



# Audit Report



OIG-12-070

SAFETY AND SOUNDESS: Review of OCC Community Bank Examination and Appeals Processes

August 31, 2012

## Office of Inspector General

DEPARTMENT OF THE TREASURY



# Contents

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## Audit Report

Background ..... 3

Results of Audit ..... 4

    Examination Timelines ..... 4

    Examination Consistency ..... 7

    Appeals ..... 9

    Data Quality ..... 12

Recommendations ..... 13

## Appendices

Appendix 1: Request to Inspectors General for Report on Examination Process  
for Small Community Banks and Credit Unions ..... 15

Appendix 2: Objectives, Scope, and Methodology ..... 17

Appendix 3: Management Comments ..... 18

Appendix 4: Major Contributors to This Report ..... 20

Appendix 5: Report Distribution ..... 21

## Abbreviations

OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
QA	quality assurance
ROE	report of examination

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*The Department of the Treasury  
Office of Inspector General*

August 31, 2012

Thomas J. Curry  
Comptroller of the Currency

This report presents the results of our review of the Office of the Comptroller of the Currency's (OCC) examination and appeals processes for community banks and federal savings associations during the period 2007 through 2011.<sup>1</sup> We performed this review at the request of the Chairman of the U.S. Senate Committee on Banking, Housing, and Urban Affairs. The Inspectors General (IG) of the Federal Deposit Insurance Corporation (FDIC), Board of Governors of the Federal Reserve System (FRB), and National Credit Union Association (NCUA) were similarly requested to review their respective agencies' processes. The results of the companion reviews will be issued under separate cover by the IG office responsible for the work. The request letter is provided as appendix 1.

Consistent with the Congressional request, our audit objectives were to determine for OCC-regulated community banks and federal savings associations (1) examination timelines; (2) how OCC ensures consistency in the administration of examinations across the country; (3) the ability of OCC-regulated institutions to question examination results, such as through an Ombudsman, an appeals process, or informal channels; and (4) the frequency and success of such appeals. To accomplish these objectives, we analyzed OCC data on examinations and appeals, reviewed related OCC documentation, and interviewed OCC officials involved in the examination, quality

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<sup>1</sup> OCC generally defines community banks as those with less than \$1 billion in total assets. With respect to federal savings associations, the Dodd-Frank Wall Street Reform and Consumer Protection Act transferred the regulatory functions for these institutions from the former Office of Thrift Supervision to OCC effective July 21, 2011. We included in the scope of our review those federal savings associations that had less than \$1 billion in total assets and for which OCC had completed a full-scope safety and soundness examination or ruled on an appeal.

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assurance, and appeals processes. See appendix 2 for more details about our audit scope and methodology.

In brief, we found that

- OCC's four districts established timeliness benchmarks for examinations that were generally consistent, and mostly met;
- to promote consistency in the examination process, OCC examiners in all districts use the Comptroller's Handbook and the Uniform Financial Institutions Rating System, or "CAMELS,"<sup>2</sup> in the administration of examinations;
- OCC districts have quality assurance (QA) programs to monitor and evaluate the administration of examinations;
- banks have the ability to question examination results formally and informally through the OCC Ombudsman and the district supervisory offices; and
- community banks made few appeals.

Our review identified the need for (1) OCC's Western District to expand its QA program to include comprehensive reviews of its examination process; (2) OCC to update and revise its policies and procedures regarding appeals, to include the responsibilities of both the Ombudsman's office and the supervisory district offices, and ensure that guidance provides consistency in the interpretation, application, and documentation of the appeals process; and (3) OCC personnel to enter examination data correctly into Examiner View<sup>3</sup> so that OCC can more effectively monitor and measure actual examination timeliness against benchmarks. This report contains three recommendations to address these matters.

In a written response, which is included as appendix 3, OCC agreed with our conclusions and recommendations. OCC stated that (1) the Western District will adjust its QA program to include comprehensive reviews of its examination process; (2) OCC is currently updating its

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<sup>2</sup> Federal banking agencies use the Uniform Financial Institutions Rating System, or "CAMELS," to assign composite and component ratings to financial institutions. An institution's composite CAMELS rating integrates ratings from six component areas - capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk. The ratings range from 1 to 5 with 1 being the highest rating and least supervisory concern.

<sup>3</sup> Examiner View is a supervisory information system application designed by OCC to assist bank examiners in preparing and conducting supervisory activities for financial institutions.

