All expense numbers throughout the remainder of this report will be exclusive of the FAS 106 liability, the worker's compensation liability and the loss on disposal of equipment because these items were not budgeted. If these items were included in the narrative sections of the Report, it would erroneously imply that the OTS managers did not stay within the confines of their expense budgets.

OTS supervised thrifts are projected to decline by an additional 400 institutions between June 1994 and December 1996. As a result, the assessment base is projected to decline further to \$769 billion by early 1995 and the OTS assessment income is projected to decline to \$136.8 million by 1996.

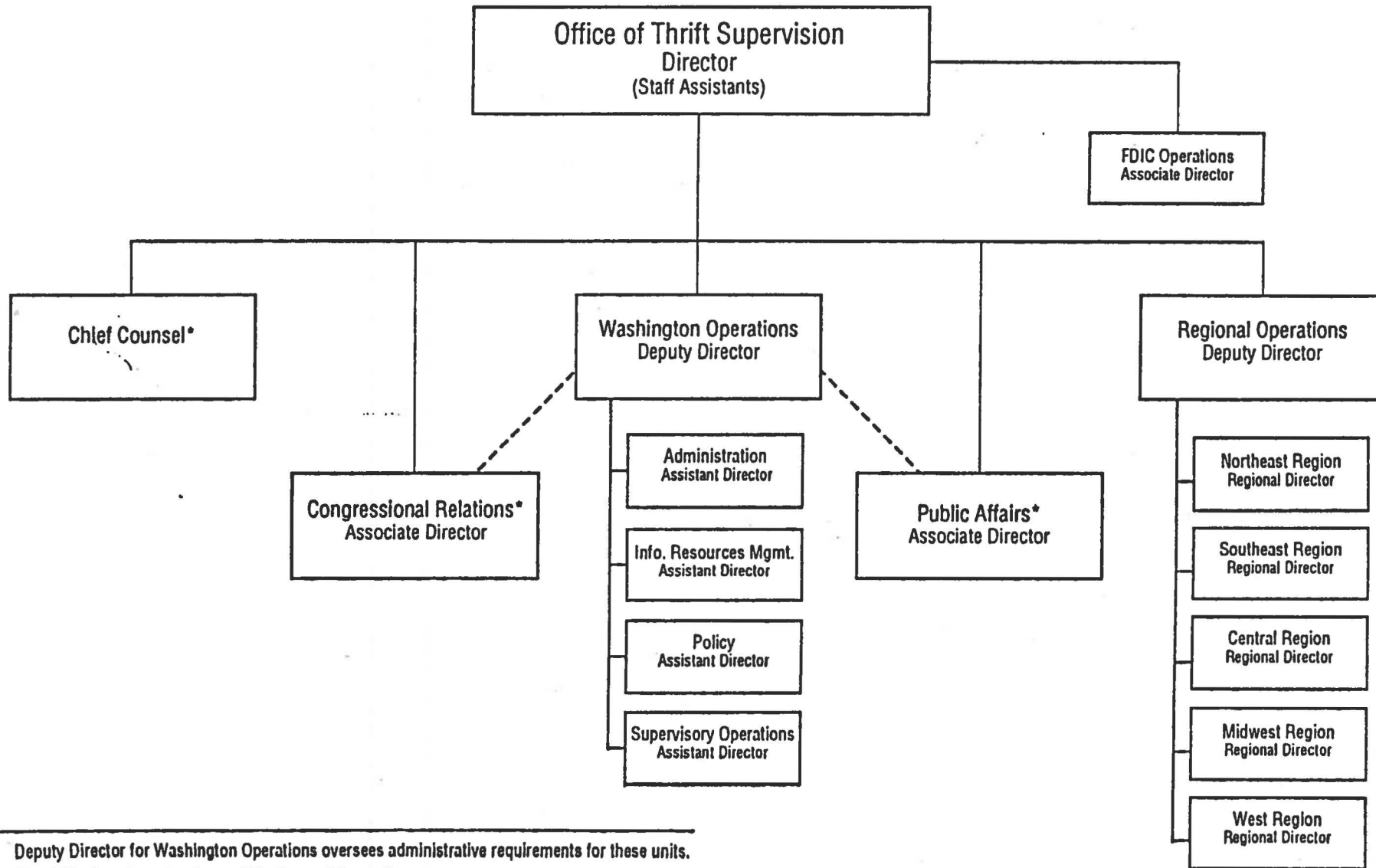
The OTS is obviously facing financial difficulties. There are several courses of action the OTS could take in an effort to balance its budget during the coming years. Even though the OTS staff has already been significantly decreased, further staffing reductions are planned; non-staffing related expenses could also be further cut. In addition, the target for balancing the OTS budget is being extended; this will provide a greater opportunity for revenues to stabilize and expenses to decrease. In the interim, the OTS funds available will be reduced.

The OTS staff is acutely aware that there have been several bills placed before Congress which propose that the OTS combine with one or more of the federal banking regulatory agencies. On November 23, 1993, the Treasury Department unveiled the Regulatory Consolidation Act of 1994 (RCA). Under this proposal, all regulatory, examination and supervisory functions currently residing with the OTS, the Comptroller of the Currency, the FDIC and the Federal Reserve would be consolidated under a new Federal Banking Commission.

OTS' Acting Director Jonathan Flechter endorsed the Treasury proposal, stating: "We must improve and simplify the regulatory and supervisory oversight of our banks and thrifts. We can no longer afford to have multiple federal bank regulators performing the same functions for institutions that are virtually identical. In view of the current initiatives to streamline government, as well as the absence of major problems in either the banking or thrift industries, now is an opportune time to take on the task of consolidating the supervisory functions of the four banking and thrift regulatory agencies."



EXECUTIVE LEVEL STAFF



* Deputy Director for Washington Operations oversees administrative requirements for these units.
The OTS plans to restructure within the next 6 months.

PROGRAM HIGHLIGHTS

Since 1989, the OTS has made significant progress in the cleanup of the thrift industry. In June 1988, 3,092 thrifts were insured by the Federal Savings and Loan Insurance Corporation (FSLIC) and 632 of them, or 20.4 percent, were insolvent. By September 30, 1993 the number of private sector thrifts had declined to 1,670, a decrease of 1,422 thrifts or 46 percent, and none were insolvent.

Under the Prompt Corrective Action provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), there are now five categories into which depository institutions fall based on their capital levels — well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. As of September 30, 1993, 99 percent of the private sector thrifts insured by the Savings Association Insurance Fund were adequately or well-capitalized and these thrifts held 99 percent of the private-sector industry assets.

As of December 31, 1993, the nation's thrift industry had enjoyed twelve consecutive profitable quarters. In 1991 and 1992, the OTS regulated, SAIF insured thrift industry earned \$1.8 billion and \$5.1 billion, respectively. In 1993 the OTS regulated SAIF and BIF insured institutions earned \$5.0 billion. In addition, as of December 1993 the thrift industry had an average tangible capital ratio of 6.9 percent, a significant increase from the .33 percent ratio as of June 1988.

Continued consolidation and shrinkage of the thrift industry appear likely. At year end 1993, there were still 101 thrifts with MACRO ratings of either "4" or "5". Some of these thrifts are candidates for closure or other corrective action. OTS projects that a smaller but healthier thrift industry comprised of approximately 1,400 institutions with as much as \$780 billion in assets will survive the cleanup and industry consolidation. The OTS anticipates that a safe, stable, core thrift industry will serve the market for which it was created - providing loans to builders and buyers of housing, and consumer finance.

PROGRAM PERFORMANCE

EXAMINATION AND SUPERVISION PROGRAM

Regional Operations is responsible for the examination and supervision of the thrift institutions regulated by the OTS. Regional Operations provides uniform standards for planning and conducting onsite examinations of the day-to-day operations of a thrift and focuses on ensuring the safety, soundness, and continuing effectiveness of the thrift industry.

Through the examination process, Regional Operations identifies existing violations of laws and regulations and potential financial and economic problems. The examination process also prevents the development or continuation of unsafe operating policies and practices and effects timely resolution of identified problems or weaknesses including community reinvestment weaknesses. In making a Community Reinvestment Act (CRA) assessment of a savings association, the OTS uses the uniform inter-agency rating system and guidelines for public disclosure of written CRA performance evaluations that were adopted in 1990 as a result of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The examiners follow the most recent inter-agency procedures for evaluating CRA performance.

Regional Operations is divided into five regional offices located in Jersey City, New Jersey; Atlanta, Georgia; Chicago, Illinois; Dallas, Texas; and San Francisco, California, with several small area offices for examination report preparation. These five regions report directly to the Deputy Director for Regional Operations located in Washington, D.C. The Regional staff had an authorized 1993 budget of \$107.9 million while the Washington office budget totaled \$89.3 million. The Regional staff was comprised of 1,407 employees as of December 31, 1993.

Regional Operations' goals for 1993 were and continue to be:

- To ensure the safety and soundness of the thrift industry.**
- To foster public confidence in the thrift industry and its regulation.**
- To ensure compliance with the full range and regulations to which thrifts, their officials, and their shareholders are subject.**
- To enhance the capacity within the thrift industry to adapt to changing economic environments and changing financial markets.**
- To resolve non-viable institutions in the least-costly and most efficient manner possible.**

- To assure that the thrift industry can and does respond to its customer and community needs for housing finance and other financial services.
- To promote greater efficiency in all of our operations.
- To retain, and develop a qualified staff.

PROGRAM ACCOMPLISHMENTS OF 1993

- Conducted risk-focused Safety and Soundness, Compliance, Electronic Data Processing, Trust, Holding Company, and Conservatorship examinations according to the established examination programs and schedules.
- Initiated timely and effective enforcement activities for troubled institutions within 60 days of the date the examination report was completed.
- Achieved the 1993 year-end staffing targets set for examination-related personnel.
- Established Community Affairs Liaisons in the fourth quarter of 1993 in every region to communicate with community groups and promote awareness of affordable housing issues for OTS staff and the industry.

1993 OBJECTIVES OF THE EXAMINATIONS PROGRAM

During 1991, the OTS adopted the policy of annual examinations for all thrift institutions. Effective September 1, 1993, the OTS revised its safety and soundness examination policy to comply with Section 111 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA). This Section requires annual examinations for all institutions except certain small, highly rated thrifts. The objective of this strategy is to determine the overall safety and soundness of each institution and to ensure the accuracy of performance ratings.

To accomplish the 1993 examination objective, the OTS concentrated its resources on high-risk institutions and on high-risk activities within institutions. Each examination addressed the specific areas that might threaten the overall safety and soundness of the institution. In addition, the OTS determined the number of days and people required for the on-site examination on the basis of the size and performance rating of institutions.

During 1993, the OTS continued its risk-focused approach for its specialty examination programs. These examination programs include: compliance with consumer and community reinvestment laws; electronic data processing procedures; trust operations; and holding company operations.

The OTS administers its CRA responsibilities through the compliance examination, assesses each institution's record of meeting the credit needs of its community, and assigns a CRA rating. The OTS considers CRA performance when evaluating applications by savings associations for expansion or restructuring. The compliance examination program uses specially trained examiners to conduct compliance-specific examinations. These examiners receive training in the laws and regulations dealing with CRA and OTS' implementing regulations for CRA and other consumer protection laws.

