AUDITED CALENDAR YEAR
1994 FINANCIAL STATEMENTS
OF THE
OFFICE OF THRIFT SUPERVISION

OIG-95-079 MAY 17, 1995

Office of Inspector General

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United States Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON

INSPECTOR GENERAL
OIG-95-079

MAY 17 1995

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

FROM: Valerie Lau *Valerie Lau*
Inspector General

SUBJECT: Audited Calendar Year 1994 Financial Statements of the Office of Thrift Supervision

The attached Calendar Year 1994 Financial Statements of the Office of Thrift Supervision (OTS) were audited by the independent public accounting (IPA) firm of Clifton Gunderson & Co. under the auspices of the Chief Financial Officers Act of 1990. We contracted for this audit. The IPA issued the following reports which are incorporated in the attachment:

- Report of Independent auditors on OTS's financial statements (Page A-1);
- Report of Independent Auditors on the Internal Control Structure (Page D-1); and
- Report of Independent Auditors on Compliance with Laws and Regulations (Page E-1).

We have submitted a copy of the attached package to the Secretary of the Treasury for transmission to the Assistant Secretary for Management/Chief Financial Officer and Office of Management and Budget.

The IPA rendered an unqualified opinion on OTS's financial statements. The IPA's report on the internal control structure contained two reportable conditions, both pertaining to the automated data processing system. The report on compliance with laws and regulations contained no instances of noncompliance.

OTS management reviewed the report and concurs with the findings and recommendations.

Should you or your staff have any questions, please contact me at (202) 622-1090 or Antoine F. Elachkar, Regional Inspector General for Financial Audits at (202) 927-5460.

Attachment

Office of Thrift Supervision

Chief Financial Officers Act Report

1994 Financial Statements and Performance Measures (audited)

MESSAGE FROM THE DIRECTOR

Since its inception in 1989 the OTS has made significant progress toward achieving its major initial objectives; 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. As a result, the thrift industry has changed dramatically. 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 1994, the number of OTS-supervised thrifts had decreased to 1,547 and none were insolvent. The industry that the OTS now supervises is smaller, healthier and better capitalized. Since 1991 the thrift industry has enjoyed 16 consecutive profitable quarters; during 1994 the industry earned a total of $4.3 billion and had an average tangible capital ratio of 7.09 percent as of December 1994.

In spite of the success recently enjoyed by the thrift industry, I am very concerned about its continued future viability. The thrift industry is facing a problem today that could quickly undo all the progress of the past five years. On January 31, 1995, the Federal Deposit Insurance Corporation (FDIC) announced that the Bank Insurance Fund (BIF), the fund that guarantees the deposits of 11,000 commercial banks, would soon reach the capitalization goal established by Congress of $1.25 for every $100 of insured deposits. When this goal is reached (estimates are that it will be reached by mid-summer or earlier), the FDIC may cut bank insurance premiums from 23 cents per $100 of deposits to six cents. The insurance premiums of savings and loan associations may not be cut, however, because the Savings Association Insurance Fund (SAIF), the fund that guarantees the deposits of over 1,800 thrift institutions, has not reached the fully capitalized level. The SAIF has just under $2 billion in assets and, based on current premium schedules, may not be fully capitalized until the year 2002.

There is a good reason why the SAIF is not fully capitalized. Approximately 45 cents of every thrift premium dollar goes not to the SAIF, but to pay the interest on Financing Corporation (FICO) bonds, the bonds floated in 1987 to begin the cleanup of the thrift industry. FICO bond payments will total approximately $780 million per year for the next 25 years. Since 1989, approximately $7 billion of the total $9.3 billion paid in insurance premiums by the thrift industry have been diverted from the SAIF to pay off the FICO bonds and for other uses. In contrast, all BIF insurance premiums have been used to capitalize the BIF.

In 1989 when Congress enacted the Financial Institutions Reform Recovery and Enforcement Act (FIRREA), it determined that the thrift industry should pay for as much of the thrift cleanup as possible. However, at that time Congress also believed that it was important to preserve a healthy and viable home lending industry and recognized that it would be counterproductive to impose such a heavy burden on the thrift industry that the industry would become nonviable. Thus, FIRREA authorized the Treasury to contribute up to $32 billion to the SAIF; Treasury was authorized to ensure that a minimum of $2 billion was deposited annually in the SAIF each year from 1992 through 1999;additional payments were authorized (if needed) to help build the fund. No Treasury payments were ever appropriated, however, and the authorization was withdrawn by Congress in 1993.

A large deposit insurance disparity between banks and savings and loans poses an ominous development for the American taxpayer as it will have several detrimental effects on the thrift industry. A substantial disparity in insurance costs would make it very difficult for thrifts to compete with commercial banks for deposits and could force many thrifts out of business. The relative cost increase associated with the premium rate disparity would make it difficult for institutions experiencing losses to raise capital and could lead to an increase in thrift failures. In addition, the declining SAIF assessment base would endanger the payment of interest on FICO bonds.

As of December 1994, the SAIF had approximately $1.9 billion in reserves backing up thrift insured deposits of approximately $693 billion. This is a reserve ratio of only 0.27%, a rate far below the target level of 1.25% set by Congress. At this level of capitalization, the SAIF is extremely vulnerable. If Congress doesn't act quickly to resolve the coming BIF/SAIF premium differential, there's a chance the SAIF will run out of funds. One large thrift failure or a significant downturn in the American economy leading to higher-than-anticipated thrift losses could render the SAIF insolvent. The SAIF safety cushion is simply too thin to withstand a premium disparity of the magnitude proposed by the FDIC.

The SAIF problem is largely a FICO problem. Because of the diversion of SAIF premiums, the SAIF has not been capitalized. Because FIRREA requires that FICO interest payments must continue to be paid from thrift insurance premiums, the prospects for capitalizing the SAIF, and reducing the premium disparity, is remote without legislative action.

I believe that a viable solution to this problem can be found. In addition, I believe that any solution must address three fundamental points:

1. The capitalization of the SAIF must be accelerated. As mentioned earlier, a sudden economic downturn or unexpected market stress could quickly deplete the existing resources of the SAIF. Any viable solution must also address thrift failures that occur during the period while the SAIF is capitalizing.

2. We must stop the continuing and substantial diversion of SAIF premium income from the SAIF. The SAIF is an insurance fund; the continued diversion of a substantial portion of insurance premiums from the fund harms its long-term viability.

3. We must reduce, if not eliminate, the financial incentive for deposits to be shifted between the two insurance funds. Insurance premiums should be based on the risk profile of the insured institution, regardless of charter.

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Jonathan L. Fiechter
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), the Thrift Depositor Protection Oversight Board and the Neighborhood Reinvestment Corporation; in addition, he serves as a member of the Federal Financial Institutions Examination Council.

OTS MISSION

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.

STATUTORY AUTHORITY

OTS' primary statutory authority is the Home Owners' Loan Act (HOLA) as amended by FIRREA. Under HOLA, the 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 the OTS and makes final decisions on regulations governing the thrift industry.
- The Supervision Office 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 and processes all corporate applications. It oversees the direct examination and supervision of savings institutions by regulatory staff in the five regions and responds to consumer and discrimination complaints against savings associations.
- The Office of Administration directs policy development for administrative operations including, contracting and procurement, training, human resources, automated data processing, telecommunications, and financial management. Administration is also responsible for implementing the requirements of the Chief Financial Officers Act, the Federal Managers' Financial Integrity Act, and all required records/information management programs.

- The Chief Counsel's Office provides a full range of legal services for the 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.
- The External Affairs Office communicates information concerning OTS regulations, policies and key developments within the agency to the thrift industry, the public, government agencies and other key constituencies. External Affairs also maintains a liaison between OTS and Congress and the Federal Deposit Insurance Corporation, the Resolution Trust Corporation, the Federal Financial Institutions Examination Council and the Thrift Depositor Protection Oversight Board and serves as the Director's designee on various committees of those agencies.
- The Research and Analysis Office collects and analyzes thrift industry data and general economic data. It tracks and reports on the financial condition of the thrift industry, assesses savings associations' interest rate risk exposure and conducts research related to the thrift industry and housing markets.