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policies and procedures governing appeals to define the different types of appeals, describe the process for making decisions, and assign responsibility for tracking; and (3) OCC will incorporate a metric related to Examiner View data integrity into the performance measures for bank supervision personnel to focus their attention on this important aspect of their work. We consider the actions underway and planned by OCC to be responsive to our recommendations. OCC will need to identify and record planned completion dates for taking certain corrective actions in the Joint Audit Management Enterprise System (JAMES), the Department of the Treasury's audit recommendation tracking system.

In its response, OCC also stated that while community banks made few appeals, its appeals process is readily accessible to all institutions and there are no impediments that would deny an OCC-supervised institution the ability to appeal material supervisory determinations. OCC further commented that its review process ensures fairness to all parties involved.

## **Background**

OCC's primary mission is to charter, regulate, and supervise national banks and federal savings associations. OCC supervises approximately 1,300 community banks and 640 federal savings associations.

OCC's supervision of community banks focuses on the bank's ability to effectively manage risk. Because of the diversity in the risks community banks assume, each bank tailors its risk management system to its needs and circumstances. The supervisory framework for community banks includes a core assessment, which provides the objectives and procedures for examiners to use to meet the requirements of a full-scope, on-site examination. Examiners use the core assessment to conduct supervisory activities and to monitor community banks' efforts to appropriately identify and manage their risks.

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Full-scope, on-site examinations include examination activities performed during the supervisory cycle<sup>4</sup> that (1) are sufficient in scope to assign or confirm an insured depository institution's CAMELS composite and component ratings, (2) satisfy core assessment requirements, (3) result in conclusions about an institution's risk profile, (4) include onsite supervisory activities, and (5) generally conclude with the issuance of a report of examination (ROE).

## Results of Audit

### Examination Timelines

#### OCC's Four Districts Established Timeliness Benchmarks for Examinations that Were Generally Consistent, and Mostly Met

OCC's four district offices—Northeastern District, Southern District, Western District, and Central District—carry out its community bank and federal savings association supervisory activities. The districts have different, but generally consistent, examination timeliness benchmarks for full-scope, on-site examinations of community banks, which were the focus of our analysis. The examination timeliness benchmark for the Northeastern District, Southern District, and Western District was measured from the examination start date to the ROE mail date. In this regard, the examination timeliness benchmark was 90 days for financial institutions with 1 and 2 CAMELS composite ratings and 120 days for financial institutions with 3, 4, and 5 CAMELS composite ratings. The Central District's examination timeliness benchmark was measured from the exit meeting date (field work end date) to the ROE mail date, and was not to exceed 45 days for financial institutions with 1 and 2 CAMELS composite ratings and 60 days for financial institutions with 3 and 4 CAMELS composite ratings. The Central District did not have an examination timeliness benchmark for financial institutions with a 5 CAMELS composite

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<sup>4</sup> In general, banks must receive a full-scope, on-site examination at least once during each 12-month period. This requirement may be extended to 18-months if all the conditions are met: (1) the bank has total assets of less than \$500 million, (2) the bank is well capitalized, (3) the bank received a CAMELS component rating of 1 or 2 for the management component and a CAMELS composite rating of 1 or 2 at its most recent examination, (4) the bank is not subject to a formal enforcement proceeding or order, and (5) bank ownership had not changed during the prior 12 months.



rating. In our analysis of examination timeliness, we used the 120 days as the benchmark for all examinations and all four districts.

Based on data provided by OCC, we calculated the number of days the districts spent to complete each full-scope, on-site examination, using the examination start date as the beginning date and the ROE mail date as the end date, and then calculated the average for those examinations for each year from 2007 through 2011.

As shown in Chart 1 below for three districts (Central, Western, and Southern), the average number of days to complete examinations was under the 120-day examination timeliness benchmark. The average number of days to complete examinations in the Northeastern District exceeded the benchmark for 4 of the 5 years analyzed.