FIRST OBJECTIVE

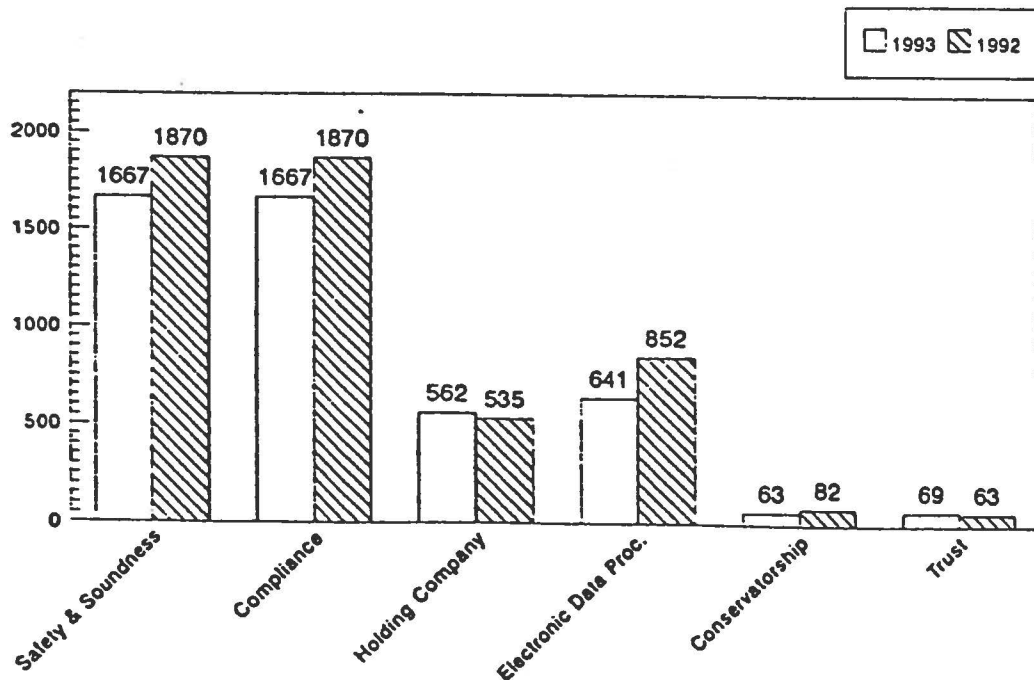
Conduct scheduled examinations of all thrift institutions while remaining within the staff hours and calendar days budgeted for this effort.

Performance Measure:

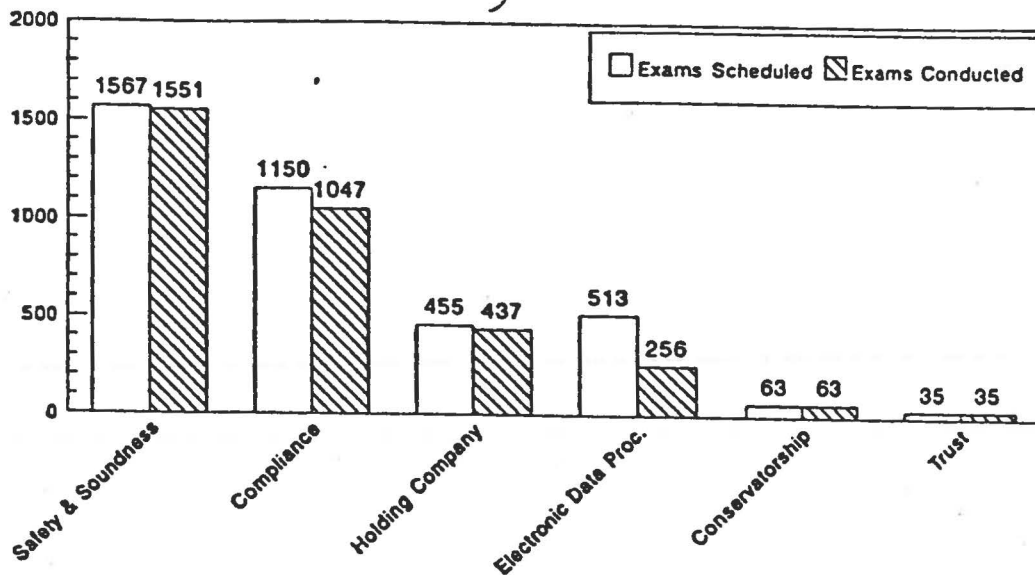
Performance Measure:

The number of OTS regulated thrifts in each exam category at year-end 1992 and 1993 is presented in the chart below. The chart on the following page presents the number of thrifts which received each type of examination compared with the number of thrifts scheduled to receive this type of examination.

Number of OTS Regulated Thrifts in Each Exam Category at Year End (1993 Compared with 1992)



1993 Exams Conducted Compared With Exams Scheduled



The number of exams scheduled does not equal the number of institutions in each exam category (shown in the previous chart) because the OTS is not required to examine every institution every year. The exam schedule depends on the size, financial condition and rating of each institution.

Level of 1993 Success:

As can be seen by the above charts, OTS' examinations staff was successful in meeting the schedule for Conservatorship and Trust examinations. The 1 percent shortfall in the Safety and Soundness category can be attributed to a management decision not to examine a small number of thrifts that were scheduled to convert to a bank charter or otherwise exit our regulatory purview. The Holding Company Examinations conducted totaled just 96% of those scheduled because OTS completed the successful integration of holding company examinations with safety and soundness examinations.

The most significant accomplishment in the Compliance category was the increase in staffing and the recasting of the compliance exam program to address resource limitations. While OTS fell short of its target of examining 80 percent of thrifts with EDP exams due (50 percent examined), we believe that we were still successful in this area. We discovered that the population of EDP entities was overstated. We are in the process of addressing this data base error.

SECOND OBJECTIVE

Regional Operations must recommend enforcement action or a waiver of enforcement action within 60 days of the examination report transmittal for thrifts with MACRO ratings of 4 or 5. The MACRO system is similar to the CAMEL rating system used by the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) for describing the condition of banks. The OTS adopted the CAMEL system on April 1, 1994. Using the MACRO system (an acronym for Management, Asset Quality, Capital Adequacy, Risk Management and Operating Results), OTS classifies thrifts into three categories:

- Institutions with MACRO ratings of 1 or 2 are the healthiest thrifts;
- Institutions with MACRO ratings of 3 are thrifts experiencing some difficulties but their overall strength makes their failure unlikely;
- Institutions with MACRO ratings of 4 or 5 are troubled thrifts and present the highest degree of concern.

Performance Measure:

Enforcement actions or waivers must be in place within 60 days of the transmittal date of the examination for 100 percent of all thrifts with MACRO ratings of 4 or 5.

Level of 1993 Success:

We initiated appropriate enforcement action, or documented the cause for not taking action, for all thrifts with MACRO ratings of 4 or 5 or with similar adverse specialty examination ratings. As of December 31, 1993, our data base reflected full compliance with our 60-day standard for all MACRO 4 and 5 rated institutions.

THIRD OBJECTIVE

Continue to optimize the regional organization structure within existing budget constraints.

Performance Measures:

- Budgeted costs for examination-related staff or functions should meet the projected 1993 budget for these items.
- Budgeted costs for non-examination-related staff or functions should meet the projected 1993 budget for these items.

- Operating expenses should meet the projected 1993 budget for Items such as leases; furniture, fixtures, and equipment (FF&E); and procurement actions.

Level of 1993 Success:

Regional Operations' budgetary performance in 1993 was exemplary. We implemented cost savings that reduced projected expenses below our authorized 1993 budget. Our approved 1993 budget was \$107.9 million; our actual expenses totaled only 96% of our annual budget. Savings were achieved by reducing our regional staff below authorized levels and continued lease reductions.

In January 1993, the regional offices' on-board staff totaled 1,706 employees; the end-of-year on-board target was 1,575. Through staffing reductions, the actual 1993 year end staff level in the regional offices was 1,407. This 17.5% reduction was managed by a combination of office closings, reductions in force, relocations, early out incentives and attrition.

Staff committed to thrift examinations and related functions totaled 76% of total staff at 12/31/93 (66% were classified as examiners and 10% were directly related to the examination function). Thus, the budgeted costs for examination related staff met the projected 1993 budget for these items. OTS was successful in its efforts to reduce management layers by almost 50% in its regional offices by consolidating non-examination related staff functions, and implementing consistent organizational models in all regions. Regional Operations needs to continue reducing its budget, but we exceeded our budgetary goals for 1993.

FOURTH OBJECTIVE

Continue to improve the overall health of the thrift industry regulated by the OTS.

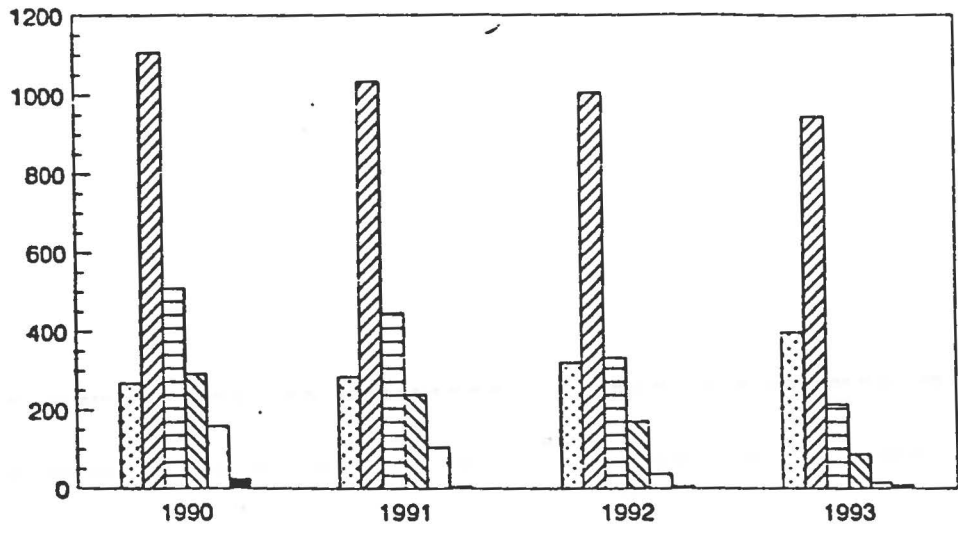
Performance Measure:

Foster efforts to augment capital in under-capitalized institutions.

Level of 1993 Success:

As the chart on the following page indicates, the population of thrifts regulated by OTS has significantly declined over the past four years. Most remaining private-sector thrifts are currently operating profitably and have adequate capital levels. However, thrifts in the MACRO 4 and 5 categories have poor capital positions or significant operating deficiencies.

**MACRO RATINGS OF CURRENT
POPULATION OF THRIFTS AT YEAR END
(Excludes Conservatorships)**



MACRO
 1
 2
 3
 4
 5
 N

*N denotes the institutions that did not receive a rating because they are newly chartered.