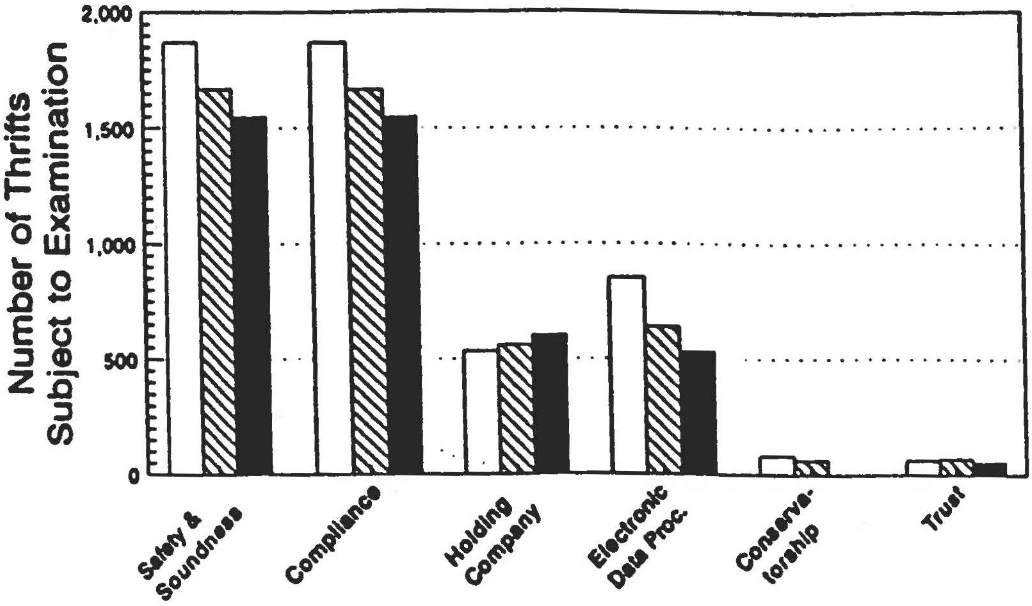
1994 ACCOMPLISHMENTS

One of the ways in which the OTS seeks to achieve its mission 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 1994 the OTS Regional Office staff conducted 2,627 examinations including 1,244 safety and soundness, 680 compliance, 431 holding company, 234 electronic data processing, 2 conservatorship and 36 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 encourages thrift management to focus on community reinvestment issues. In addition, the examination process helps to further identify institutions which are not maintaining their capital at adequate levels and may, therefore, be possible candidates for conservatorship or receivership.

During 1994 the OTS analyzed 3,626 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. Approximately 98.5 percent of these applications were processed within the established timeframes.

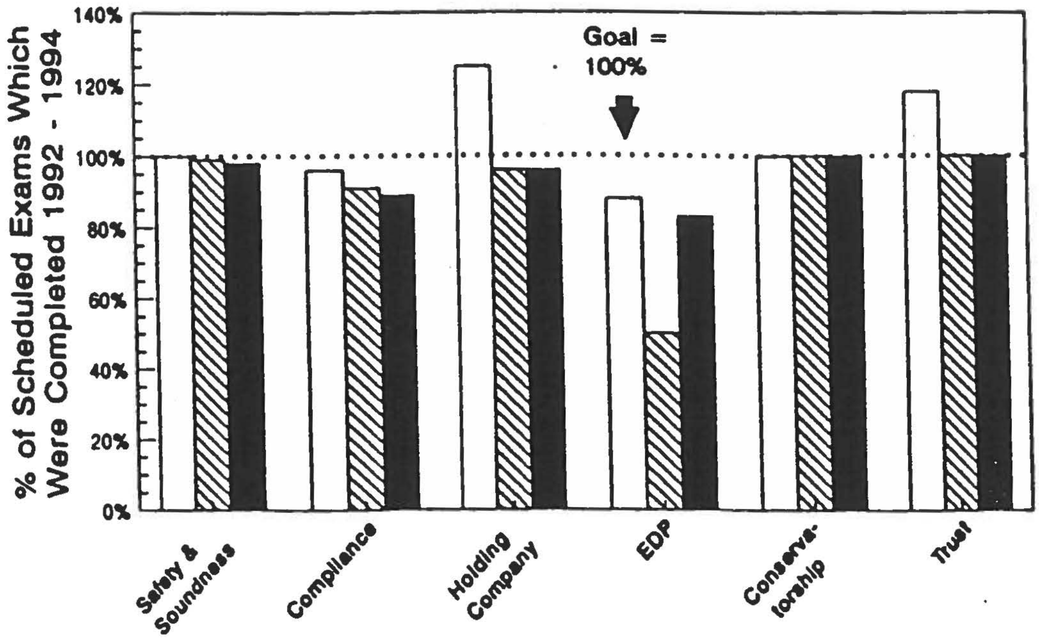
During 1994, the OTS' enforcement program acted together with the RTC and FDIC in settling two cases against accounting firms which resulted in restitution of approximately $500 million. In addition, the enforcement program settled more than 30 significant actions involving insider abuse at 20 savings associations.

Number of OTS Regulated Thrifts Subject to each Exam Category at Year End (1992 to 1994)



	Safety & Soundness	Compliance	Holding Company	Electronic Data Proc.	Conservatorship	Trust
1992	1,870	1,870	535	852	82	63
1993	1,667	1,667	562	641	63	69
1994	1,548	1,548	604	534	1	55

Exams Scheduled Compared With Exams Completed; 1992 - 1994



	Safety & Soundness	Compliance	Holding Company	EDP	Conservatorship	Trust
1992	100%	96%	125%	88%	100%	118%
1993	99%	91%	96%	50%	100%	100%
1994	98%	89%	96%	83%	100%	100%

Level of 1994 Success:

As can be seen in the above charts, OTS' examinations staff was successful in meeting the schedule for Conservatorship and Trust examinations during 1994. The two 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 percent of those scheduled because OTS continued to integrate holding company examinations with safety and soundness examinations (thus eliminating the need for a separate holding company examination).

The most significant accomplishment in the Compliance category was the increase in staffing and the proposed interagency revisions to the CRA examination program to make it a more objective, performance-based system. During the fourth quarter of 1993, we discovered that the population of EDP entities was overstated and have now corrected this database error. A renewed emphasis on EDP examinations, coupled with corrections to the EDP database, have enabled OTS to eliminate the backlog of entities never examined in 1994. It should also be noted that the majority of overdue EDP examinations are for multi-data Processing Services (MDPS) and that these exams are conducted jointly with other banking regulatory agencies. Thus, scheduling MDPS examinations is often beyond the control of OTS.

SECOND OBJECTIVE

Supervision must recommend enforcement action or a waiver of enforcement action within 60 days of the examination report transmittal for thrifts with CAMEL ratings of 4 or 5. The CAMEL 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 CAMEL system (an acronym for Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity/ Risk Management), OTS classifies thrifts into three categories:

- Institutions with CAMEL ratings of 1 or 2 are the healthiest thrifts;
- Institutions with CAMEL ratings of 3 are thrifts experiencing some difficulties but their overall strength makes their failure unlikely;
- Institutions with CAMEL 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 CAMEL ratings of "4" or "5".

Level of 1994 Success:

We initiated appropriate enforcement action, or documented the cause for not taking action (waiver), for all thrifts with CAMEL ratings of 4 or 5 or with similar adverse specialty examination ratings. As of December 31, 1994, our database reflected only one exception to our 60-day standard for all CAMEL 4 and 5 rated institutions.

THIRD OBJECTIVE

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

Performance Measures:

Actual cost/budgeted cost for exam-related functions should not exceed 100 percent.

Actual cost/budgeted cost for other functions should not exceed 100 percent.

Level of 1994 Success:

Supervision's budgetary performance in 1994 was exemplary. We implemented cost savings that reduced projected expenses below our authorized 1994 budget. Our approved 1994 budget was $93.5 million; our actual expenses totaled only 96 percent of our annual budget. Savings were largely achieved by reducing our regional staff below authorized levels and continued lease expense reductions.

The approved budget for examination-related functions in 1994 was $88.2 million. Actual expenses totaled 97 percent of the budgeted amount or $85.4 million. The approved budget for all other Supervision functions in 1994 was $5.3 million. Actual expenses totaled just 85 percent of the budgeted amount or $4.5 million.

In January 1994, the regional offices' on-board staff totaled 1,332 employees; the end-of-year on-board target was 1,194. Through staffing reductions, the actual 1994 year end staff level in the regional offices was 1,170. This 12 percent reduction was managed by a combination of reductions in work force and attrition.

Staff committed to thrift examinations and related functions totaled 77 percent of total staff at 12/31/94 (68 percent were classified as examiners and 9 percent were directly related to the examination function). Thus, the budgeted costs for examination related staff met the projected 1994 budget for these items. OTS was successful in its efforts to reduce management layers by almost 50 percent in its regional offices by completing the consolidation of non-examination related staff functions, and the implementation of consistent organizational models in all regions. Supervision needs to continue reducing its budget, but we exceeded our budgetary goals for 1994.

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.

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, charter conversion to a commercial, national or state-chartered savings bank, acquisition/merger by a commercial bank or bank holding company and establishment or change of location of branch offices.

FIRST OBJECTIVE

Meet 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. Applications with permissible exceptions should be completed as quickly as is feasible.

Performance Measure:

The number of decisions made within the standard or expedited timeframes divided by the total number of completed applications equals the total percentage of applications that were processed within the application processing timeframes. The standard is OTS' historical success in this area.

Level of 1994 Success:

During 1994, the OTS processed 3,626 applications. Of these, 3,570 or 98.5% were completed within the standard or expedited timeframes specified above. This represents a slight improvement over the 1993 percentage of 98.2%. Fifty-six applications were removed from timeframe constraints due to the issuance of extension of time letters and sixteen 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 unresolved opinions on a pertinent factor of the transaction, to review the recommendation of another agency, or when heavy workloads do not permit one of the offices involved 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 60 calendar days. The 16 applications that did not meet the specified timeframes due to issues of law or policy were completed, on average, in 93 calendar days.