Chart 1

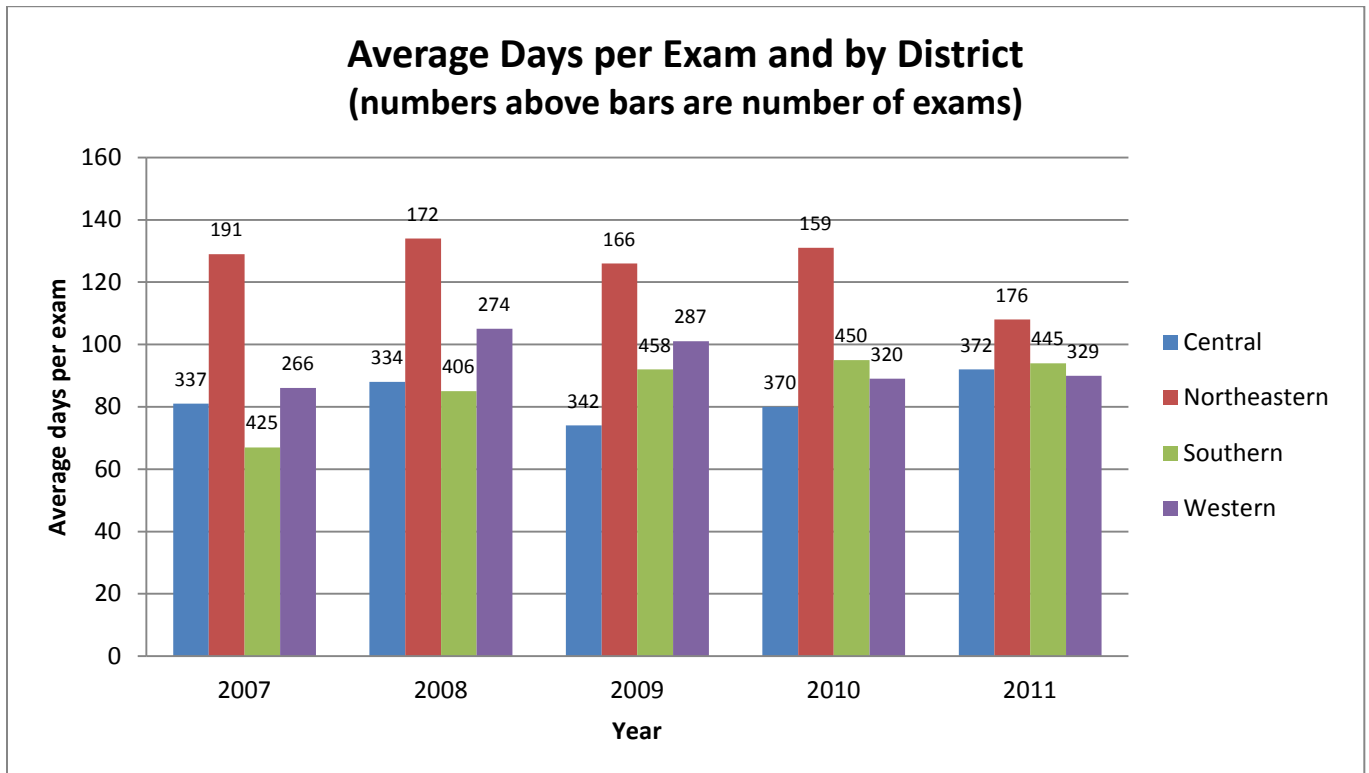
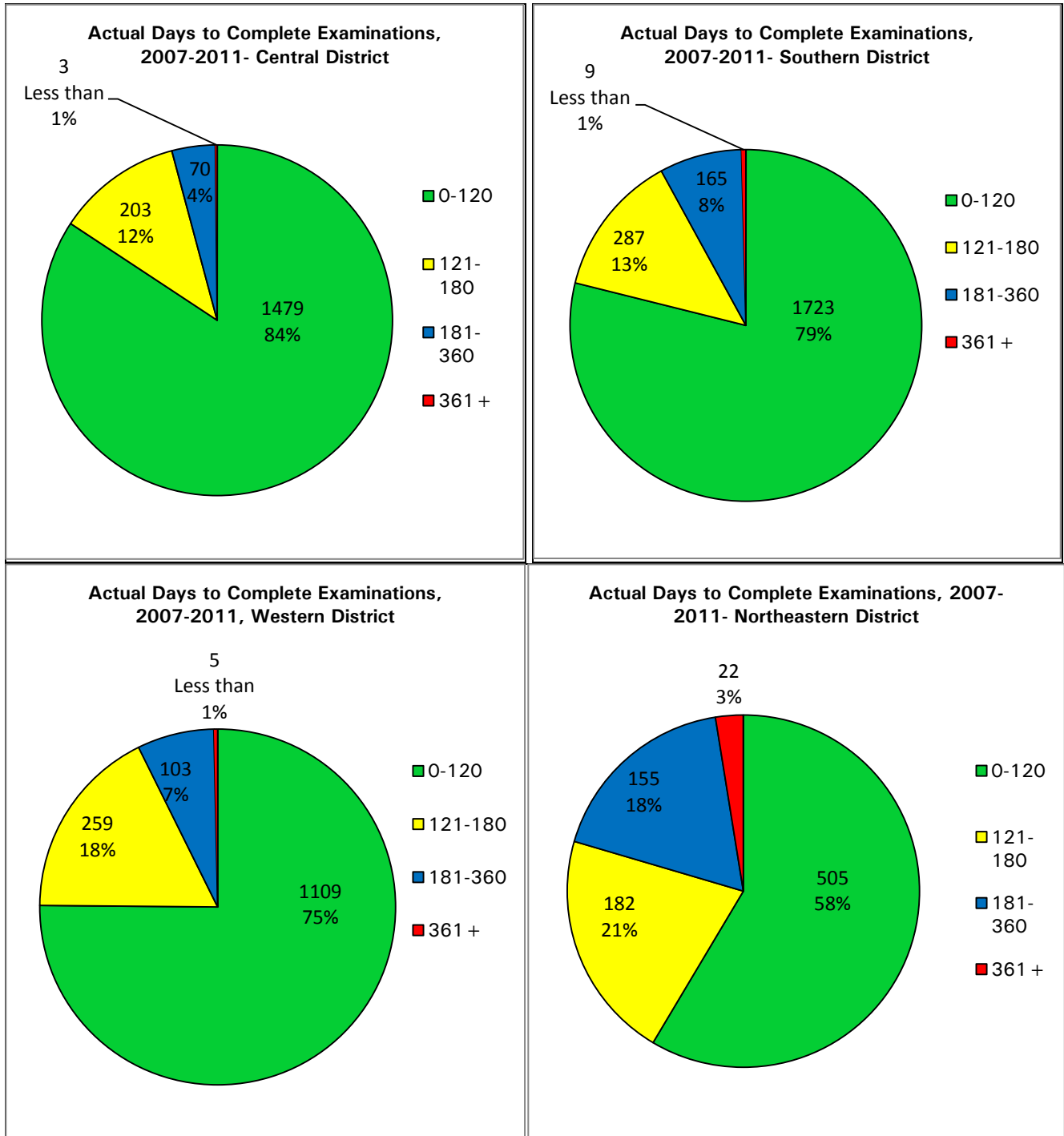