1	268	284	320	398
2	1106	1033	1005	946
3	509	446	332	214
4	291	238	170	87
5	159	104	37	15
N	26	5	6	10

PROGRAM PERFORMANCE

APPLICATIONS PROGRAM

OTS regulations require thrift institutions to file an application before engaging in certain activities. Most applications are reviewed and acted upon at the OTS' five Regional Offices. Certain complex transactions and those containing issues of policy or law, however, are reviewed and acted upon in Washington.

MISSION

The mission of the applications program is to ensure that applications are processed within established timeframes and that application decisions are consistent with current OTS regulations and policies.

FIRST OBJECTIVE

Meeting the application processing timeframes except when an application contains an issue of law or policy or otherwise requires an extension of the timeframe for OTS to complete its analysis. These permissible exceptions should be completed as quickly as is feasible.

Performance Measure:

All applications, unless eligible for expedited treatment, should be processed to a decision within 60 days from the date they are deemed complete. Expedited applications should be processed to a decision within 30 days from the date they are deemed complete; expedited applications include establishment of a finance subsidiary, higher lending limitations, issuance of subordinated debt or mandatorily redeemable preferred stock, securities brokerage activities and establishment or change of location of branch offices.

Level of 1993 Success:

During 1993, the OTS processed 3,744 applications. Of these, 3,679 or 98.2% were completed within the standard or expedited timeframes specified above. Fifty-six applications were removed from timeframe constraints due to the issuance of extension of time letters and nine applications did not meet these timeframes due to the issuance of law or policy letters.

The OTS issues an extension of time letter when the reviewing offices need additional time to analyze a transaction due to conflicting opinions on a pertinent factor of the transaction or when heavy workloads do not permit an office to complete its review and analysis within established timeframes. Extension of time letters must be issued within 10 days prior to, and must not extend for more than 30 days beyond, the automatic approval date. In extremely rare instances, applications containing precedential issues of policy or law may also be removed from timeframe constraints. In these cases, letters extending processing timeframes may be issued up to the automatic approval date and do not place time restrictions on OTS actions.

The 56 applications on which extension of time letters were issued were completed, on average, in 64 calendar days. The nine applications that did not meet the specified timeframes due to issues of law or policy were completed, on average, in 89 calendar days.

SECOND OBJECTIVE:

Save money for individual thrift institutions by establishing expedited application processing procedures for healthy institutions.

Performance Measure:

The amount of dollars saved each year by healthy thrift institutions qualified to file applications under the expedited processing procedures as set forth in the Applications Restructuring Regulation, enacted on June 30, 1992.

Level of 1993 Success:

The OTS estimates that \$320,100 was saved by the thrift industry during 1993 as a result of the OTS expedited processing procedures. This savings resulted from thrift institutions filing applications under expedited processing procedures which have less cumbersome information requirements and lower filing fees than standard processing procedures.

THIRD OBJECTIVE

Delegation of application decisions to the Regional Offices as appropriate.

Performance Measure:

The total number of applications processed in the field in 1993 compared to the total number processed in Washington.

Level of 1993 Success:

Of the total of 3,744 applications processed by the OTS' applications divisions during 1993, 250 or 7% were processed by the Corporate Activities Division ("CAD") in Washington. The remainder were processed and acted on in the Regional Offices.

OTS' continuing success in delegating applications to the field is demonstrated by the fact that 14.5 percent, 12.8 percent and 12.4 percent of total applications were processed in Washington during 1990, 1991 and 1992, respectively. On August 18, 1993, additional application decisions were delegated to the Regional Offices.

FOURTH OBJECTIVE

In conjunction with the Applications Restructuring Regulation adopted in June 1992, the OTS developed a Quality Control Program to assess the Regional Offices' applications processing performance. The goal of this program is to achieve and assure appropriate, timely, well-documented and consistent decision-making by the Regional Offices.

Performance Measure:

CAD conducts on-site visits each year of Regional Offices to review their applications program. A Report of Findings is prepared after each visit which discloses, among other things, any deficiencies in application processing.

Level of 1993 Success:

Although CAD had intended to conduct two audits in 1993, it only completed one due to a reduction in staff size. During the week of May 10, 1993, CAD conducted an on-site review of the applications processing function of the Central Regional Office. The audit team generally concluded that the Central Regional Office made appropriate, timely decisions that were consistent with national policies in all cases. The application staff was considered experienced and competent.

Part of CAD's audit program includes providing guidance to the Regional Offices on OTS' regulations, policies, and procedures for processing applications. CAD's primary means to fulfill this goal is its Applications Processing Handbook. A newly revised version was issued in April 1993. The Handbook had not been revised since April 1990.

PROGRAM PERFORMANCE

ENFORCEMENT PROGRAM

MISSION

A primary mission of the OTS is to supervise federally insured savings associations to maintain a sound and healthy thrift industry that complies with law and serves the public. OTS seeks to achieve this objective through effective supervision. When the OTS identifies safety and soundness or compliance violations, it will seek to correct those problems promptly and fully. The agency's formal enforcement powers may be invoked to achieve this objective.

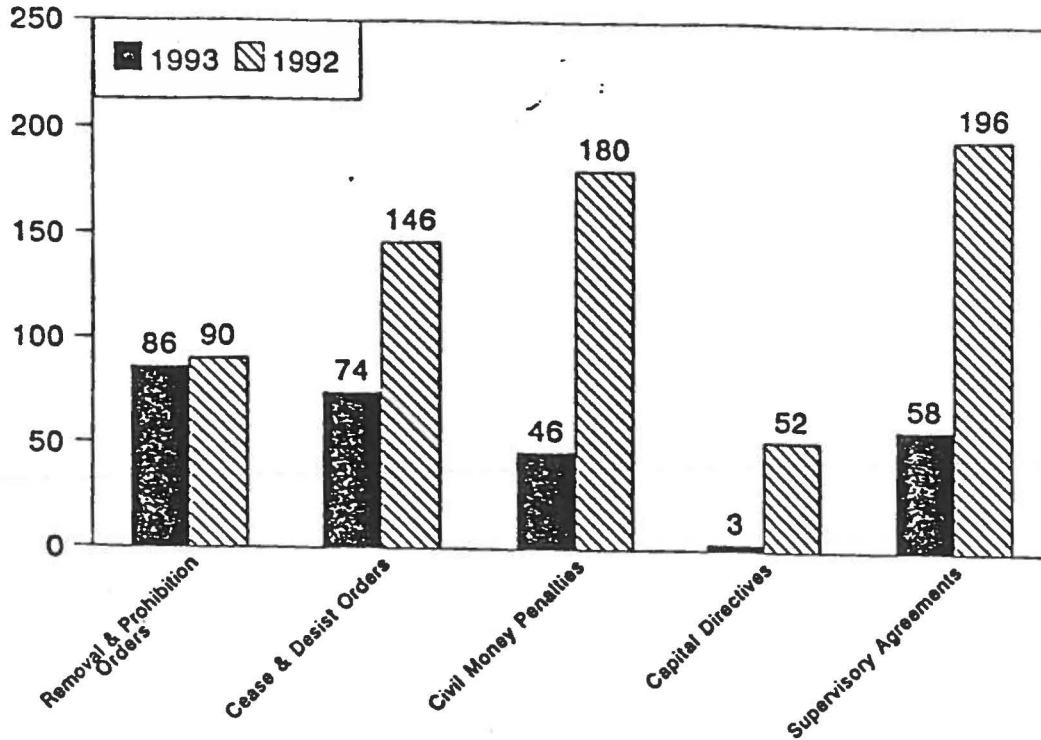
ACCOMPLISHMENTS

Enforcement actions are intended to enhance the safe and sound operation of thrifts. The enforcement program emphasizes that thrift directors must understand and honor their fiduciary duties and must realize that if they fail to fulfill those responsibilities, the OTS will bring appropriate enforcement actions.

As part of the government's actions to clean up the savings and loan industry during the three years following the establishment of the OTS in 1989, the OTS steadily increased its level of enforcement activity. The OTS enforcement program completed nearly 2,000 enforcement actions against wrongdoers in administrative actions involving civil money penalties, supervisory agreements, cease and desist orders, removals and prohibitions of officers and directors, and capital directives. The OTS enforcement program during this period imposed restitution orders to compel wrongdoers to return funds to the thrifts they abused, and the agency participated in the recovery of almost \$500 million. The OTS also collected several million dollars in civil money penalties.

By 1993, the OTS had largely completed its efforts to take appropriate enforcement actions to deal with failed thrifts. Although some significant actions regarding closed institutions occurred in 1993, including participation in investigations of and negotiations with three professional firms that will result in the payment of over \$160 million to the RTC, the focus turned to open institutions where the same number of enforcement actions is not required. The OTS continued to use the types of enforcement tools cited above, and in 1993 the number of enforcement actions decreased (see chart on next page).

1993 Enforcement Statistics (Compared with data from 1992)



COMPREHENSIVE NEW SYSTEM - PROMPT CORRECTIVE ACTION

1993 marked the first full year in which the statutory "prompt corrective action" requirements took effect. Section 38 of the Federal Deposit Insurance Act (FDIA), as added by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) establishes a comprehensive new system for the supervision of savings associations based on the five capital levels. This comprehensive new system is called Prompt Corrective Action or PCA. The purpose of PCA is "to resolve the problems of insured depository institutions at the least possible long-term loss to the deposit insurance fund." There are five capital categories into which every insured depository institution falls: (1) well capitalized; (2) adequately capitalized; (3) undercapitalized; (4) significantly undercapitalized; and (5) critically undercapitalized. Institutions falling into one of the three undercapitalized categories are subject to increased regulatory monitoring and are required to develop a recapitalization strategy, known as a "capital plan." Undercapitalized institutions are subject to mandatory sanctions and a wide range of discretionary sanctions tailored to their specific problems.

EXAMPLES OF PCA RESTRICTIONS

PCA provisions that apply to all institutions include prohibitions against declaring any dividends, making any other capital distribution, or paying a management fee to a controlling person if, following the distribution or payment, the institution would become undercapitalized.

PCA provisions that apply to undercapitalized Institutions include a requirement that the Institution submit an acceptable capital restoration plan and effectively implement that plan. In addition, the OTS may, through a PCA directive, impose a range of sanctions against the Institution. Examples of the types of sanctions that may be imposed include:

- A limitation on the Institution's ability to make any acquisition, open any new branch offices, or engage in any new line of business without the prior approval of the OTS,
- Requiring the Institution to raise additional capital,
- Restricting transactions with affiliates,
- Restricting interest rates paid by the Institution,
- Requiring the replacement of officers and directors,
- Restrictions on the payment of bonuses or raises to senior executive officers,
- Requiring the Institution to merge or be acquired, and
- Requiring any company that controls the Institution to divest itself of the Institution.

Civil money penalties may be imposed for significant failure to comply with a PCA directive.

OBJECTIVE

To minimize the long-term loss to the Deposit Insurance Fund by taking prompt regulatory action with respect to undercapitalized Institutions.

Performance Measure:

Section 38 of the Federal Deposit Insurance Act required the Federal banking agencies to implement regulations pursuant to its provisions within one year of the enactment of FDICIA. Regulations related to this section were put in place in December 1992.

Because the purpose of PCA is to minimize the long-term loss to the Deposit Insurance Fund from the failure of insured depository Institutions, Section 38 of FDIA directs regulators to take prompt regulatory action with respect to undercapitalized Institutions.