SECOND OBJECTIVE

Save money for individual thrift institutions by establishing expedited application processing procedures for healthy institutions, and by reviewing the applications fee schedule and reducing fees, when appropriate, to reflect processing costs.

Performance Measure:

The dollars saved during the year as a result of the expedited processing procedures enacted on June 30, 1992, divided by the number of expedited applications processed equals the average dollars saved per expedited application. The standard is OTS' historical success in this area.

Level of 1994 Success:

The OTS estimates that $508,500 was saved by the thrift industry during 1994 as a result of the 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. During 1994, the OTS approved 341 expedited applications and notices, or 9.6% of total applications processed, which equates to an average savings of $1,491 per expedited application. During 1993, the OTS approved 331 expedited applications and notices with a resultant savings to applicants of approximately $320,100. Thus during 1993, an average of $967 was saved per expedited application.

THIRD OBJECTIVE

Increase the delegation of application decisions to the Regional Offices as appropriate.

Performance Measure:

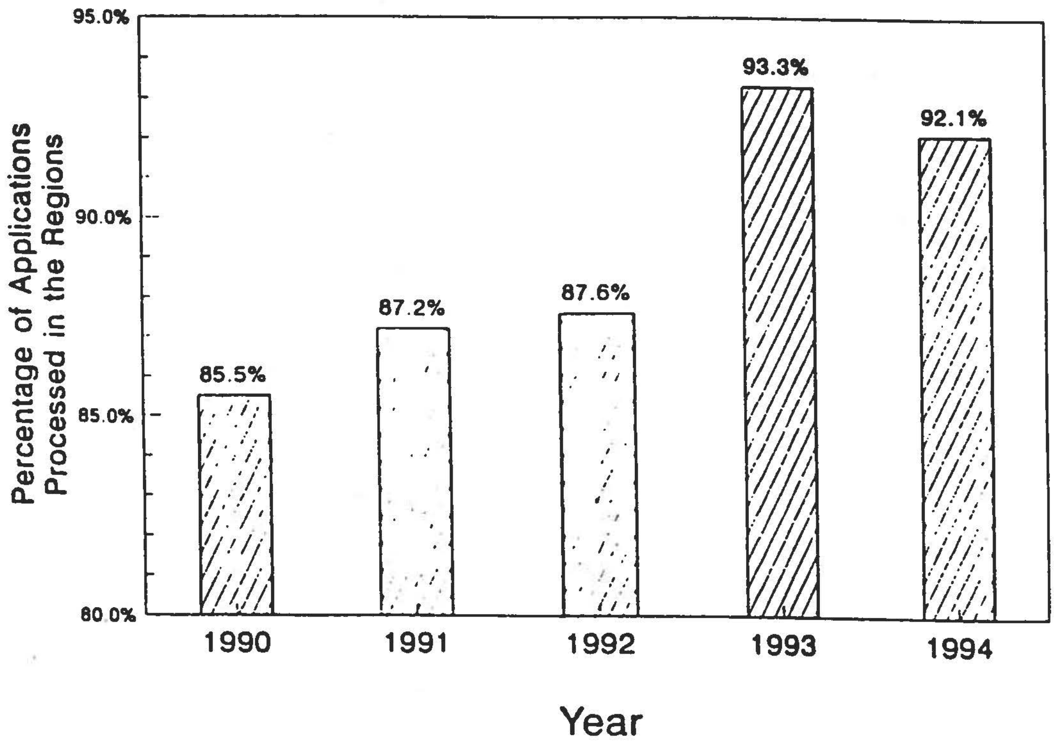
The total number of applications processed in the field in 1994 divided by the total number of applications processed by OTS equals the percentage of applications processed in the field. The standard is OTS' historical success in this area.

Level of 1994 Success:

Of the total 3,626 applications processed by the OTS' applications divisions during 1994, 3,339 or 92.1% were processed by the Regional Offices. The remainder (287) were processed and acted on by the Corporate Activities Division ("CAD") in Washington.

OTS' continuing success in delegating applications to the field is demonstrated by the fact that 85.5 percent, 87.2 percent, 87.6 percent and 93.3 percent of total applications were processed in the Regional Offices during 1990, 1991, 1992 and 1993, respectively. The slight decrease from 1993 to 1994 resulted from the high volume of stock conversion and mutual holding company activity during 1994. On December 22, 1994, additional application decisions were delegated to the Regional Offices.

Percentage of Applications Processed in the Regional Offices



PROGRAM PERFORMANCE

ENFORCEMENT PROGRAM

MISSION

A primary mission of the OTS is to supervise federally insured savings associations and 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

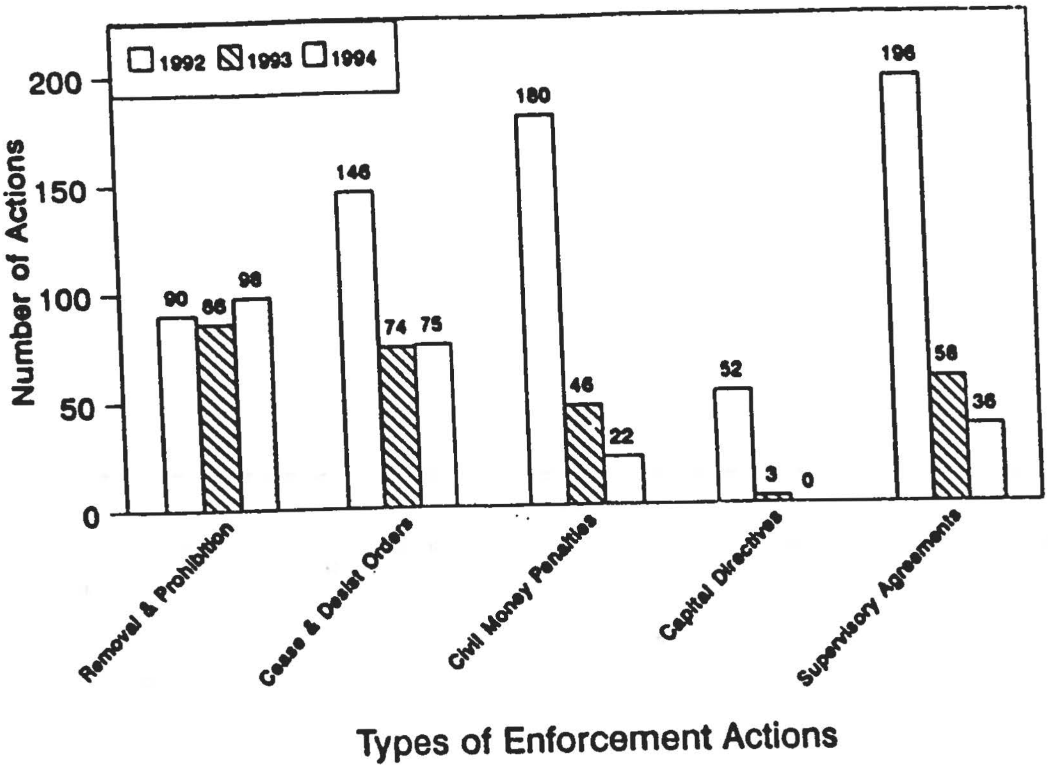
Enforcement actions are intended to enhance the safe and sound operation of thrifts. The OTS enforcement program emphasizes that thrift directors must understand and honor their fiduciary duties and must realize that if they fail to fulfill those responsibilities, the OTS will bring appropriate enforcement 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. By the end of 1992, the OTS enforcement program had completed nearly 2,000 enforcement actions against wrongdoers in administrative actions involving civil money penalties (CMP), supervisory agreements, cease and desist orders, removals and prohibitions of officers and directors, and capital directives. During this period, the OTS enforcement program imposed restitution orders to compel wrongdoers to return funds to the thrifts they abused; the OTS participated in the recovery of almost $1 billion in restitution. The OTS also collected several million dollars in civil money penalties.

In 1993, the OTS began to complete its efforts to take appropriate enforcement actions to deal with failed thrifts; thus, the number of final enforcement actions decreased substantially from 1992.

In 1994, the OTS focused its enforcement program on open institutions, although proceedings involving closed institutions have continued. Together with the RTC and FDIC, the OTS settled two cases in 1994 against accounting firms that resulted in the restitution of approximately $500 million. In the past year as well, the OTS settled more than 30 significant actions involving insider abuse at 20 savings associations. The total number of completed enforcement actions declined to 231 during 1994, down from 267 in 1993.

Enforcement Statistics
1992 - 1994



OBJECTIVE

The objective of the OTS' enforcement activity is to take appropriate enforcement in a prompt manner.

Performance Measure:

It is difficult to develop an objective measure that shows with significant accuracy the success of OTS in meeting its enforcement objectives. The agency is highly confident that, in fact, its enforcement work is successful; that is, the OTS believes it imposes the right kind of supervisory conditions on troubled institutions and takes necessary action against individuals who have engaged in misconduct in the industry. Nevertheless, each case presents a set of unique and complex facts, typically involving a multiple of individuals and transactions. The agency's ability to uncover the relevant facts depends to a significant degree on factors outside the agency's control: how easy or difficult it may be to locate knowledgeable individuals and pertinent documents; the nature and complexity of the transactions at issue; whether the OTS investigation must be coordinated with the work of other agencies.