Chart 2 below shows, by district, the number and percentages of examinations performed during the period 2007 through 2011 that either met or exceeded the 120-day examination timeliness

benchmark. In all four districts, most examinations were completed within the 120-days.

Chart 2



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Our analysis also revealed that all four districts completed a number of examinations in less than 30 days, with the Southern District having the highest percentage at 9 percent.

## **Examination Consistency**

### OCC Examiners in All Districts Use the Comptroller’s Handbook and the Uniform Financial Institutions Rating System or “CAMELS” in the Administration of Examinations

To meet the requirements of a full-scope, on-site examination during the supervisory cycle, examiners in every district use the same examination process outlined in the Comptroller’s Handbook.<sup>5</sup> According to the handbook, OCC uses an “integrated risk-based approach to supervision,” which the handbook states is designed to maximize the effectiveness of OCC’s supervision process by assessing all bank activities under one supervisory plan. With this integrated approach, the supervisory office Assistant Deputy Comptroller has responsibility for all supervisory activities, including safety and soundness, information technology, asset management, and compliance. This approach is intended to help ensure consistency in the assessment of risk<sup>6</sup> and the degree of supervisory attention warranted for the examination.

As noted in footnote 2, federal banking agencies, including OCC, use the uniform CAMELS rating system to assign composite and component ratings to financial institutions based on the results of its examinations. The CAMELS ratings system takes into consideration certain financial, managerial and compliance factors that are common to all financial institutions.

Also, OCC officials told us they ensure consistency in examinations by having examiners take the same training and follow the same agency policies.

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<sup>5</sup> The Comptroller’s Handbook, available on [www.occ.gov/publications/publications-by-type/comptrollers-handbook/index-comptrollers-handbook.html#safety](http://www.occ.gov/publications/publications-by-type/comptrollers-handbook/index-comptrollers-handbook.html#safety), is comprised of a series of booklets covering a number of supervisory topical areas. The relevant booklet for community banks and federal savings associations is titled “Community Bank Supervision.”