Level of 1993 Success:

For the 27 Institutions to which OTS took prompt corrective action in 1993, the agency tracked the time between the date of the undercapitalization and the date on which the OTS action became effective.

The PCA regulation does not contemplate that the agency will act immediately. An institution has 45 days after the date of its undercapitalization to submit to the OTS a proposed capital restoration plan. Ordinarily, the OTS reviews the plan, as well as other circumstances, in order to determine the appropriate prompt corrective action. Thus, PCA action is likely to take a number of months.

As of the date on which the prompt corrective action requirements took effect on December 19, 1992, there were already 18 undercapitalized institutions on which some form of prompt corrective action was required by statute. (At this time, of course, these institutions had already been the object of non-PCA supervisory action.) The mean length of time between December 19, 1992, and the date of final OTS action on these institutions was 172 days. The median was 166 days. The shortest time period was 25 days, and the longest was over 12 months. The Office of the Chief Counsel attributes the time required in part to the fact that (1) the agency was still developing internally its methods and procedures for determining what kind of PCA is appropriate for a given institution, and (2) the OTS had to reconcile in an appropriate manner the existing supervisory actions with PCA requirements.

The OTS handled the remaining 9 institutions that became undercapitalized over the course of 1993 in significantly less time; specifically, the agency reduced the time by almost 2 months. The mean time was 121 days, the median 108 days.

FINANCIAL HIGHLIGHTS

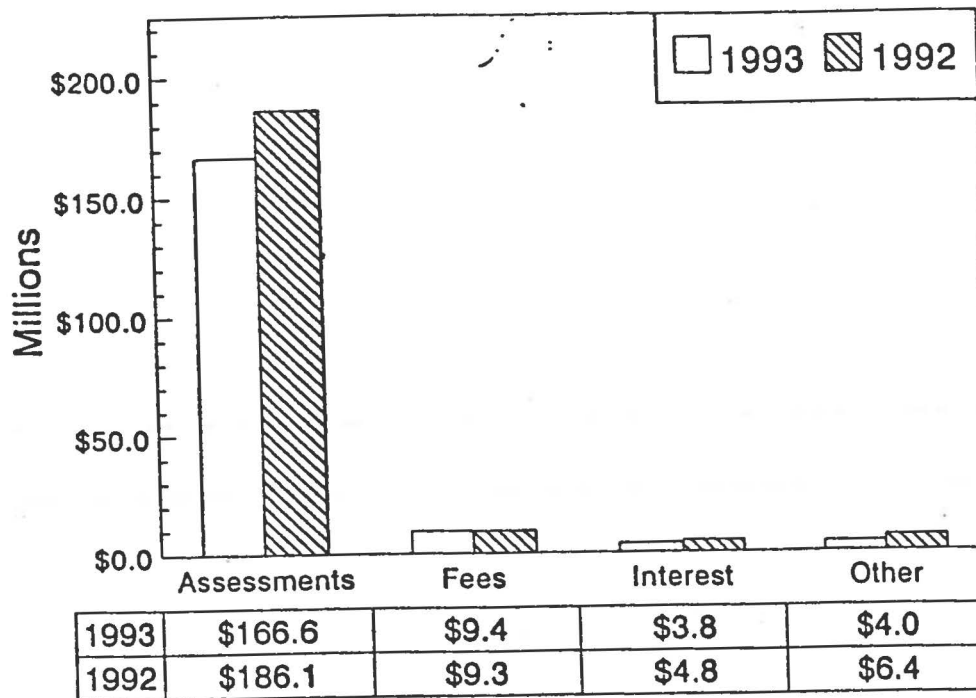
OTS reports its financial statements on a calendar year basis. The accompanying unaudited statements summarize the OTS' financial position as of December 31, 1993 including the costs of its operations and all significant sources and uses of funds during 1992 and 1993.

As shown in the accompanying financial statements, OTS' total capital declined from \$134.6 million at year end 1992 to \$106.5 million at year end 1993, a \$28.1 million decrease. As stated previously, \$7.9 million of the decline in capital was due to operating losses while the rest is attributable to the recognition of the post retirement benefit liability, the worker's compensation liability and the loss on disposal of equipment. Net worth declined from \$93.5 million as of December 31, 1992 to \$65.5 million as of December 31, 1993 or by 29.9 percent.

REVENUE AND EXPENSES

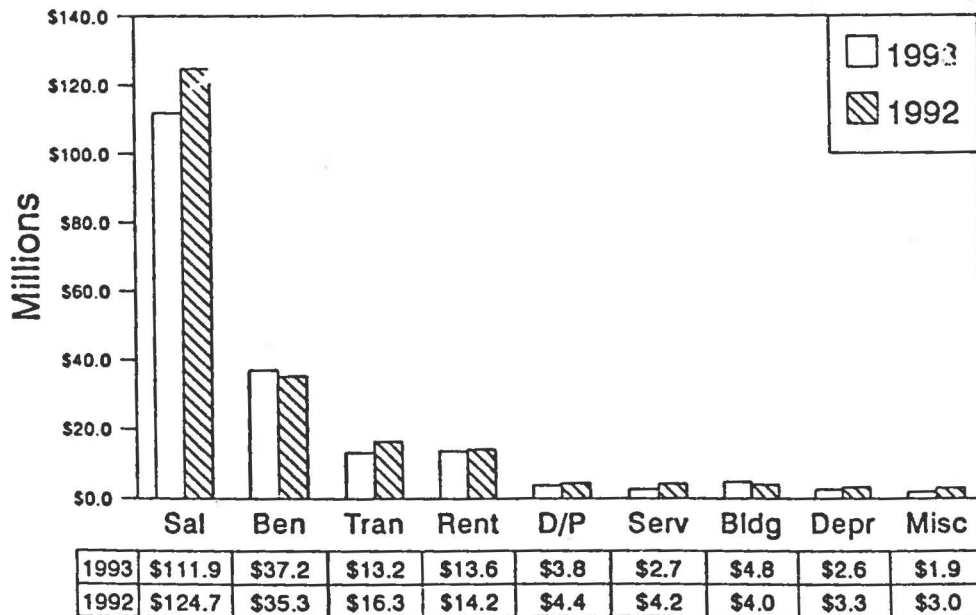
OTS' operating expenses exceeded its revenue by \$7.9 million in 1993. Operating expenses decreased from \$209.4 million in 1992 to \$191.7 million in 1993, a drop of \$17.7 million, however, the decline in revenue was even greater. Revenue declined from \$206.6 million in 1992 to \$183.8 million in 1993, a drop of \$22.8 million (see charts on the following page).

OTS Revenue; 1993 and 1992



Total (millions): 1993-\$183.8; 1992-\$206.6

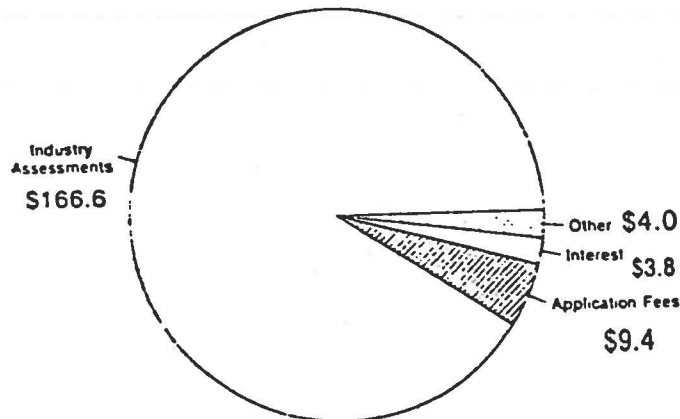
Operating Expenses; 1993 and 1992



Total (millions): 1993-\$191.7; 1992-\$209.4

The drop in income is principally due to the continuing shrinkage in the thrift industry. As shown below, OTS received 90.6 percent of its 1993 revenue from assessment fees. However, as the number of thrift institutions declines and the assets held by the remaining institutions decreases, OTS revenue continues to fall; the industry assessment revenue dropped from \$186.1 million in 1992 to \$166.6 million in 1993, a 10.5 percent decrease. Most of the remaining revenue decline was due to a decrease in restitutions recovered and interest income earned.

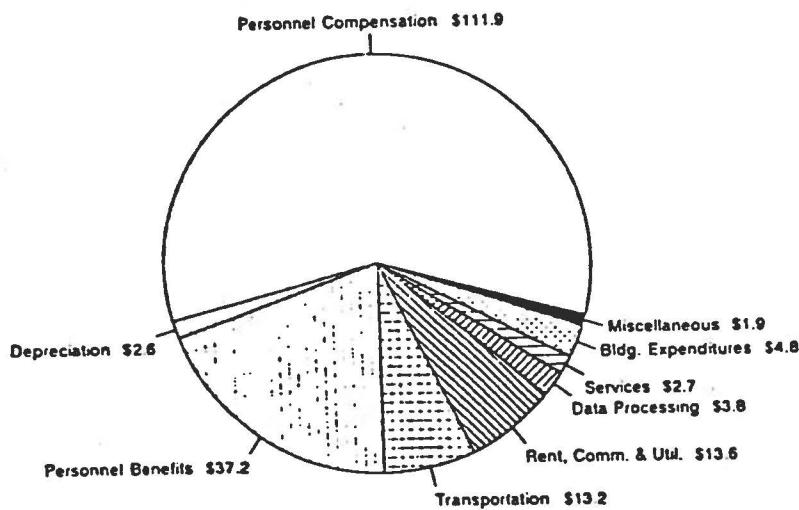
1993 Revenue



Total Revenue: \$183.8 Million

The following chart shows OTS 1993 operating expenses by major cost categories. Expenses for personnel compensation and benefits comprised 77.8% of total operating expenses in 1993.