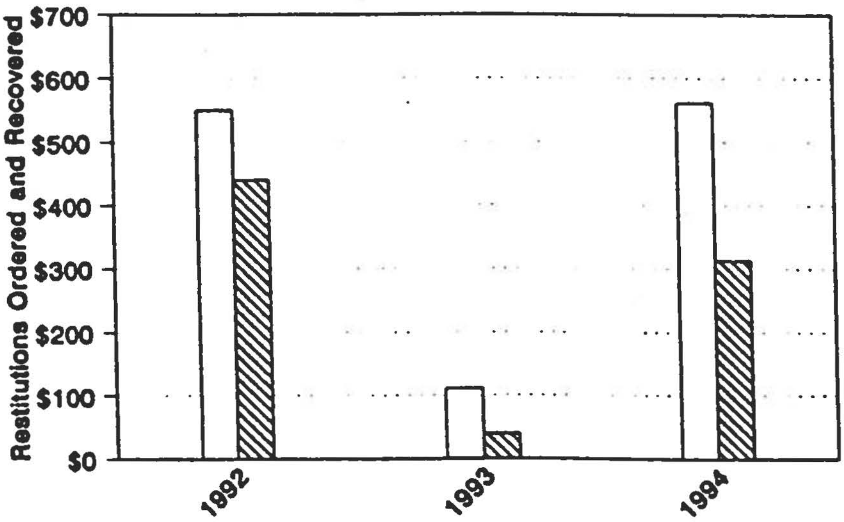
The Enforcement Program has developed a performance measure which indicates the different dollar recoveries per FTE obtained in 1992, 1993 and 1994. Specifically, it has measured restitution dollars (both ordered and recovered) per FTE, as well as civil money penalty amounts (again, both ordered and recovered) per FTE. Since the agency's enforcement work extends well beyond monetary recoveries, these measurements are not a precise gauge of the effectiveness of the OTS enforcement work, and there is no single standard that will show whether or not the agency is using its enforcement resources efficiently. However, should total restitution and CMP recoveries drop below $100,000 per FTE, then the agency should review whether it is directing its enforcement resources appropriately.

Level of 1994 Success:

The OTS' enforcement staff participated in monetary recoveries well in excess of the cost of the enforcement work in 1994, as well as in the preceding two years. Indeed, for each enforcement FTE in 1994, OTS participated in the recovery of nearly $5 million. The following charts show the ordered and recovered amounts of restitution and civil money penalties in 1992, 1993 and 1994:

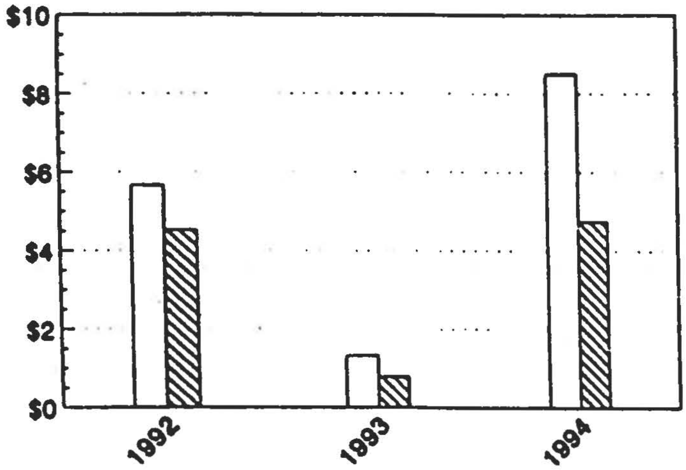
Restitutions Ordered and Recovered 1992 - 1994

(Dollars in Millions)



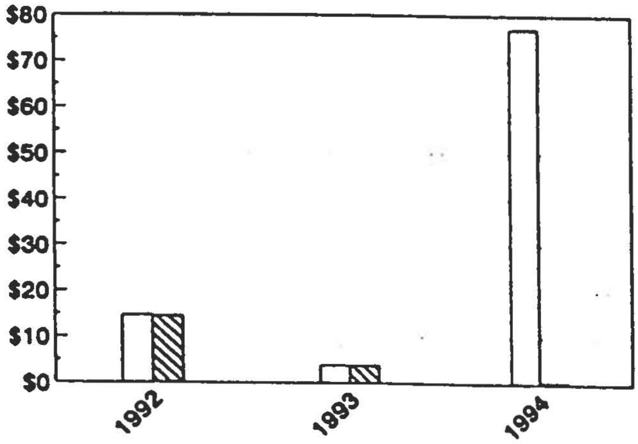
	1992	1993	1994
Restitutions Ordered	$550.4	$110.8	$561.8
Restitutions Recovered	$439.7	$39.8	$313.4

Restitutions Ordered and Recovered Per FTE
1992 - 1994
(Dollars in Millions)



Ordered Per FTE	$5.67	$1.33	$8.51
Recovered Per FTE	$4.53	$0.78	$4.75
Av. Enforcement FTEs	97	83	66

Civil Money Penalties Ordered and Recovered Per FTE
1992 - 1994
(Dollars in Thousands)



Ordered Per FTE	$14.6	$3.8	$77
Recovered Per FTE	$14.4	$3.8	$0.365
Av. Enforcement FTEs	97	83	66

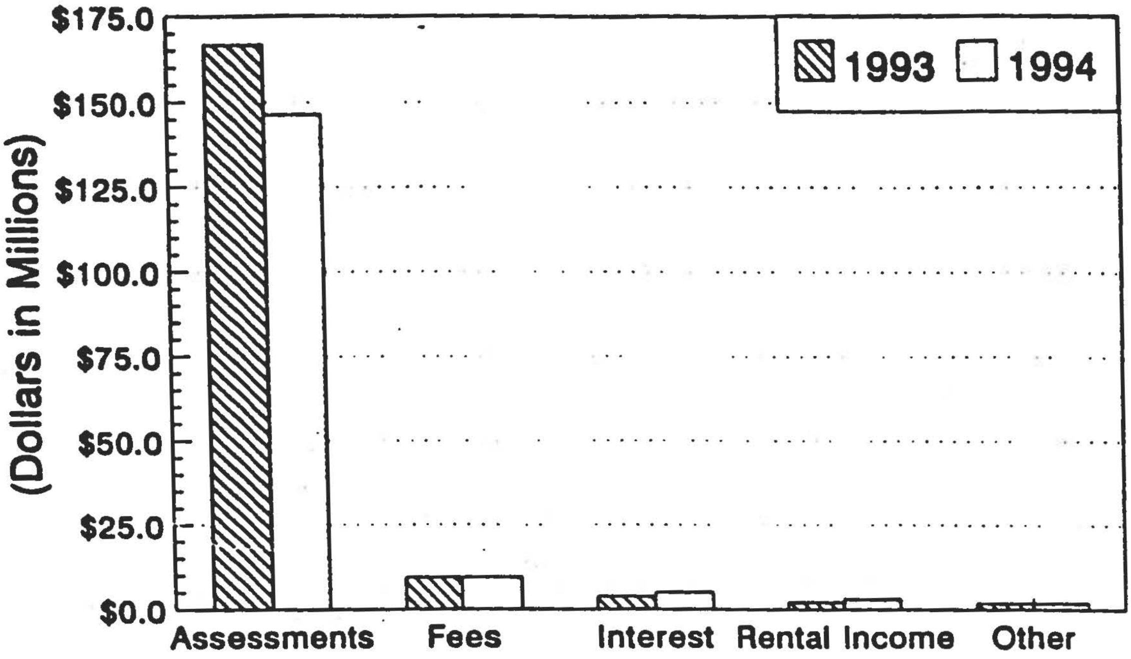
FINANCIAL HIGHLIGHTS

OTS reports its financial statements on a calendar year basis. The accompanying audited statements summarize the OTS' financial position as of December 31, 1994 including the costs of its operations and all significant sources and uses of funds during 1993 and 1994.

As shown in the accompanying financial statements, OTS' total capital increased from $106.5 million at year end 1993 to $112.2 million at year end 1994, a $5.7 million increase. It is obvious from the previous discussion of OTS' revenues and expenses that the increase in total capital was not a result of OTS' operations. The increase in capital came from the way the OTS accounts for Post Retirement Benefits (see the attachment to the financial statements entitled "Summary of Significant Accounting Policies" for a discussion of Post Retirement Benefits accounting).