<sup>6</sup> OCC has defined eight major categories of risk for bank supervision purposes: credit, interest rate, liquidity, price, operational, compliance, strategic, and reputation.

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## OCC Districts Have QA Programs to Monitor and Evaluate the Administration of Examinations

Each district developed and executed its own QA program and provided headquarters with a copy of the program. Once the QA reviews were completed, the districts provided headquarters with an annual assertion that its respective program was executed as planned.

As part of their QA programs, the Northeastern District, Southern District, and Central District each performed QA reviews of their respective examination processes. The districts selected for review a sample of completed examinations. For example, in 2011 the Northeastern District reviewed 27 examinations, the Southern District reviewed 57 examinations, and the Central District reviewed 36 examinations. The objectives of the reviews were to

- ensure compliance with OCC policy, guidelines, and procedures.
- determine the effectiveness of the field office supervisory efforts in developing clear strategy, scope of examination, identification and follow-up on matters requiring attention, and support of findings and conclusions in Examiner View.
- determine if the examiners properly assessed risk and have support for their ratings and risk assessments.

The Northeastern, Southern and Central Districts also performed other types of QA reviews such as problem bank reviews, which evaluated the quality and appropriateness of the OCC's actions at banks that had a composite CAMELS rating of 3, 4 or 5; and specific risk-based reviews, which focused on the areas of risk facing the district.

The Western District did not perform QA reviews of its entire examination process, but instead conducted QA reviews with a more narrow focus on areas of risk identified within the district. For example, the Western District's 2011 reviews focused on the risk areas of allowance for loan and lease losses, compliance, and liquidity. The number of banks reviewed for each risk area varied. For example, in 2011, 11 examinations were reviewed for the allowance for loan and lease losses risk area, 11 examinations were reviewed for the compliance risk area, and 4 examinations were reviewed for

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the liquidity risk area. The Western District also performed other types of QA reviews such as problem bank reviews, reviews of actions taken by examiners to follow-up on matters requiring attention<sup>7</sup> on a sample of examinations; and reviews of examiner loan classifications.

As designed, we believe the Western District's QA program did not necessarily ensure that its examinations were administered consistently because it primarily focused on risk areas and not the entire examination process, in contrast to the QA programs of the other three districts. As a result, the Western District cannot be assured that its examiners consistently applied handbook guidelines for all areas of the examination.

## **Appeals**

### Banks Have the Ability to Question Examination Results Formally and Informally Through the Ombudsman and the District Supervisory Offices

The Riegle Community Development and Regulatory Improvement Act of 1994 required federal banking agencies to establish an independent internal appellate process.<sup>8</sup> The independent appellate process was defined as a review by an agency official who does not directly or indirectly report to the agency official who made the material supervisory determination under review.

OCC established the Office of the Ombudsman and procedures for national banks to appeal agency decisions in June 1993, prior to being required by statute. The Ombudsman, who reports directly to the Comptroller of the Currency, functions outside of the bank supervision area and reviews financial institution appeals to determine if supervisory decisions are reasonable based on available information. The Ombudsman told us he briefs the Comptroller on each formal appeal as it comes to his office and provides the Comptroller with a quarterly report that summarizes all formal appeals.

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<sup>7</sup> Matters requiring attention are bank practices noted during an examination that deviate from sound governance, internal control, and risk management principles, which may adversely affect the bank's earnings or capital, risk profile, or reputation if not addressed.

<sup>8</sup> 12 U.S.C. § 4806, Regulatory appeals process, ombudsman, and alternative dispute resolution.

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OCC established guidance for its appeals process in (1) Bulletin 2011-44, published November 2011; (2) National Bank Appeals brochure, the most recent version published April 2012; and (3) Policy and Procedures Manual (PPM) 1000-9 (REV), Administering Appeals from National Banks, dated February 2002.

According to Bulletin 2011-44, a bank may seek a review of appealable matters,<sup>9</sup> such as examination ratings, adequacy of loan loss reserve provisions, and classifications of loans, by filing an appeal with the Ombudsman or the Deputy Comptroller of the institution's supervisory district office. In the absence of extenuating circumstances, both the Ombudsman and supervisory office are to issue a written response to a formal appeal within 45 days of accepting the appeal.

For appeals filed with the supervisory office, if the bank is not satisfied with the decision by the supervisory office, it can file a second-tier appeal with the Ombudsman within 30 days. For second-tier appeals, the Ombudsman is to issue a written response within 30 days.