1993 Operating Expenses

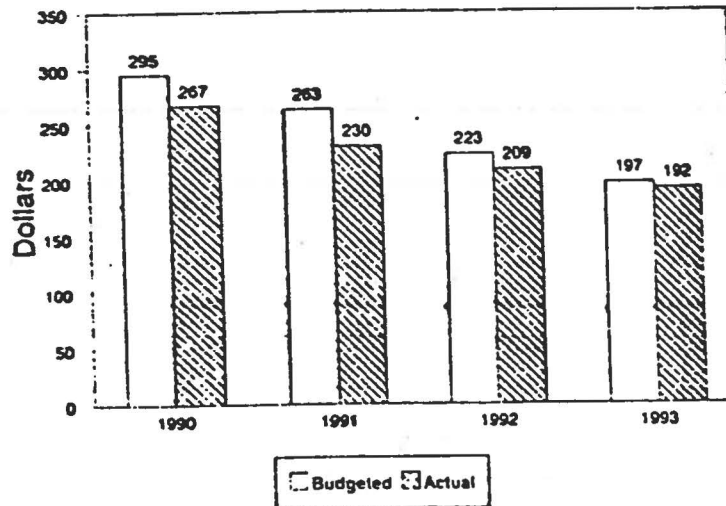


Total Operating Expenses = \$191.7 Million

BUDGETARY RESOURCES

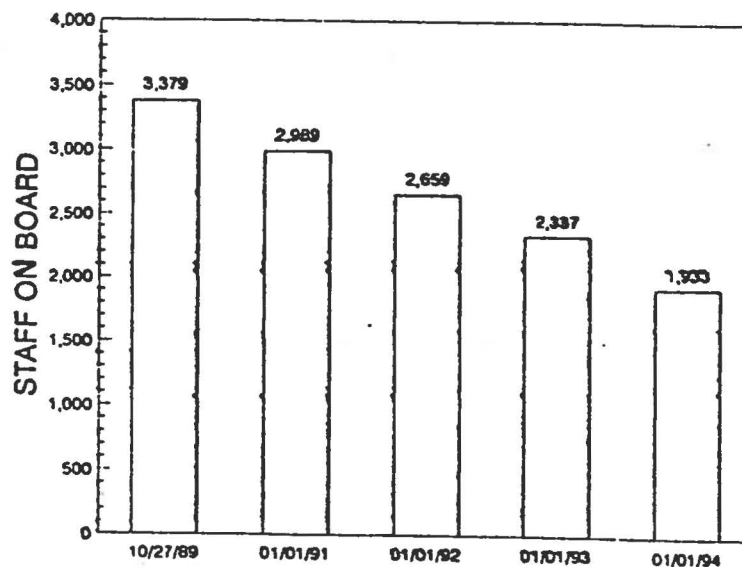
As shown in the illustration below, the OTS operating expenses have consistently been lower than the authorized budget for that year. In addition, as the chart indicates, OTS' operating expenses have decreased from \$267 million in 1990 to \$191.7 million in 1993, or by 28.2 percent.

Budgeted Expenses Compared With Actual Operating Expenses (Millions)



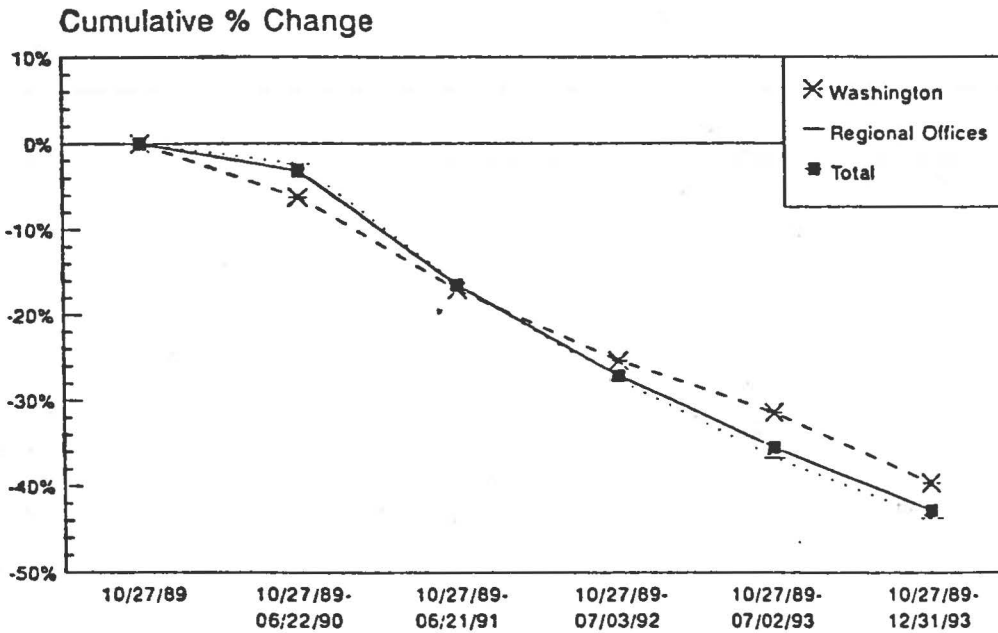
As shown below, OTS has reduced its staff from 3,379 employees as of October 1989 to 1,933 at year-end 1993, a 42.8% decrease.

STAFF SIZE



The following chart shows that as of year-end 1993 OTS' Regional Office staff had declined by 43.7% while the Washington Office staff had declined by 39.6%. OTS plans to continue downscaling its staff size during 1994.

Cumulative Percent Variance of Staffing Washington and Regional Offices

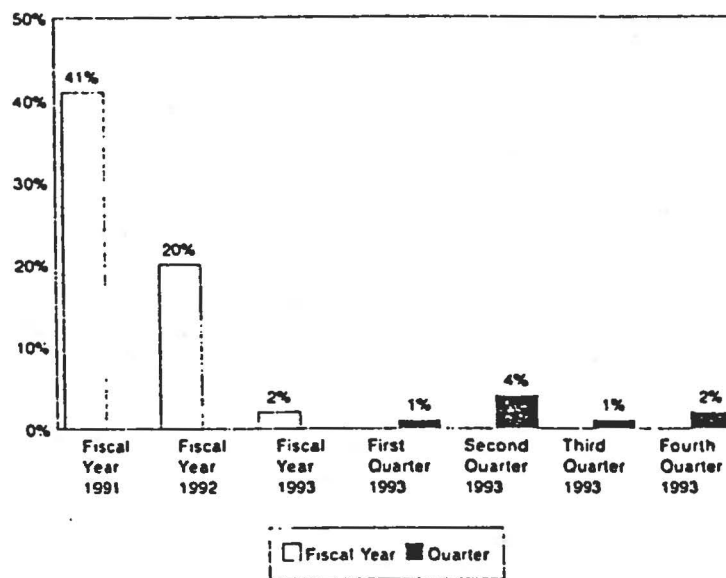


	10/27/89	10/27/89-06/22/90	10/27/89-06/21/91	10/27/89-07/03/92	10/27/89-07/02/93	10/27/89-12/31/93
Washington	0%	-6.25%	-17.02%	-25.4%	-31.38%	-39.62%
Regional Offices	0%	-2.36%	-16.33%	-27.67%	-36.62%	-43.7%
Total	0%	-3.2%	-16.48%	-27.16%	-35.45%	-42.8%

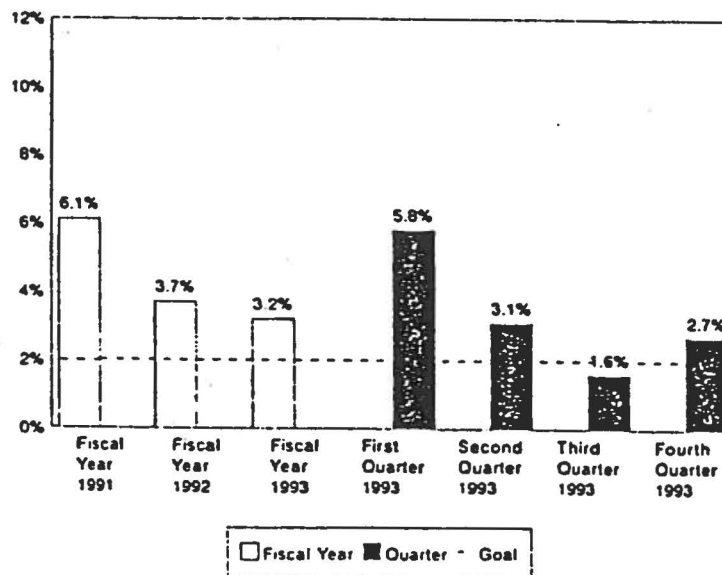
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE

OTS has adopted all applicable financial management performance measures as proposed by the Office of Management and Budget pursuant to its April 1992 Federal Financial Management Status Report and 5-Year Plan. The Prompt Payment Act and OMB Circular A-125 focus on improving the timeliness of payments from government agencies to the private sector. OMB defines "on time" as those payments made 23 to 30 days after receipt, earlier payments where discounts were taken, and earlier payments made in accordance with management guidance." As can be seen from the charts below, OTS has been successful in its efforts to increase the number of timely payments.

Unjustified Early Occurrence Rate



Late Payment Occurrence Rate



FINANCIAL MANAGEMENT SYSTEMS INITIATIVES

CURRENT STATUS OF FINANCIAL MANAGEMENT SYSTEMS

OTS uses an off-the-shelf accounting system purchased from Computer Data Systems, Inc., as the key component of its financial management system. The primary accounting system operates on a calendar-year basis and integrates the procurement, budget execution, accounts payable, accounts receivable, general ledger, and financial reporting functions. It is also directly interfaced with the payroll/personnel system.

OTS also provides financial cross-servicing to the Federal Maritime Commission, the Federal Housing Finance Board, and the Office of Financial Institutions Adjudication in the payroll, procurement, and accounting areas.

OTS' financial management systems currently produce accurate, relevant, timely, and useful information. Financial reports and budget variance reports are provided to senior management on a monthly basis to assist in decision making. Additionally, the financial management systems meet OMB, Treasury, and GAO requirements.

The OTS is actively participating on Department-wide task forces on travel, revenue, procurement, inventory and fixed assets, cost management, and the standard general ledger. These inter-Bureau teams are focusing on creating compatible system environments in the different Treasury components to enhance Departmental oversight, standardize business practices and greatly improve Treasury-wide data reporting capabilities.

1993 ACCOMPLISHMENTS

Although the OTS financial management systems are constantly undergoing minor changes to improve financial reporting and efficiency, no major system overhauls are anticipated. During 1993, several improvements were made including the following:

- The Retiree Tracking/Billing System was completed in September 1993. It was developed in response to the need for greater reliability and accountability in the billing of OTS retirees for their health and life insurance premiums. Before the development of this system, keeping track of retirees' health and life insurance premiums had been a manual process subject to billing errors, time consuming tracking of payments and a tremendous deficiency in reporting capabilities.

- **The Promotion Tracking System was completed in May 1993. This system was developed in response to the need by office managers for information regarding their year to date promotion expenditures. The Promotion Tracking System tracks promotion dollar amounts entered into the Payroll/Personnel System against the promotion budget for that office. This allows managers to more easily monitor their promotion budgets.**
- **Implementation of a FEDTAX program to electronically file tax forms with the IRS.**
- **Incorporation of an additional 10 states into the EFT State tax program which electronically pays taxes (a total of 13 states participate in the OTS EFT State tax program to date).**
- **Utilization of the Vendor Express program to electronically pay vendors. As of year end 1993 there were 62 vendors enrolled in the OTS vendor express program.**
- **A third-party draft system to automate travel reimbursements was instituted in our Midwest Region as a prerequisite to introducing this service nationwide.**
- **Automated the Standard General Ledger at the transaction level.**

FEDERAL MANAGER'S FINANCIAL INTEGRITY ACT (FMFIA) PROGRAM SUMMARY

BACKGROUND

In September 1982, the Congress expressed its support for good internal management in the Federal government by passing the Federal Managers' Financial Integrity Act (FMFIA). This Act requires the heads of departments and agencies to establish internal accounting and administrative control programs in accordance with standards prescribed by the Comptroller General, and provide reasonable assurance that funds, property, assets, revenues and expenditures are properly recorded and accounted for. In addition, FMFIA requires that the head of each department and agency provide an annual assurance statement to the President and the Congress stating whether or not the agency's system of internal accounting and administrative control complies with the requirements of the Act, and identifies the agency's material weaknesses, if any, and plans for correcting them.