REVENUE AND EXPENSES

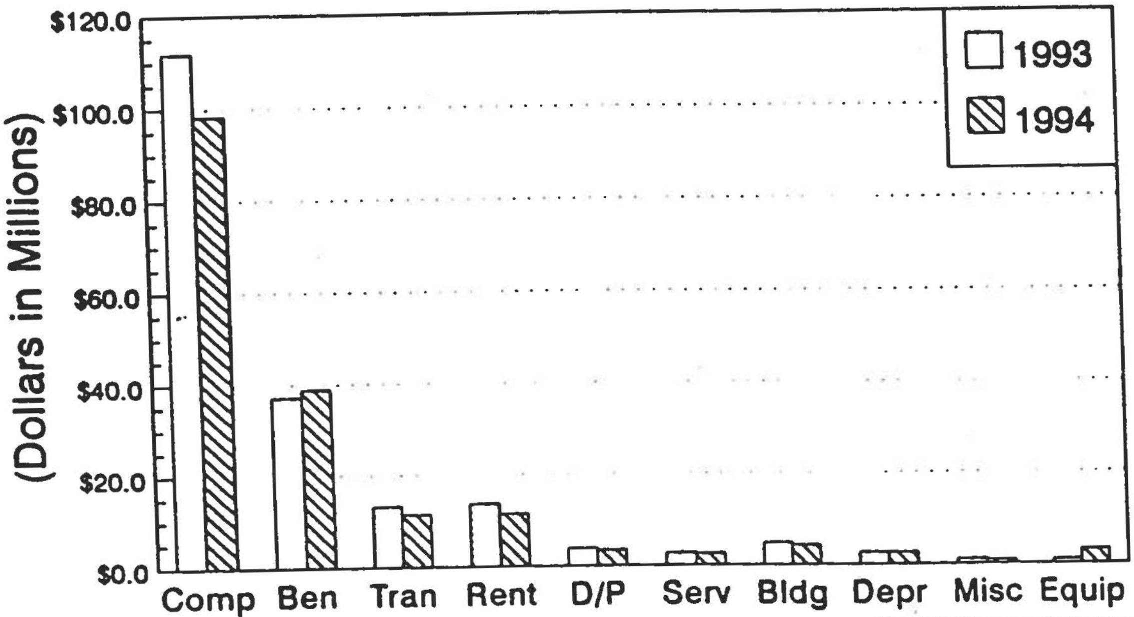
Operating expenses decreased from $191.7 million in 1993 to $176.6 million in 1994, a drop of $15.1 million; revenue declined from $183.8 million to $165.7 million, a decline of $18.1 million. Thus, OTS' operating deficit increased between 1993 and 1994, from $7.9 million in 1993 to $10.9 million in 1994 (see charts on the following page).



1993	$166.6	$9.4	$3.8	$2.1	$1.9
1994	$146.4	$9.4	$5.0	$3.0	$1.9

Total: 1993 - $183.8; 1994 - $165.7

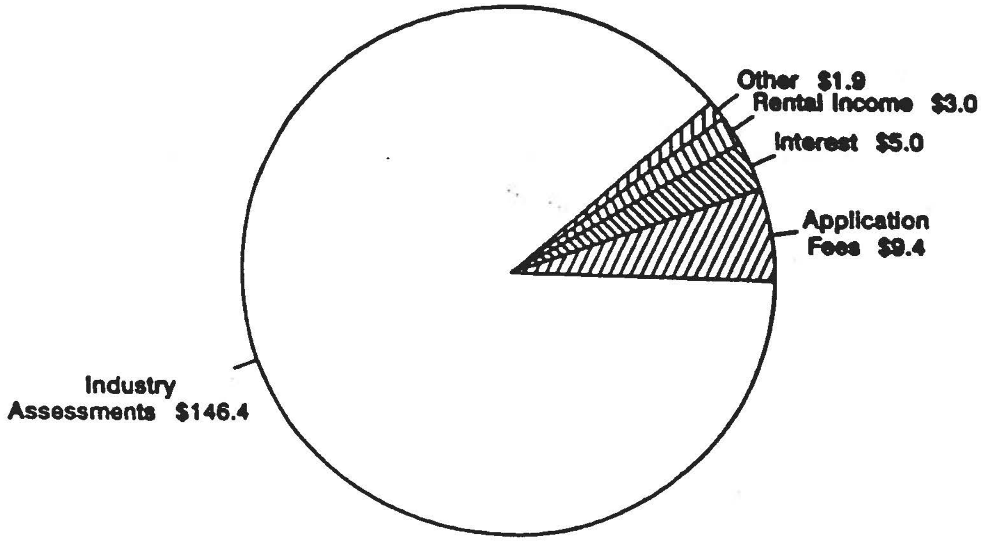
OTS Operating Expenses; 1993 and 1994



1993	$111.9	$37.2	$13.2	$13.6	$3.8	$2.7	$4.8	$2.6	$1.0	$0.9
1994	$98.3	$38.9	$11.4	$11.4	$3.4	$2.5	$4.2	$2.6	$0.8	$3.1

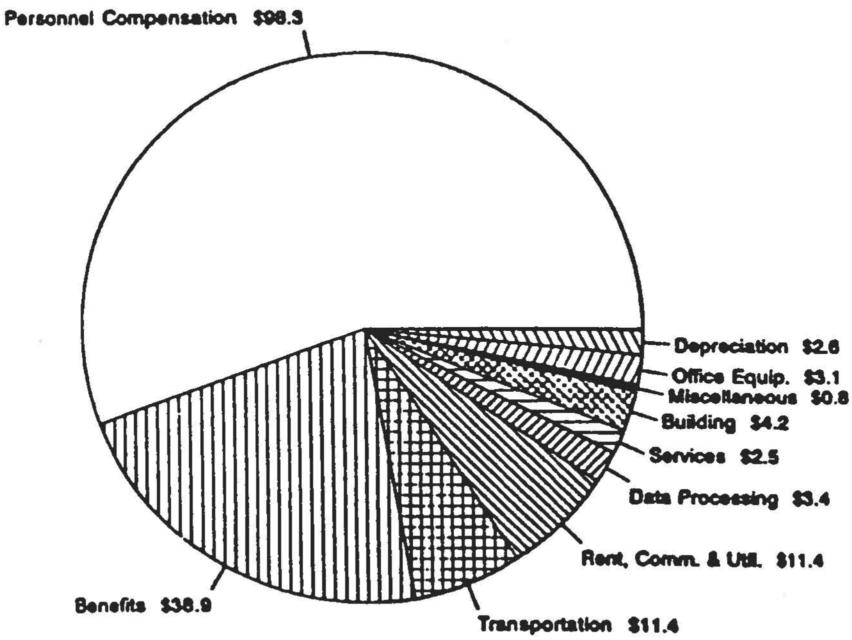
Total: 1993 - $191.7; 1994 - $176.6

The drop in revenue is principally due to the continuing shrinkage of the thrift industry. As shown below, the OTS received 88.4% of its 1994 revenue from assessment fees. However, as the number of thrift institutions declines and the assets held by the remaining institutions decrease, OTS' revenue continues to fall. Thrift industry assessment revenue dropped from $166.6 million in 1993 to $146.4 million in 1994, a 12.1% decrease. Other income producing items including application/security filing fees, interest, rental income, and other, increased slightly from $17.2 million in 1993 to $19.3 million in 1994.



Total Revenue = $165.7 Million

The following chart shows 1994 operating expenses by major cost categories. As can be seen by the chart, expenses for personnel compensation and benefits comprised 77.7% of OTS' total operating expenses in 1994.

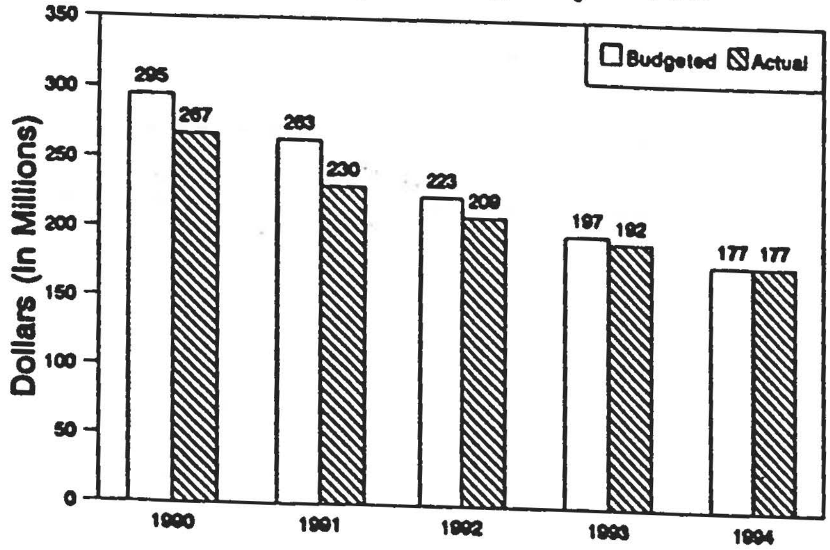


Total Operating Expenses = $176.6 Million

BUDGETARY RESOURCES

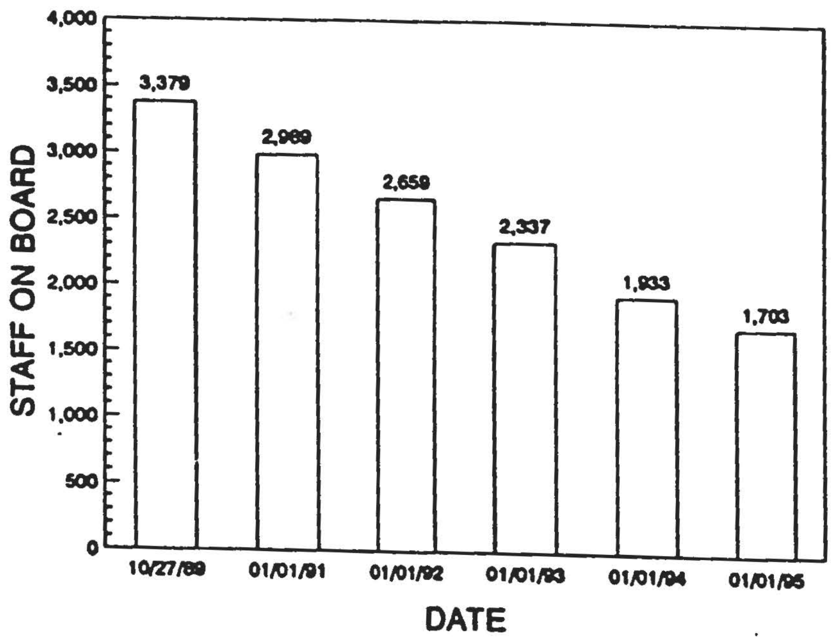
As shown in the illustration below, the OTS operating expenses have consistently been lower than the authorized budget for that year except during 1994 when the authorized budget and operating expenses were equivalent. In addition, as the chart indicates, OTS' operating expenses have decreased from $267 million in 1990 to $176.6 million in 1994, or by 33.9%.