According to OCC, there were 22 formal appeals filed by community banks from 2007 through 2011, and in 8 of those appeals; the financial institutions were issued a response within 45 days. The financial institutions for the remaining 14 formal appeals received responses between 47 to 158 days from the date the appeal was accepted. There were no second-tier appeals from community banks during this period.

Bulletin 2011-44 also states OCC remains committed to making every effort to resolve disputes arising during the supervisory process in an "informal" manner, but does not define or describe an informal appeals process. However, the National Bank Appeals brochure states that appeals are informal until an agency decision is delivered. The brochure includes a flow chart that describes the informal appeals process as beginning with a banker's supervisory concern made prior to an agency decision. Regarding the informal appeals process, these two documents are not consistent. We found that the districts and Ombudsman's office were also interpreting the informal appeals

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<sup>9</sup> A bank may not appeal a formal enforcement action and appointments of receivers and conservators.

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process differently. Some OCC district officials stated that banks cannot file an informal appeal until after an OCC decision or examination results are finalized and the bank receives them. On the other hand, the Ombudsman's office and the Western District did accept informal appeals by bankers with a supervisory concern made prior to an agency decision.

PPM 1000-9 (REV) addressed the tracking of appeals, including the assignment of an appeals coordinator for each district, specific documentation requirements for each appeal case file, and a standardized case file numbering scheme. OCC's Ombudsman, however, stated that the policy is outdated and not consistently followed or enforced. For example, although OCC had a centralized system that was supposed to track appeals, the system was incomplete because the districts did not follow a standard methodology for recording all appeals in the system. In this regard, OCC's Southern District did not track appeals at all. The other three districts documented appeal information for individual banks in narrative form in Examiner View and tracked appeals using district developed spreadsheets.

According to the Ombudsman, OCC plans to revise its policies and procedures and take other steps to improve the consistency in the interpretation, application, and documentation of the appeals process.

### Community Banks Made Few Appeals

As discussed above, community banks filed 22 formal appeals from 2007 to 2011. The Ombudsman/appropriate Deputy Comptroller ruled in favor of the filing bank for 3 of the 22 formal appeals. The issues in dispute included a citation for violation of law, examination findings, and ROE comments. For 1 formal appeal, the Ombudsman ruled in favor of the OCC supervisory office on the CAMELS asset quality, management, and composite ratings that had been contested by the bank and ruled in favor of the bank on a contested compliance rating. For the other 18 formal appeals, the Ombudsman/appropriate Deputy Comptroller ruled in favor of the supervisory office.

According to OCC, 24 informal appeals were filed by community banks during this period. One (1) of the 24 informal appeals was upheld for the bank by the supervisory office. This appeal involved a

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contested examination finding on a Bank Secrecy Act matter. Another 2 informal appeals were ruled in part for the bank and in part for the OCC supervisory office. The subject matter of one appeal involved certain comments made in the ROE and the subject matter of the other appeal involved grades assigned to certain loans.

In the formal appeals within our scope, the most common issues were disagreements in the CAMELS ratings, especially the asset quality and management component, and the composite rating. In the informal appeals, the most common issues were the CAMELS ratings and the risk ratings for credit.

With so few appeals, either formal or informal, filed during the time period covered by this review (a total of 46 appeals), it is difficult to draw a conclusion about the success of appeals filed by community banks. It is also important to note that during this time period, 2007 through 2011, the four districts completed over 6,200 community bank examinations.

## **Data Quality**

Our review included analysis of computer generated data and other information provided by OCC. We tested the computer generated data to determine its reliability and appropriateness to support our conclusions. To the extent possible, we verified the reliability of both the computer generated data and other information through the use of independent corroborating evidence, and through these procedures, concluded the data was sufficiently reliable for answering our audit objectives. Nonetheless, we encountered some data that was unreliable and/or incomplete. For example, there were missing on-site fieldwork end dates in Examiner View for certain examinations. The system also included anomalous data, such as an entry with the year 4305 and ROE approval dates that were after the ROE mail dates. Additionally, the Southern District could only provide 27 of the 55 individual bank QA reviews conducted in 2007 because some of the information files were corrupted or had been accidentally deleted during various computer conversions.



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## Recommendations

We recommend that the Comptroller of the Currency:

1. Ensure that the Western District expands its QA program to include comprehensive reviews of its examination process.

### Management Response

The Western District management team plans to adjust its QA program in fiscal year 2013 to include comprehensive reviews of its examination process.