FMFIA Program Within OTS

FMFIA program policy and responsibilities are described in the OTS Directive "Internal Management Controls Program." The directive designates the Assistant Director for Administration as the OTS Internal Control Officer and assigns overall responsibility for implementing the provisions contained in the Act, OMB Circulars, and Departmental guidance.

Training. During FY 1993, OTS trained approximately 65 mid-level and program managers in the correct procedures for conducting management control reviews (MCRs).

Segmentation. This is the process of separating an organization into (accountability) units that can be evaluated for waste, fraud, or mismanagement. OTS accountability unit managers, listed as responsible officials in the OTS Management Control Plan (MCP), have reviewed the missions of their programs and functions and have added or deleted units from the MCP to accurately reflect their major responsibilities.

Documentation. The FMFIA program manager has reminded senior managers of their responsibility for maintaining documentation that: 1) supports the outcome of risk assessments; and 2) describes test methods and procedures used in conducting MCRs that clearly support review findings. In addition, managers were reminded that this documentation is subject to review by GAO and OIG auditors and the OTS Internal Controls Coordinator.

FMFIA Procedures. A task force was established to focus on ways in which the management control review process could be streamlined to meet management needs while complying with GAO standards. As a result of discussions between task force members and management, OTS will soon issue interim guidance to managers pending revision of OMB Circular A-123.

Current Status of FMFIA - Resolution of Deficiencies

The FY 1993 FMFIA Report did **not** identify any Section 2 (Administrative and Programmatic) material weaknesses/Section 4 (Financial) nonconformances; however, it did report on the status of corrective actions taken to resolve a pending material weakness which was first reported in the FY 1991 FMFIA Annual Assurance Statement as follows:

- **Thrift Financial Report (TFR) Progress** - In March 1992, OTS reduced the size and complexity of the TFR, including elimination of monthly in favor of quarterly reporting. Complete centralization of Industry Condition Reporting (ICR) functions in the Financial Reporting Division (FRD) in Dallas, Texas, was completed on December 31, 1992 (with policy and procedures for FRD developed and fully implemented by early 1993). While approval of the reporting changes occurred in March 1992, actual use of the new industry reporting form did not begin until January 1, 1993, for the reporting period January-March 1993 reported by associations in April 1993.
- The validation process used to evaluate remedial actions taken to correct identified weaknesses included a quality assurance review consisting of an analysis of data collected from three reporting cycles. Our analysis to date confirms that data accuracy meets established OTS standards.

OTS' 1993/1996 Management Control Plan (MCP) was closed out on September 30 with a total of 18 MCRs having been completed during the fiscal year. During fiscal year 1994, 24 MCRs are scheduled. Seven MCRs previously scheduled for FY 1993 are either in progress or have been rescheduled to FY 1994.

Audit report OIG-93-082, FY 1992 Audited Annual Financial Statements for OTS (CFO Report), did not identify any material weaknesses in the OTS FMFIA program.

AUDITOR REPORTS AND FINANCIAL STATEMENTS

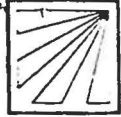
The attached financial statements have been prepared to report the financial position and results of operations of the OTS, pursuant to the requirements of the CFO Act of 1990.

**U.S. DEPARTMENT OF THE TREASURY,
OFFICE OF THRIFT SUPERVISION
AUDITOR REPORTS AND FINANCIAL STATEMENTS**

TABLE OF CONTENTS

	SECTION
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	A
FINANCIAL STATEMENTS	B
AUDITOR'S COMMENTS ON PRIOR FINDINGS	C
AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE	D
AUDITOR'S REPORT ON COMPLIANCE	E

**INDEPENDENT AUDITOR'S REPORT ON
FINANCIAL STATEMENTS
December 31, 1993 and 1992**



**Clifton,
Gunderson & Co.**
Certified Public Accountants & Consultants

The Inspector General,
U.S. Department of the Treasury
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial position of the U.S. Department of the Treasury, Office of Thrift Supervision (OTS) as of December 31, 1993 and 1992, and the related statements of operations, changes in retained earnings, cash flows and budget and actual operating expenses for the years then ended. These financial statements are the responsibility of OTS's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Governmental Auditing Standards, issued by the Comptroller General of the United States, and the provisions of the OMB Bulletin 93-06 "Audit Requirements for Federal Financial Statements". Those standards and provisions 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 audit provides 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 U.S. Department of the Treasury, Office of Thrift Supervision as of December 31, 1993 and 1992, and the results of its operations, its cash flows and its budget and actual operating expenses for the years then ended in conformity with generally accepted accounting principles and the applicable provisions of the OMB Bulletin 93-02 "Form and Content of Agency Statements."

As discussed in Note 5 to the financial statements, OTS changed its method of accounting for post-retirement health benefits effective January 1, 1993.

The financial information presented in the accompanying Financial Highlights and Management's Discussion and Analysis of Financial Performance is supplemental information required by OMB Bulletin 93-02 and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on such information.

Clifton, Gunderson & Co.

Baltimore, Maryland
April 18, 1994

A-1

Members Of

NEXIA
INTERNATIONAL

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC
ACCOUNTANTS

**FINANCIAL STATEMENTS
TABLE OF CONTENTS**

STATEMENT 1 - Statements of Financial Position	B-1
2 - Statements of Operations and Changes in Net Position	B-2
3 - Statements of Changes in Retained Earnings	B-3
4 - Statements of Cash Flows	B-4
5 - Statement of Budget and Actual Operating Expenses	B-5
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	B-6
NOTES TO FINANCIAL STATEMENTS	B-8

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 1993 AND 1992
(in thousands)**

	<u>1993</u>	<u>1992</u> (Restated - Note 9)
ASSETS		
Cash and Cash Equivalents	\$ 89,314	\$ 95,220
Accounts Receivable	1,441	4,228
Property and Equipment, Net	43,965	47,646
Prepaid Expenses and Deposits	10,823	9,054
Other Assets	<u>1,243</u>	<u>1,183</u>
Total Assets	<u>\$146,786</u>	<u>\$157,331</u>
LIABILITIES		
Accounts Payable	\$ 588	\$ 2,014
Employees' Accrued Annual Leave	8,403	8,596
Accrued Worker's Compensation	3,400	
Deferred Compensation Liability	1,751	1,643
Other Accrued Liabilities	7,925	7,865
Deferred Rent Credit	2,774	2,634
Post Retirement Benefit Liability	<u>15,449</u>	<u> </u>
Total Liabilities	<u>40,290</u>	<u>22,752</u>
NET POSITION		
Assumed Capital	\$ 41,037	\$ 41,037
Retained Earnings	<u>65,459</u>	<u>93,542</u>
Total Net Position	<u>106,496</u>	<u>134,579</u>
Total Liabilities and Net Position	<u>\$146,786</u>	<u>\$157,331</u>

These financial statements should be read only
in connection with the accompanying summary of
significant accounting policies and notes to
financial statements.

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1993 AND 1992
(in thousands)**

	<u>1993</u>	<u>1992</u> (Restated - Note 9)
INCOME		
Industry Assessments	\$166,625	\$186,072
Application/Security Filing Fees	9,402	9,344
Interest	3,807	4,802
Other	<u>3,993</u>	<u>6,408</u>
Total Income	<u>183,827</u>	<u>206,626</u>
OPERATING EXPENSES		
Compensation	111,918	124,702
Benefits	37,162	35,306
Travel and Transportation	13,214	16,270
Rent, Communication and Utilities	13,571	14,225
Services	2,715	4,230
Data Processing	3,794	4,452
Building Expenditures	4,849	3,997
Miscellaneous	1,914	2,964
Depreciation	<u>2,581</u>	<u>3,267</u>
Total Operating Expenses	<u>191,718</u>	<u>209,413</u>
Worker's Compensation	<u>3,400</u>	<u> </u>
Loss on Disposal of Equipment	<u>1,343</u>	<u>2,273</u>
Loss from Operations, before Cumulative Effect of Change in Accounting Principles	12,634	5,060
Cumulative Effect on Prior Years Change in Accounting - Post Retirement Benefits	<u>15,449</u>	<u> </u>
NET LOSS	<u>\$ 28,083</u>	<u>\$ 5,060</u>

These financial statements should be read only
in connection with the accompanying summary of
significant accounting policies and notes to
financial statements.

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF CHANGES IN RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 1993 and 1992
(in thousands)**

	<u>1993</u>	<u>1992</u> (Restated - Note 9)
Retained Earnings at Beginning of Year Before Adjustments		\$96,255
Prior Period Adjustments:		
Insurance		2,807
Deferred Compensation Plan		(460)
Retained Earnings at Beginning of Year, Restated	\$93,542	98,602
Net Loss	<u>28,083</u>	<u>5,060</u>
Retained Earnings at End of Year	<u>\$65,459</u>	<u>\$93,542</u>

These financial statements should be read only
in connection with the accompanying summary of
significant accounting policies and notes to
financial statements.

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1993 and 1992
(in thousands)**

	<u>1993</u>	<u>1992</u> (Restated - Note 9)
OPERATING ACTIVITIES		
Net Loss	(\$28,083)	(\$ 5,060)
Adjustments to Reconcile Net Income to Net Cash Used by Operating Activities:		
Cumulative Effect of Change in Accounting Principle - Post Retirement Benefits	15,449	
Loss on Disposal of Equipment	1,343	2,273
Depreciation	2,581	3,267
Changes in Operating Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable	2,787	(2,267)
Increase in Prepaid Expenses and Deposits and Other Assets	(1,829)	(6,243)
Decrease in Accrued Annual Leave	(193)	(88)
Decrease in Accounts Payable and Other Accrued Liabilities	(1,366)	(2,069)
Increase in Accrued Worker's Compensation	3,400	
Increase in Deferred Compensation Liability	108	
Increase in Deferred Rent	<u>140</u>	<u>559</u>
Net Cash Used by Operating Activities	(<u>5,663</u>)	(<u>9,628</u>)
INVESTING ACTIVITIES		
Acquisition of Capital Assets	(<u>243</u>)	(<u>1,986</u>)
Net Cash Used by Investing Activities	(<u>243</u>)	(<u>1,986</u>)
Net Decrease in Cash and Cash Equivalents	(5,906)	(11,614)
Cash and Cash Equivalents at Beginning of Year	<u>95,220</u>	<u>106,834</u>
Cash and Cash Equivalents at End of Year	<u>\$89,314</u>	<u>\$ 95,220</u>

These financial statements should be read only
in connection with the accompanying summary of
significant accounting policies and notes to
financial statements.

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
STATEMENT OF BUDGET AND ACTUAL OPERATING EXPENSES
Years Ended December 31, 1993 and 1992
(in thousands)**

	<u>Resources</u>	<u>Actual Obligations</u>	<u>Actual Expenses</u>
<u>1993</u>			
Compensation	\$116,515	\$112,220	\$111,918
Benefits	36,045	39,066	37,162
Travel and Transportation	14,197	13,258	13,214
Rent, Communication and Utilities	14,040	13,469	13,571
All Other	<u>16,384</u>	<u>14,548</u>	<u>15,853</u>
Totals	<u>\$197,181</u>	<u>\$192,561</u>	<u>\$191,718</u>
<u>1992</u>			
Compensation	\$127,282	\$124,483	\$124,702
Benefits	39,568	38,427	35,306
Travel and Transportation	16,981	15,576	16,270
Rent, Communication and Utilities	14,634	14,053	14,225
All Other	<u>24,987</u>	<u>19,897</u>	<u>18,910</u>
Totals	<u>\$223,452</u>	<u>\$212,436</u>	<u>\$209,413</u>

These financial statements should be read only
in connection with the accompanying summary of
significant accounting policies and notes to
financial statements.