Budgeted Expenses Compared With Actual Operating Expenses



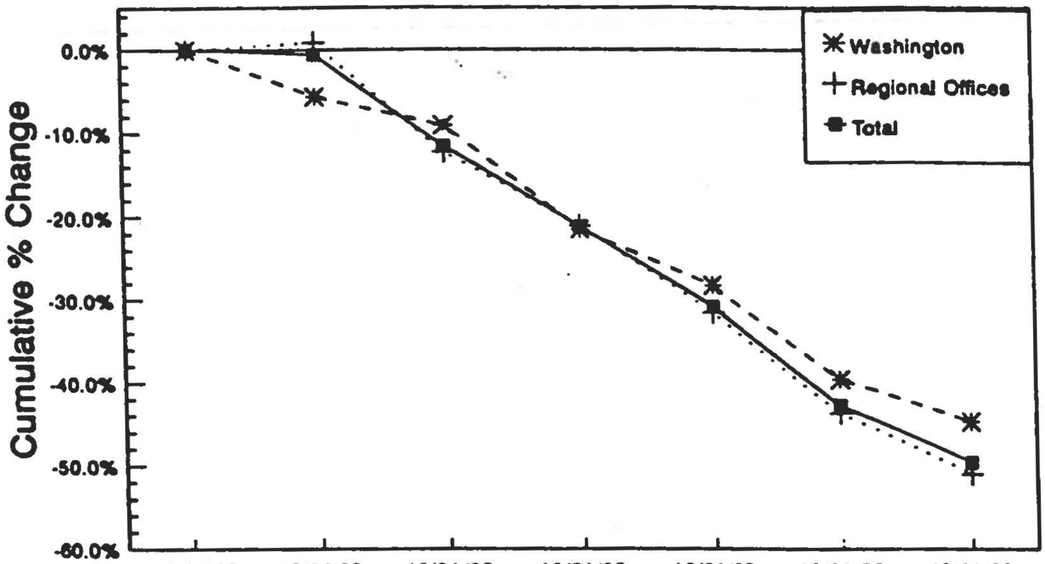
As shown below, OTS has reduced its staff from 3,379 employees as of October 1989 to 1,703 at year-end 1994, a 49.6% decrease.

STAFF SIZE



The following chart shows that as of year-end 1994 OTS' Regional Office staff had declined by 51% while the Washington Office staff had declined by 44.7%. OTS plans to continue downscaling its staff size during 1995. It is projected that during 1995 the Washington Office staff will decline by a greater percentage than the Regional staff.

Cumulative Decline in Staffing Washington and Regional Offices



	10/21/89	10/21/89-12/16/89	10/21/89-12/29/90	10/21/89-12/14/91	10/21/89-12/26/92	10/21/89-12/25/93	10/21/89-12/24/94
Washington	0.0%	-5.6%	-9.0%	-21.5%	-28.3%	-39.6%	-44.7%
Regional Offices	0.0%	0.9%	-12.3%	-21.1%	-31.6%	-43.7%	-51.0%
Total	0.0%	-0.6%	-11.5%	-21.2%	-30.8%	-42.8%	-49.6%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE

The OTS' Director of Administration is assigned the responsibility of coordinating the activities required for implementation of the CFO Act within the OTS. The functions of accounting, financial planning and analysis, budgeting, administration of the Federal Managers' Financial Integrity Act (FMFIA), procurement, payroll, travel, and personnel administration are all centralized under the Director of Administration.

The OTS seeks to comply with applicable accounting and internal control principles. OTS' transactions are reported on an accrual basis in accordance with Generally Accepted Accounting Principles. The bureau's Controller continually reviews new Statements of Financial Accounting Standards and modifies accounting policy, procedures and reporting as needed. The Controller's Division's Policy and Procedures Manual reflects current regulations and internal standards governing accounting, payroll, and travel processing. The manual was first issued in August 1991 and is revised annually to incorporate the latest policy and regulation changes.

The Federal Managers' Financial Integrity Act of 1982 mandated the establishment of agency internal control programs and regular evaluations of management controls and accounting systems to protect Federal programs from fraud, waste and abuse. The OTS maintains strong internal controls, comprehensive financial management controls, personnel security controls, computer security, and strong asset accountability programs.

In accordance with the CFO Act, the OTS has developed a Five-Year Financial Management Plan. This Plan addresses the current status of financial management, summarizes accomplishments, and presents an overview of planned financial management initiatives. Most of the major milestones required by the CFO Act to be addressed in the Five Year Plan, including audited financial statements and integrated financial management information systems, were achieved by the OTS prior to the law's enactment. This is a result of management foresight and an organizational focus on efficient, cost-effective operations.

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." OTS has been successful in its efforts to increase the number of timely payments. During fiscal year 1994, only .63% of OTS' payments were made early and only 3.17% were made late; this compares with 41% made early and 6.1% made late during fiscal year 1991.

The OTS maintains budgetary integrity through the continual oversight and monitoring of its annual budget. Generated reports allow the budget staff to regularly analyze the status of all accounts, review all expenditures, and make recommendations to senior management regarding potential savings and/or possible overages in the various accounts. OTS consistently executes its budget to ensure that it will not exceed its approved budgetary allotment; as a result, the OTS has shown bottom line savings on a regular basis.

OTS manages its assets and cash successfully. A new automated system for managing and disposing of property, including capitalized and non-capitalized furniture, fixtures and equipment was recently expanded nationally. Annual inventories are taken and the records updated. Items no longer needed are surplused to GSA. The Furniture, Fixtures and Equipment System will be maintained to ensure that it remains an effective control mechanism. Approximately 61% of OTS' assets are held as cash or cash equivalents. Another 28% of its assets are the OTS-owned land and building used in Washington, D.C., and the furniture and equipment used throughout the bureau. OTS holds no loan assets or marketable securities other than Treasury securities. The OTS plans to make the following improvements to its cash management program: 1) Expand the third party draft system for travel reimbursements; 2) Implement the FEDTAX program to electronically file tax forms with the IRS; 3) Expand the vendor express program to allow electronic payments for vendors who provide regular goods and services to the OTS; and 4) Expand the third-party draft system to automate travel reimbursements nationally.

The foundation of OTS' financial management control program is its annual financial statement audit. The 1994 audit was conducted by the independent, certified public accounting firm of Clifton, Gunderson & Company with technical oversight provided by the Office of Inspector General. The audit of OTS' 1994 financial statements was completed in March 1995. For the fifth consecutive year, the OTS has been given an unqualified opinion on its financial statements.

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 cabilities.

1994 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 1994, several improvements were made including the following:

- Installed a new communication software package to allow Civil Money Penalties to be electronically posted thorugh Treasury's Bulletin Board System. Additionally, accounts receivable reports due from the public were transmitted electronically.
- Established a Standard General Ledger Crosswalk chart of accounts on the OTS Treasury Accounting System to provide standardized financial reports to Treasury.
- The automated travel reimbursement contract was awarded and four of the five regions are utilizing the GELCO Processing/Payment System which will decrease the amount of data entry needed for travel vouchers.
- Started ulilizing the Retirement and Insurance Transfer system (RITS) which electronically provides benefit information to OPM. This decreases manual processes.

- Expanded the Vendor Express program (electronic payment of vendors).
- Reduced the number of assessment refunds issued to zero during the July assessment period by improving the billing process.
- Converted to the common report of examination (the same report format used by the banking regulators) including conversion of the previous MACRO rating system into the CAMEL system used by the banking regulators.
- Implemented the Thrift Information Exchange System (TIES), an effort which combined the Corporate Structure (Universe), Application Tracking and Holding Company databases.

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

OTS evaluated its systems of management controls for the fiscal year ending September 30, 1994, according to the Office of Management and Budget guidance and General Accounting Office standards. The results of the evaluation show that our management controls provide reasonable assurances that:

- obligations and costs comply with applicable law;
- all assets are safeguarded against waste, loss, unauthorized use and misappropriation; and
- revenues and expenditures applicable to OTS operations are recorded and accounted for properly.