### OIG Comment

OCC's commitment to expand the Western District QA program in fiscal year 2013 is responsive to the recommendation.

2. Ensure that OCC updates and revises its policies and procedures regarding appeals, to include the responsibilities of both the Ombudsman's office and the supervisory district offices. OCC should ensure that the guidance provides consistency in the interpretation, application, and documentation of the appeals process.

### Management Response

OCC is updating its policies and procedures governing appeals to define the different types of appeals, describe the process for making decisions, and assign responsibility for tracking. The revisions will ensure responsibilities are clear and that interpretation, application, and documentation of the appeals process are consistent throughout OCC. The updated policies and procedures should be in place by September 30, 2012.

### OIG Comment

OCC's planned corrective action is responsive to the recommendation.

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3. Ensure that OCC personnel enter examination data correctly into Examiner View so that OCC can more effectively monitor and measure actual examination timeliness against benchmarks.

Management Response

OCC plans to incorporate a metric related to Examiner View data integrity into the performance measures for bank supervision personnel to focus their attention on this important aspect of their work.

OIG Comment

OCC's planned corrective action is responsive to the recommendation.

\* \* \* \* \*

We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss the report, you may contact me at (202) 927-0384 or Theresa Cameron, Audit Manager, at (202) 927-1011. Major contributors to this report are listed in appendix 4.

/s/  
Jeffrey Dye  
Audit Director

Appendix 1  
Request to Inspectors General for Report on Examination Process for Small  
Community Banks and Credit Unions

TIM JOHNSON, SOUTH DAKOTA, CHAIRMAN  
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**United States Senate**  
COMMITTEE ON BANKING, HOUSING, AND  
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

February 10, 2012

The Honorable Eric M. Thorson  
Inspector General  
The Department of Treasury  
1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220

Mr. Mark Bialek  
Inspector General  
Federal Reserve Board  
20<sup>th</sup> and C Streets, NW  
Mail Stop 300  
Washington, D.C. 20551

The Honorable Jon T. Rymer  
Inspector General  
Federal Deposit Insurance Corporation  
3501 Fairfax Drive  
Arlington, VA 22226

Mr. William DeSarno  
Inspector General  
National Credit Union Association  
1775 Duke Street  
Alexandria, VA 22314

Dear Inspectors General:

As Chairman of the Senate Banking Committee, I firmly believe a strong financial system must be vigorously supervised to ensure all firms play by the rules and consumers are fully protected. This is why Congress enacted the Wall Street Reform and Consumer Protection Act: to restore confidence in our financial system by addressing regulatory gaps and enhancing protections for consumers, investors, and taxpayers. As the regulators continue to improve oversight with their new tools from the Wall Street Reform Act, I believe we must also ensure that the financial regulators fulfill and modernize their supervisory responsibilities in a consistent and responsible manner.

Recently, I have heard numerous concerns from community banks and credit unions that the financial regulators' examiners are conducting examinations with unclear standards or with inconsistent application of agency policies and procedures. Community banks and credit unions indicate that examination concerns create uncertainty in their business operations and hesitation to provide credit to their customers. While the regulators must ensure the safety and soundness of financial institutions, I believe responsible lending to families and small business owners is one key to our economic recovery. If current supervisory practices discourage business growth and responsible lending, we should understand the causes and possible solutions, if any.

To help the Committee better understand the supervisory processes of the Federal Reserve, the Federal Insurance Deposit Corporation, the Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency, and the National Credit Union Administration, I respectfully request that each of your offices conduct an audit of the specific agencies under your purview as appropriate. Specifically, please report on each agency's examination process for small

Appendix 1  
Request to Inspectors General for Report on Examination Process for Small  
Community Banks and Credit Unions

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Inspector General Thorson  
February 10, 2012  
Page 2 of 2

community banks and credit unions, including, examination timelines and how agencies ensure consistency in the administration of exams across the country. Please also report on the ability of regulated institutions to question examination results, such as through an Ombudsman, an appeals process, or informal channels, and the frequency and success of such appeals. I ask that you report back as soon as practicable.

I look forward to working with your office to better understand the examination process at these agencies and any effect on business growth and responsible lending across the country. Thank you for your study of this important topic.

Sincerely,



Tim Johnson  
Chairman

Consistent with the Congressional request, our objectives were to determine for community banks and federal savings associations regulated by the Office of the Comptroller of the Currency (OCC) (1) examination timelines; (2) how OCC ensures consistency in the administration of examinations across the country; (3) the ability of OCC-regulated institutions to question examination results, such as through an Ombudsman, an appeals process, or informal channels; and (4) the frequency and success of such appeals.