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
DECEMBER 31, 1993 AND 1992**

HISTORY AND ORGANIZATION

The Office of Thrift Supervision (OTS) was created when the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the Federal Home Loan Bank Board (FHLBB) and transferred all examination and supervisory activities to OTS under the Department of Treasury. OTS' primary functions are to: (1) charter federal savings and loan associations; (2) adopt regulations governing the operation of the thrift industry; (3) conduct examinations of federal and state chartered savings institutions and their holding companies; and (4) supervise compliance with federal laws and regulations and OTS directives (i.e., take measures as needed to enforce such compliance and rehabilitate troubled institutions).

FIRREA provided that OTS make assessments to recapture its operating costs. Assessments are based on OTS's budget and are collected from savings and loans.

Assumed capital in the financial statements is the net assets assumed from the FHLBB by OTS at inception, October 8, 1989, in accordance with FIRREA.

GENERAL

OTS is operated substantially as a commercial enterprise and records its calendar year transactions on an accrual basis in accordance with generally accepted accounting principles (GAAP). It receives no appropriated monies from the federal government. Its financial activities are recorded on an agency-wide basis versus a program or fund basis. Thus, certain accounting standards outlined in Title 2 of the General Accounting Office's (GAO) Policy and Procedures Manual for Guidance for Federal Agencies relating to appropriations, entitlements, fund accounting, fund control, grants and cooperative agreements, and rate regulated accounting are not applicable to OTS.

POST RETIREMENT BENEFITS

OTS provides certain health, life, dental and vision benefits for all retired employees that meet eligibility requirements. Effective January 1, 1993, OTS adopted Financial Accounting Standards Board Statement No. 106 to account for its share of the costs of those benefits. Under this statement, OTS's share of the estimated costs of such benefits that will be paid after retirement is being accrued by charges to expense over the employee's active service periods to the dates that they are fully eligible for benefits, except that OTS has elected to amortize the transition amount (unfunded cost at January 1, 1993) over 20 years beginning in 1993 in accordance with the option available in the standard. Prior to 1993, OTS expended its share of the costs as claims were incurred by the retirees and as premiums were paid by OTS.

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
DECEMBER 31, 1993 AND 1992**

CASH EQUIVALENTS

OTS considers its Overnight Treasury Securities as cash equivalents.

ANNUAL, SICK AND OTHER LEAVE

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued annual leave account reflects current pay rates. Sick leave and other types of nonvested leave are charged to operating costs as taken.

DEPRECIATION AND AMORTIZATION

Fixed assets in excess of \$5,000 are capitalized. Depreciation is computed on a straight-line basis over the estimated useful lives as follows:

Building	50 years
Furniture, fixtures, and equipment	5 years

INCOME TAXES

As an agency of the Department of Treasury, OTS is exempt from all federal and state taxes based on income.

RECLASSIFICATIONS

Certain reclassifications have been made to the 1992 financial statements to conform to the presentation used in 1993.

This information is an integral part of the accompanying financial statements.

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1993 AND 1992
(dollar amounts in thousands)**

NOTE 1 - CASH AND CASH EQUIVALENTS

OTS invests its cash in overnight Treasury Securities. They are stated at cost at December 31, 1993 and 1992 as follows:

	<u>1993</u>	<u>1992</u>
Cash	\$ 408	\$ 820
Cash Equivalents	<u>88,906</u>	<u>94,400</u>
	<u>\$89,314</u>	<u>\$95,220</u>

NOTE 2 - PROPERTY AND EQUIPMENT

The land and building owned by the FHLBB was transferred to OTS under FIRREA. OTS also assumed all furniture, fixtures, and equipment associated with personnel transferred to OTS. These assets were carried over at their existing value as recorded in the FHLBB's accounting records. Other property and equipment acquired subsequent to that date are recorded at cost when acquired.

OTS's property and equipment is comprised of the following at December 31, 1993 and 1992:

	<u>1993</u>	<u>1992</u>
Land	\$7,101	\$ 7,101
Building	46,465	49,596
Furniture, Fixtures, and Equipment	<u>10,718</u> →	<u>11,014</u>
Total Cost	64,284	67,711
Accumulated Depreciation:		
Building and Improvements	(13,337)	(13,948)
Furniture, Fixtures, and Equipment	(<u>6,982</u>)	(<u>6,117</u>)
Property and Equipment, net	<u>\$43,965</u>	<u>\$47,646</u>

NOTE 3 - WORKER'S COMPENSATION

The Department of Labor (DOL) administers a Worker's Compensation Program (the Program) for all Federal Agencies. DOL makes payments to individuals on behalf of each Agency and annually charges back such payments to the specific Agency. At December 31, 1993, OTS had accrued \$427 for such charges unpaid through June 30, 1993.

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1993 AND 1992
(dollar amounts in thousands)**

NOTE 3 - WORKER'S COMPENSATION (Cont'd)

In addition, DOL has provided all Government Agencies with an actuarially determined liability for future payments expected for current participants. OTS estimates that its share of this total liability is approximately \$3,400. OTS has accrued its total cumulative liability in its 1993 financial statements since the portion relating to prior periods is not available. Such estimate is based on a five year history of charges from DOL to OTS for worker's compensation claims paid.

NOTE 4 - OTHER ACCRUED LIABILITIES

Other accrued liabilities is comprised of the following at December 31, 1993 and 1992:

	1993	1992
Payroll and withholding	\$4,048	\$3,475
Vendor goods and Services	2,479	2,898
Relocations	641	904
Worker's compensation	427	
Other	330	588
Total other accrued liabilities	\$7,925	\$7,865

NOTE 5 - POST-RETIREMENT BENEFIT PLAN AND ACCOUNTING CHANGE

OTS sponsors a post-retirement health care plan (the Plan) for all employees that meet eligibility requirements. The Plan is unfunded. OTS funds benefit costs principally on a pay-as-you-go basis, with Plan participants paying a portion of the costs. As stated in the summary of significant accounting policies, OTS changed its accounting policy with respect to the Plan as of January 1, 1993. OTS has elected to defer recognition of the Plan's transition obligation of \$81,125 at January 1, 1993 and amortize such obligation over twenty years on a straight-line basis.

Net periodic post-retirement benefit cost included the following components for the year ended December 31, 1993:

Service cost-benefits attributable to service during the year	\$ 6,696
Interest on accumulated post-retirement benefit obligation	5,646
Amortization of transition obligation	4,056
Net Post-retirement Benefit Expense	\$16,398

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1993 AND 1992
(dollar amounts in thousands)**

**NOTE 5 - POST-RETIREMENT BENEFIT PLAN AND ACCOUNTING CHANGE
(Cont'd)**

Post-retirement benefit cost recognized in 1993 under OTS's prior accounting policy was \$949 and is included in benefits expense in the Statement of Operations. The cumulative effect of the change in accounting in 1993 is \$15,449.

The following table sets forth the Plan's funded status reconciled with the liability recognized in the 1993 Statement of Financial Position:

Accumulated post-retirement benefit obligation:	
Retirees	(\$36,304)
Other fully eligible participants	(23,863)
Other active participants	<u>(33,582)</u>
	(93,749)
 Plan assets	 <u> 0</u>
 Accumulated post-retirement benefit obligation in excess of plan assets	 (93,749)
Unrecognized transition obligation	77,068
Unrecognized net gain	<u>1,232</u>
 Obligation included in 1993 Statement of Financial Position	 <u>(\$15,449)</u>

For measurement purposes, a 9.9% annual rate of increase in per capita health care costs of covered benefits was assumed for 1993 with such annual rate of increase gradually declining to 4.9% in 2031. If assumed health, dental, & vision cost trend rates were increased by 1 percentage point in each year, the accumulated post-retirement benefit obligation at December 31, 1993 would be increased by \$20,363 and the aggregate of the service and interest cost components of net periodic post-retirement benefit cost for the year ended December 31, 1993 would be increased by \$4,103.

The weighted average discount rate used in estimating the accumulated post-retirement benefit obligation at December 31, 1993 was 7%.

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1993 AND 1992
(dollar amounts in thousands)**

NOTE 6 - RENTAL INCOME

OTS leases a portion of its building space to retailers under noncancellable operating leases expiring at various dates through 2009. The leases provide for annual base rent, some of which are subject to annual increases based upon changes in the Consumer Price Index and/or a percentage of sales in excess of a specified amount. Rental income of approximately \$517 in 1993 and approximately \$553 in 1992 is included in Other Income in the Statement of Operations.

OTS also subleases some of its existing unused leased facilities and these amounts are included below. The future minimum rentals to be received under both noncancellable operating lease arrangements are as follows:

	<u>LEASES</u>	<u>SUB-LEASES</u>	<u>TOTAL</u>
1994	\$ 377	\$1,472	\$1,849
1995	402	1,072	1,474
1996	371	708	1,079
1997	330	643	973
1998	244	3	247
Thereafter	<u>2,736</u>	<u>3</u>	<u>2,736</u>
	<u>\$4,460</u>	<u>\$3,898</u>	<u>\$8,358</u>

NOTE 7 - RETIREMENT PLANS

OTS has three retirement systems. Two are administered by the federal government's Office of Personnel Management. The third is a private plan administered by the Financial Institutions Retirement Fund (FIRF).

The Civil Service Retirement System (CSRS), is currently two-tiered. For employees hired prior to January 1, 1984, OTS withholds approximately 7 percent of their regular earnings. This contribution is then matched by OTS and the sum is transferred to the Civil Service Retirement Fund, from which this employee group will receive retirement benefits.

For employees hired on or after January 1, 1984, with more than five years of service (not necessarily continuous), OTS withholds, in addition to Social Security withholdings, .80 percent of their regular earnings, but matches such withholdings with a 7 percent contribution. At the point such earnings exceed the FICA maximum wages of \$58 for 1993, employees covered under this tier of CSRS are required to have 7 percent of their earnings withheld while the agency expense remains a 7 percent contribution. This second employee group will receive retirement benefits from the CSRS along with the Social Security System, to which they concurrently contribute.

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1993 AND 1992
(dollar amounts in thousands)**

NOTE 7 - RETIREMENT PLANS (Cont'd)

Beginning in January 1987, all employees hired since January 1, 1984, either as new employees or as having less than 5 years of accumulated service (with a break in service over one year) are included in the new Federal Employee Retirement System (FERS). For such employees OTS withholds .80 percent of their regular earnings and matches those withholdings with a 12.9 percent contribution. This group of employees will receive benefits from the FERS as well as the Social Security System to which they concurrently contribute.