No Section 2 (Program and Administrative) material weaknesses or Section 4 (Financial) nonconformances were identified. In addition, audit report OIG-94-092, FY 1993 Audited Annual Financial Statements for OTS (CFO Report), did not identify any material weaknesses in the FMFIA program.

Pending revision of OMB Circular A-123, an OTS Task Force streamlined the format for reporting the results of management control reviews when it issued new guidance to its managers during the second quarter. The new guidance complies with established program requirements and meets management needs.

During FY 1994, OTS trained approximately 20 program managers and staff members in the correct procedures for conducting management control reviews.

The OTS 1994-1998 Management Control Plan was closed out on September 30 with a total of 16 management control reviews having been completed during the fiscal year. An additional seven reviews scheduled for FY 1994 are in progress and will be completed during FY 1995. During fiscal year 1995, 12 reviews are scheduled.

FINANCIAL STATEMENTS

The attached audited 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

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
December 31, 1994 and 1993

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, 1994 and 1993, and the related statements of operations and changes in net position, 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury, Office of Thrift Supervision as of December 31, 1994 and 1993, 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.

As discussed in Notes 2 and 6 to the financial statements, OTS changed its method of accounting for post-retirement health benefits effective January 1, 1993, and changed it method of accounting for investments effective January 1, 1994.

In accordance with Government Auditing Standards, we have also issued a report dated March 24, 1995 on our consideration of OTS's internal control structure and a report dated March 24, 1995 on its compliance with laws and regulations.

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 94-01 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
March 24, 1995

FINANCIAL STATEMENTS
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Statement 1

U.S. DEPARTMENT OF TREASURY, OFFICE OF THRIFT SUPERVISION STATEMENTS OF FINANCIAL POSITION December 31, 1994 and 1993 (In thousands)

	1994	1993
ASSETS		
Entity Assets:		
Intragovernmental assets:		
Fund balance with Treasury and cash equivalents	$ 37,961	$ 89,314
Investments held to maturity	54,871	-
Accounts receivable	489	677
Interest receivable	1,232	-
Governmental assets:		
Accounts receivable, less allowance for uncollectible accounts of $83,000 for 1994	991	764
Advances and prepayments	12,845	10,823
Property and equipment, net	42,864	43,965
Other assets	1,673	1,243
Total entity assets	$ 152,926	$ 146,786
LIABILITIES AND NET POSITION		
Liabilities Covered By Budgetary Resources:		
Intragovernmental liabilities:		
Due to Office of Personnel Management, post-retirement liability	$ 10,993	$ -
Other accrued liabilities	998	752
Governmental liabilities:		
Accounts payable	777	588
Deferred compensation liability	1,874	1,751
Deferred rent credit	2,637	2,774
Other accrued liabilities	9,786	7,173
Total liabilities covered by budgetary resources	27,065	13,038
Liabilities Not Covered By Budgetary Resources:		
Governmental liabilities:		
Accrued annual leave	8,109	8,403
Accrued workers' compensation	3,233	3,400
Post-retirement benefit liability	2,341	15,449
Total liabilities not covered by budgetary resources	13,683	27,252
Total liabilities	40,748	40,290
Net Position		
Balances:		
Assumed capital	41,037	41,037
Retained earnings	71,141	65,459
Total net position	112,178	106,496
Total liabilities and net position	$ 152,926	$ 146,786

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 AND CHANGES IN NET POSITION
Years Ended December 31, 1994 and 1993
(in thousands)

	1994	1993
REVENUE AND FINANCING SOURCES		
Industry assessments	$ 146,429	$ 166,625
Application/security filing fees	9,355	9,402
Interest	5,003	3,807
Rental income	3,009	2,130
Other	1,924	1,863
Total revenues and financing sources	165,720	183,827
EXPENSES		
Personnel compensation	98,341	111,918
Benefits	38,864	37,162
Rent, communication and utilities	11,396	13,571
Travel and transportation	11,370	13,214
Services	2,551	2,715
Data Processing	3,376	3,794
Building expenditures	4,185	4,849
Office equipment and software	3,062	906
Miscellaneous	842	1,008
Depreciation	2,658	2,581
Total operating expenses	176,645	191,718
Worker's Compensation	-	3,400
Loss on Disposal of Equipment	(87)	(1,343)
Loss from operations, before gain on settlement and cumulative effect of change in accounting principles	(11,012)	(12,634)
Gain on Settlement of Post Retirement Benefits - Health Insurance (Note 6)	16,694	-
Cumulative Effect on Prior Years Change in Accounting - Post Retirement Benefits	-	(15,449)
EXCESS (SHORTAGE) OF REVENUE AND FINANCING SOURCES AND GAINS OVER EXPENSES	5,682	(28,083)
NET POSITION, beginning balance	106,496	134,579
NET POSITION, ending balance	$ 112,178	$ 106,496

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, 1994 and 1993
(in thousands)

	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (shortage) of revenue and financing sources over total expenses	$ 5,682	($ 28,083)
Adjustments affecting cash flow:		
Decrease (increase) in accounts receivable	(39)	2,787
Decrease (increase) in other assets	(3,684)	(1,829)
Increase in due to OPM	10,993	-
Increase (decrease) in accounts payable	189	(1,426)
Increase in other liabilities	2,845	308
Increase in unfunded liabilities	3,125	3,207
Gain on settlement of post-retirement benefits - health insurance	(16,694)	-
Amortization of bond discount	(63)	-
Depreciation	2,658	2,581
Loss on disposal of equipment	87	1,343
Cumulative effect of change in accounting principle	-	15,449
Net cash provided (used) by operating activities	5,099	(5,663)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(54,808)	-
Purchases of property, plant and equipment	(1,644)	(243)
Net cash used by investing activities	(56,452)	(243)
NET CASH USED BY OPERATING AND INVESTING ACTIVITIES	(51,353)	(5,906)
FUND BALANCE WITH TREASURY AND CASH EQUIVALENTS, beginning of year	89,314	95,220
FUND BALANCE WITH TREASURY AND CASH EQUIVALENTS, end of year	$ 37,961	$ 89,314

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, 1994 and 1993
(in thousands)

	Resources	Actual Obligations	Actual Expenses
1994			
Compensation	$ 99,507	$ 96,907	$ 98,341
Benefits	35,117	33,876	38,864
Travel and Transportation	12,349	11,364	11,370
Rent, Communication and Utilities	11,845	11,528	11,396
All Other	18,316	16,068	16,674
Totals	$ 177,134	$ 169,743	$ 176,645
1993			
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	16,384	14,548	15,853
Totals	$ 197,181	$ 192,561	$ 191,718

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, 1994 and 1993

REPORTING ENTITY

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 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 Federal Home Loan Bank Board by OTS at inception, October 8, 1989, in accordance with FIRREA.

BASIS OF PRESENTATION

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) and the applicable provisions of OMB Bulletin 94-01 "Form and Content of Agency Financial Statements." OTS receives no appropriated monies from the federal government and 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.

CASH EQUIVALENTS

OTS considers its Overnight Treasury Securities as cash equivalents.

INVESTMENTS

Effective January 1, 1994, OTS adopted Statement of Financial Accounting Standards No. 115, "Accounting for Investments in Certain Debt and Equity Securities". Under the statement, OTS is required to classify investment seucrities under three categories: trading, available for sale, or held to maturity. All of OTS investments consist of U.S. Treasury obligations for which OTS has the positive intent and ability to hold to maturity. Therefore, all investments are classified as held to maturity and are stated at amortized cost. Premiums and discounts are amortized over the term of the investment using the straight-line method.

POST RETIREMENT BENEFITS

OTS provides certain health and life benefits for all retired employees that meet eligibility requirements. Effective January 1, 1993, OTS adopted Financial Accounting Standards Board (FASB) Statement No. 106 to account for its share of the costs of those benefits. Under this statement, OTS's share of the estimated costs 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 expensed its share of the costs as claims were incurred by the retirees and as premiums were paid by OTS.

Pursuant to an agreement with the Office of Personnel Management (OPM) in 1994, OTS agreed to pay a one-time fee to OPM in consideration of OPM assuming the health care portion of the Post Retirement Plan liability.

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 1993 financial statements to conform to the presentation used in 1994. These reclassifications relate primarily to changes in the statement of financial position to fully conform to the provisions of OMB Bulletin 94-01.

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, 1994 and 1993
(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, 1994 and 1993 as follows:

	1994	1993
Cash	$ 318	$ 408
Cash Equivalents	37,643	88,906
Total cash and cash equivalents	$ 37,961	$ 89,314

NOTE 2 - INVESTMENTS

Investment securities reflect maturities through July 1996. The amortized cost and fair value of investment securities as of December 31, 1994 is summarized as follows:

Government securities:	
Investments, at cost	$ 54,808
Amortized discount	63
Investments, net	$ 54,871
Market value	$ 54,292

Management intends to hold these securities to maturity. Stated interest rates range from approximately 4.6% to 6.1%.