To accomplish these objectives, we

- determined that the time period relating to OCC's supervision of community banks covered by our audit would be from January 2007 through December 2011.
- reviewed applicable laws and OCC policies and procedures and interviewed OCC personnel to gain an understanding of examination timelines, consistency in the administration of examinations, and the appeals process.
- obtained examination timeline data and performed tests of the data to determine its reliability, completeness, accuracy and validity. Using the data provided by OCC, we analyzed examination timelines by year and by district.
- obtained and reviewed a sample of OCC district quality assurance (QA) review reports for 2 years from each district within our scope.
- obtained appeals data and performed an analysis of appeals by year and by district. Specifically, we analyzed the data to determine the number of appeals, the issues raised in the appeals, and the decisions on appeals.

We performed our audit fieldwork from March through July 2012.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



## MEMORANDUM

Comptroller of the Currency  
Administrator of National Banks

Washington, DC 20219

To: Jeffrey Dye, Director, Banking Audits

From: Thomas J. Curry, Comptroller of the Currency

Date: August 23, 2012

Subject: Response to the Office of Inspector General's Review of OCC's Community Bank Examination and Appeals Processes

A handwritten signature in black ink, appearing to be 'TJ Curry', written over the 'From' and 'Date' lines.

We have received and reviewed your draft report titled "Review of the OCC's Community Bank Examination and Appeals Processes." We agree with your conclusions that: (1) the OCC's four districts established timeliness benchmarks for examinations that were generally consistent, and mostly met; (2) OCC examiners in all districts use the Comptroller's Handbook and the Uniform Financial Institutions Rating System, or "CAMELS" to promote consistency in the examination process; (3) OCC districts had quality assurance (QA) programs to monitor and evaluate the administration of examinations; (4) banks have the ability to question examination results formally and informally through the OCC Ombudsman and the district supervisory offices; and (5) community banks made few appeals.

While community banks made few appeals, it is important to point out that the OCC's appeals process is readily accessible to all institutions. There are no impediments that would deny an OCC-supervised institution the ability to appeal material supervisory determinations. Moreover, our review process ensures fairness to all parties involved, regardless of the outcome. The Ombudsman evaluates information in the appeal and information supplied by the supervisory office against the applicable standards, a process that allows us to render an objective decision based on the facts.

Your report recommends that: (1) OCC's Western District adjust its QA program to include comprehensive reviews of its examination process; (2) the OCC update and revise its policies and procedures regarding appeals, to include the responsibilities of both the Ombudsman's office and the supervisory district offices, and ensure that guidance provides consistency in the interpretation, application, and documentation of the appeals process; and (3) the OCC ensure its personnel enter accurate and complete dates into Examiner View to improve the ability to monitor and measure examination timeliness against benchmarks. The paragraphs below describe how we will implement them.

**Western District QA program**

The Western District management team will adjust its QA program in FY2013 to include comprehensive reviews of its examination process.

**Policies and procedures regarding appeals**

The OCC is currently updating its policies and procedures governing appeals to define the different types of appeals, describe the process for making decisions, and assign responsibility for tracking. The revisions will ensure responsibilities are clear and that interpretation, application and documentation are consistent throughout the OCC. The updated documents should be in place by September 30, 2012.

**Data quality**

The OCC will incorporate a metric related to Examiner View data integrity into the performance measures for bank supervision personnel to focus their attention on this important aspect of their work.

Thank you for the opportunity to review and comment on your draft report. If you have questions or need additional information, please contact Jennifer Kelly, Senior Deputy Comptroller for Midsize and Community Bank Supervision, at 202-874-5020.

Appendix 4  
Major Contributors To This Report

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Theresa Cameron, Audit Manager  
Dana Duvall, Auditor-in-Charge  
Patrick Gallagher, Auditor  
Maria McLean, Auditor  
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John Gauthier, Referencer



**Department of the Treasury**

Deputy Secretary  
Office of Strategic Planning and Performance Management  
Office of the Deputy Chief Financial Officer, Risk and Control  
Group

**Office of the Comptroller of the Currency**

Comptroller of the Currency  
Liaison Officer

**Office of Management and Budget**

OIG Budget Examiner

**U.S. Senate**

Chairman and Ranking Member  
Committee on Banking, Housing, and Urban Affairs