Pursuant to FIRREA, the Office of Regulatory Activities and the twelve examination districts became part of OTS and OTS assumed the costs of their retirement system, which is part of FIRF. Under this private retirement system, OTS contributes a percentage of total FIRF salary. This percentage varies from year to year and was approximately 10 percent during 1993. Employees do not contribute to FIRF but do contribute to Social Security. The percentage changes based on the number of active FIRF OTS employees, the number of people that have retired, and the benefits paid out.

The retirement expenses incurred for all plans during 1993 and 1992 was \$11,243 and \$10,834 respectively, which is included in personnel benefits on the accompanying statement of operations.

Although OTS funds either all (FIRF) or a portion (CSRS and FERS) of pension benefits under any of the above retirement systems relating to its employees and makes the necessary payroll withholdings, OTS does not account for the assets of either retirement plan nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management for both government retirement systems and are not allocated to the individual employers. Except for 173 retired employees who had health insurance through OTS' own health plan, the Office of Personnel Management accounts for all health and life insurance programs for retired federal employees.

As part of FIRREA, OTS assumed the Deferred Compensation Plans of the employees working for the FHLB's of Dallas and San Francisco. Effective January 1, 1991, these plans were frozen. Other assets represent cash values of insurance policies to be used to pay amounts vested with employees. At December 31, 1993 and 1992 amounts vested and owed to employees under these plans exceeded assets held by \$508 and \$460, respectively.

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1993 AND 1992
(dollar amounts in thousands)**

NOTE 8 - LEASE COMMITMENTS

The OTS conducts a majority of its regional operations in leased facilities under noncancellable operating leases expiring at various dates through 2005. Many of the leases contain a provision to renew at the end of the initial term for an additional one to ten years. The rental payments are based on a minimum rental plus a proportional share of building operating expenses and taxes.

Some of the operating leases provide for rental escalations and/or stated annual rental increases in the amount of base rent over the lives of the leases. The accompanying statement of operations reflects rent expense on a straight-line basis over the lives of the leases.

The minimum rental commitments, excluding sublease income, under noncancellable operating leases are as follows:

Year ending December 31:	
1994	\$ 8,516
1995	8,029
1996	3,228
1997	3,099
Thereafter	<u>15,824</u>
	<u>\$38,696</u>

Rent expense was approximately \$9,730 in 1993 and \$10,032 in 1992. Sublease income relating to the above leases was approximately \$1,613 in 1993 and \$563 for 1992 and is reported as other income.

NOTE 9 - PRIOR PERIOD ADJUSTMENTS

OTS maintains a health benefit program (the Health Program) for substantially all of its employees and certain retirees (collectively the participants). The program is administered by an outside organization whereby OTS pays premiums to the organization to fund participant claims. In prior years, gains realized from claim experience and minimum deposit requirements were not reflected as an asset in OTS's financial statements. At December 31, 1993, such asset aggregated \$7,373 and is included in prepaid expenses and deposits in the 1993 Statement of Financial Position. The correction of this error resulted in a credit to Retained Earnings of \$2,807 at January 1, 1992. The 1992 Statement of Operations has been restated to reflect the change in this asset during 1992, resulting in a reduction in benefits expense of \$2,691.

**U.S. DEPARTMENT OF TREASURY,
OFFICE OF THRIFT SUPERVISION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1993 AND 1992
(dollar amounts in thousands)**

NOTE 9 - PRIOR PERIOD ADJUSTMENTS (Cont'd)

As indicated in Note 7, OTS maintains a deferred compensation plan for certain employees. At December 31, 1993, the deferred compensation liability aggregated \$1,751 and related assets aggregated \$1,243. The plan's asset and related liability were not reflected in OTS's financial statements in prior years. The correction of this error resulted in a charge to retained earnings of \$460 at January 1, 1992.

The financial statements at December 31, 1992 were restated for the above matters as follows:

	<u>Previously Reported</u>	<u>Restated</u>	Change Increase (Decrease)
Prepaid Expenses and Deposits	\$ 3,557	\$ 9,054	\$5,497
Other Assets	0	1,183	1,183
Deferred Compensation Liability	0	1,643	1,643
Retained Earnings	88,504	93,542	5,038
Benefits Expense	37,997	35,306	(2,691)
Net Loss	7,751	5,060	2,691

NOTE 10 - COMBINING STATEMENTS

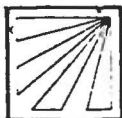
The Combining Statement described in OMB Bulletins 94-01 and 93-02 is designed to present the information found in the financial statements by major program activities or funds. As the financial activities of OTS are not allocated by programs or funds, but rather on an agency-wide basis, a combining statement is not applicable and is not presented.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

There are numerous legal actions pending against the United States in the U.S. Court of Federal Claims where the claims may be based on actions taken by OTS. The Department of Justice is defending these cases. In the event that a judgment is rendered against the United States in any of these cases, payment should be made from the U.S. Government's Judgment Fund or from other general appropriations and not by OTS. Therefore, no loss accrual has been made for these cases.

This information is an integral part of the accompanying financial statements.

**AUDITOR'S COMMENT ON
PRIOR FINDINGS**



**Clifton,
Gunderson & Co.**
Certified Public Accountants & Consultants

The Inspector General,
U.S. Department of the Treasury
Washington, D.C.

AUDITOR'S COMMENTS ON PRIOR FINDINGS

Prior to this audit, the most recent audit of the general purpose financial statements of the United States Treasury, Office of Thrift Supervision (OTS) was performed by Clifton, Gunderson & Co., as of and for the year ended December 31, 1992. As a result of that audit, 5 findings were issued in the following areas:

- Property, Plant and Equipment
- Electronic Data Processing

Our audit revealed that the following recommendations have been implemented by OTS and the deficiencies noted in the prior report have been corrected:

- Property and Equipment Physical Inventory
- Property and Equipment Accounting For Transfers
- Approval of Changes in Computer Access Privileges

Our audit indicated that the following recommendations have not been fully implemented by OTS and these findings are repeated in the accompanying "Auditor's Report on Internal Control Structure".

- Access to Computer Applications
- Segregation of Duties in EDP Area

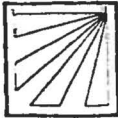
These comments are intended for the information of the management of OTS, the Department of the Treasury Office of Inspector General, and OMB. However, this report is a matter of public record and its distribution is not limited.

Clifton, Gunderson & Co.

Baltimore, Maryland
April 18, 1994

**AUDITOR'S REPORT ON
INTERNAL CONTROL STRUCTURE**

D



**Clifton,
Gunderson & Co.**
Certified Public Accountants & Consultants

The Inspector General,
U.S. Department of the Treasury
Washington, D.C.

AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

We have audited the financial statements of U.S. Department of the Treasury, Office of Thrift Supervision (OTS), as of and for the year ended December 31, 1993, and have issued our report thereon dated April 18, 1994.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Bulletin 93-06. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of OTS for the year ended December 31, 1993, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of OTS is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Financial reporting
- Cash
- Revenue and accounts receivable
- Expenses and accounts payable
- Payroll and related liabilities
- Fixed assets
- Data processing
- Administrative controls over compliance with laws and regulations
- Performance measures

D-1

Members Of

NEXIA
INTERNATIONAL

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC
ACCOUNTANTS

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk. For all of the internal control structures categories listed above, except for performance measures, we also performed tests of the internal control structure.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements." Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

ELECTRONIC DATA PROCESSING SYSTEM

ACCESS CONTROLS

Even though we noted some improvement in access controls, we believe access controls for the accounting, payroll, time activity and reporting applications continue to require improvement. We found:

- a) Security tables in the accounting application combines users access rights which allows them access to incompatible duties.
- b) One human resource manager has access to both payroll and time activity and reporting applications.
- c) A group user ID in the accounting application security table allows three employees to share user ID's and precludes individual accountability.

RECOMMENDATION

1. We recommend that the access controls for the accounting, payroll and time activity and reporting applications be revised to promote segregation of duties and individual accountability.

AUDITEE RESPONSE

- 1a) The access identification tables for the accounting system allow for the limitation of access to the system and can support separation of duties requirements. However, with the downsizing of the OTS, particular user offices have insufficient staff levels to fully incorporate the complete separation of duties requirements. This issue will be revisited by the System Owner.
- 1b) This user will be contacted by the System Owner and a separation of duties in this area will be requested.

- 1c) The three group user ID's support the management of the system by the System Administrators. They include a Production account (TCA) which controls the saving and releasing of the accounting tapes, a Supervisory account (TSS) which allows access to all of the accounting batches and a Payroll Interface account (TSI) which allows the Washington payroll office staff access to the payroll batches which are generated biweekly. Access to these accounts will be modified to allow for the identification of each user who accesses these functions.

EDP PROJECT LEADERS HAVE ACCESS TO LIVE DATA AND PROGRAM FILES

There is a lack of segregation of duties between the EDP Project Leaders and Production Control personnel. The EDP Project Leader has access to live data and production programs.

RECOMMENDATION

2. OTS is developing procedures to prevent EDP Project Leaders from accessing production programs and data. We recommend that OTS continue to develop procedures to promote segregation of duties between the EDP Project Leaders and Production Control Personnel.

AUDITEE RESPONSE

2. IRM has established a Quality Assurance Committee to define the scope of an IRM Quality Assurance Program. The committee has been meeting once a week since the beginning of April and is expected to complete its recommendations the second week of May. One of the committees recommendations will be addressing the segregation of duties between IRM's project leaders and the production control personnel.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of OTS in a separate letter dated April 18, 1994.

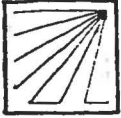
This report is intended for the information of the management of OTS, the Department of Treasury Office of Inspector General, and OMB. However, this report is a matter of public record and its distribution is not limited.

Clifton, Gunderson & Co.

Baltimore, Maryland
April 18, 1994

**AUDITOR'S REPORT ON
COMPLIANCE**

E



**Clifton,
Gunderson & Co.**
Certified Public Accountants & Consultants

The Inspector General,
U.S. Department of the Treasury,
Washington, D.C.

AUDITOR'S REPORT ON COMPLIANCE

We have audited the financial statements of U.S. Department of the Treasury, Office of Thrift Supervision (OTS) as of and for the year ended December 31, 1993, and have issued our report thereon dated April 18, 1994.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Bulletin 93-06. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to OTS is the responsibility of OTS's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we tested compliance with laws and regulations directly affecting the financial statements and certain other laws and regulations designated by OMB and OTS. As part of our audit, we also obtained an understanding of management's process for evaluating and reporting on internal control and accounting systems as required by the *Federal Managers' Financial Integrity Act (FMFIA)* and compared the material weaknesses reported in the Agency's FMFIA report that relate to the financial statements under audit to the material weaknesses and other reportable conditions found during the evaluation we conducted of the entity's internal control structure. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, OTS complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that OTS had not complied, in all material respects, with those provisions.

We noted matters involving OTS's compliance with laws and regulations that we have reported to management of OTS in a separate letter dated April 18, 1994.

This report is intended for the information of the management of OTS, the Department of Treasury Office of Inspector General, and OMB. However, this report is a matter of public record and its distribution is not limited.

Clifton, Gunderson & Co.

Baltimore, Maryland
April 18, 1994

E-1

Members Of

NEXIA
INTERNATIONAL

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC
ACCOUNTANTS