Effective January 1, 1994, OTS adopted Statement of Financial Accounting Standard No. 115, "Accounting for Certain Investments in Debt and Equity Securities". OTS did not have any investments at January 1, 1994, and there is no effect on net position as a result of adopting this new statement.

NOTE 3 - PROPERTY AND EQUIPMENT

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

(dollar amounts in thousands)

NOTE 3 - PROPERTY AND EQUIPMENT (Continued)

OTS's property and equipment is comprised of the following at December 31, 1994 and 1993:

	1994	1993
Land	$ 7,101	$ 7,101
Building and Improvements	47,625	46,465
Furniture, Fixtures, and Equipment	9,760	10,718
Total Cost	64,486	64,284
Accumulated Depreciation:		
Building and Improvements	(14,331)	(13,337)
Furniture, Fixtures, and Equipment	(7,291)	(6,982)
Property and Equipment, net	$ 42,864	$ 43,965

NOTE 4 - WORKER'S COMPENSATION

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for OTS's employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by OTS. These future workers' compensation estimates were generated by DOL from an application of actuarial procedures developed to estimate the liability for FECA benefits. This DOL estimated actuarial liability for FECA benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability was determined using the paid losses extrapolation method calculated over the next 23-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using the discount rate of 7% in year one and thereafter. Based on information provided by the Department of Labor, the Department of the Treasury determined that the estimated liability of OTS as of December 31, 1994 and 1993 was $3,233 and $3,400, respectively. Prior to 1993, OTS recorded these compensation benefits on a cash basis. OTS accrued a cumulative liability of $3,400 in 1993 since the portion relating to prior periods was not available. The change in the actuarial liability from 1993 to 1994 is reflected as a reduction of benefits expense in 1994.

Other Accrued Liabilities include outstanding charges from the FECA Program of $484 at December 31, 1994 and $427 at December 31, 1993.

(dollar amounts in thousands)

NOTE 5 - OTHER ACCRUED LIABILITIES

Other accrued liabilities are comprised of the following at December 31, 1994 and 1993:

	1994	1993
Intragovernmental liabilities:		
Federal Employee Retirement System	$ 237	$ -
Worker's Compensation	484	427
Other	277	325
	998	752
Governmental liabilities:		
Payroll and withholding	4,467	4,048
Relocations	488	641
Goods and Services	4,653	2,479
Other	178	5
	9,786	7,173
Total other accrued liabilities	$ 10,784	$ 7,925

NOTE 6 - POST-RETIREMENT BENEFIT PLAN

OTS sponsors a post-retirement health care and life insurance plan (the Plan) for all employees that meet eligibility requirements. OTS funds benefit costs principally on a pay-as-you-go basis, with retirees contributions that are adjusted annually based on factors, some of which are discretionary. The Plan is unfunded, 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 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.

A Memorandum of Understanding (MOU) was signed in December 1994 between the Office of Personnel Management (OPM) and the OTS. The purpose of the MOU was to implement legislation permitting annuitants who retired from OTS prior to January 1995, and who were enrolled in the OTS health plan, to enroll in the Federal Employees Health Benefits Program (FEHB) for coverage effective on or after January 8, 1995. The OTS agreed to pay a one-time fee to the OPM of $10,993 in consideration of OPM assuming the health portion of the Post Retirement Plan liability. In accordance with FASB 106, the agreement with OPM constitutes a settlement and, accordingly, OTS has recognized a gain on settlement of $16,694. Such gain includes the health portion of the transition obligation that OTS elected to initially recognize over 20 years in 1993. The Post Retirement Liability of $2,341 in the Statements of Financial Position at December 31, 1994 represents OTS's remaining liability for participants future life benefits.

(dollar amounts in thousands)

NOTE 6 - POST-RETIREMENT BENEFIT PLAN (Continued)

Net periodic post-retirement benefit cost for both health care and life insurance provisions under the Plan included the following components for the years ended December 31, 1994 and 1993:

	1994	1993
Service cost-benefits attributable to service during the year	$ 5,067	$ 6,696
Interest on accumulated post-retirement benefit obligation	6,525	5,646
Amortization of transition obligation	4,056	4,056
Net Post-retirement Benefit Expense	$ 15,648	$ 16,398

The following table sets forth the Plan's funded status reconciled with the liability recognized in the Statements of Financial Position. The 1994 amounts reflect the settlement of the health insurance portion of the Plan at December 31, 1994:

	1994	1993
Accumulated post-retirement benefit obligation:		
Retirees	($ 3,376)	($ 36,304)
Other fully eligible participants	(2,514)	(23,863)
Other active participants	(2,372)	(33,582)
	(8,262)	(93,749)
Plan assets	-	-
Accumulated post-retirement benefit obligation in excess of plan assets	(8,262)	(93,749)
Unrecognized transition obligation	5,367	77,068
Unrecognized net gain	554	1,232
Obligations included in Statements of Financial Position	($ 2,341)	($ 15,449)

The weighted average discount rate used in estimating the accumulated post-retirement benefit obligation at December 31, 1994 and 1993 was 7%.

(dollar amounts in thousands)

NOTE 7 - 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.

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:

Year ending December 31:

	LEASES	SUB-LEASES	TOTAL
1995	$ 1,217	$ 1,218	$ 2,435
1996	1,225	689	1,914
1997	1,235	599	1,834
1998	1,177	236	1,413
1999	341	280	621
Thereafter	2,634	1,543	4,177
	$ 7,829	$ 4,565	$ 12,394

NOTE 8 - 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 $60,600 for 1994, employees covered under this tier of CSRS are required to have 7 percent of their earnings withheld while the agency expense remains at 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.

NOTE 8 - RETIREMENT PLANS (Continued)

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 11.4 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 1994. 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.

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.

The retirement expenses incurred for all plans during 1994 and 1993 was $3,313 and $11,243 respectively, which is included in benefits expense on the accompanying statement of operations and changes in net position. In 1994, due to changes in retirement plan provisions of the Internal Revenue Code and a net actuarial experience gain, OTS was not required to fund the FIRF plan in 1994. Accordingly, 1994 benefits expense was reduced and prepaid assets was increased by approximately $6,900 for the net effect of these changes.

As part of FIRREA, OTS assumed the Deferred Compensation Plans of the employees working for the FHLBs of Dallas and San Francisco. These plans allowed employees to defer a portion of their income and OTS discontinued any deferrals or employer matches to these plans effective January 1, 1991. Benefits were intended to be provided by cash value of life insurance policies with Mutual Benefit Life (MBL) which went into rehabilitation on July 16, 1991. The cash value of those policies was $202 less than OTS' liability in 1994 and $508 in 1993.

(dollar amounts in thousands)

NOTE 9 - 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:		
1995	$	7,541
1996		3,163
1997		2,594
1998		2,038
1999		1,746
Thereafter		13,681
	$	30,763

Rent expense was approximately $8,376 in 1994 and $9,730 in 1993. Sublease income relating to the above leases was approximately $1,663 in 1994 and $1,613 for 1993 and is reported as other revenue.

NOTE 10 - COMBINING STATEMENTS

The Combining Statement described in OMB Bulletin 94-01 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 Stated Treasury, Office of Thrift Supervision (OTS) was performed by Clifton, Gunderson & Co., as of and for the year ended December 31, 1993. As a result of that audit, two findings were issued in the following area:

- Electronic Data Processing

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

- Security tables combine user access.

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
March 24, 1995

AUDITOR'S REPORT ON
INTERNAL CONTROL STRUCTURE

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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, 1994, and have issued our report thereon dated March 24, 1995.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of OTS for the year ended December 31, 1994, 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

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. These matters were also included in our 1993 report.

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) A group user ID in the accounting application security table allows three employees to share user ID's and precludes individual accountability.

b) Two human resource managers have access to both payroll and time activity and reporting applications. During our audit field work, OTS corrected the problem. However, there is no written procedure in place to prevent human resource managers from obtaining access rights to both systems.

RECOMMENDATION

1. We recommend that the access controls for the accounting, payroll and time activity and reporting applications be revised to promote individual accountability. We also recommend that OTS develop a written procedure that prevents a human resource manager from obtaining access rights for both payroll and time activity and reporting applications.

AUDITEE RESPONSE

1a) The structure of the shared accounts in the Accounting system (Tape submission area, Payroll interface for OTS, FMC and FHFB) will be modified to allow for identification of each user who accesses these areas. Currently, a maximum of six employees have access to each of these areas.

1b) The Planning, Budget & Finance Policies and Procedures have been modified to include documentation on quality control verification for user access to the administrative systems. Reconciliation of the valid user list will occur three times per year (March, July and November). Identification of users with conflicting access both within a given system and between systems will be done as users are added to the system and also with a regular biweekly reconciliation between the Payroll/Personnel and TARS systems.

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. We understand that OTS is developing compensating procedures to monitor EDP Project Leaders access to production programs and data. We commend this action and recommend that OTS continue to develop procedures to promote segregation of duties between the EDP Project Leaders and Production Control Personnel.

AUDITEE RESPONSE

2. The compensating measures are being implemented in three phases. The last phase is due to be completed by 6/30/95.

* *

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 March 24, 1995.

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
March 24, 1995