

**PROTECTING THE PUBLIC:  
Office of the Comptroller  
of the Currency's Control Over  
Computers Needs To Be Improved**

OIG-02-118

September 11, 2002



**Office of Inspector General**

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**The Department of the Treasury**

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## Abbreviations

FY	Fiscal Year
GAO	General Accounting Office
OIG	Office of Inspector General
OCC	Office of the Comptroller of the Currency

*The Department of the Treasury  
Office of Inspector General*

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September 11, 2002

John D. Hawke, Jr.  
Comptroller of the Currency  
Office of the Comptroller of the Currency

We conducted an audit of the Office of the Comptroller of the Currency (OCC) controls over selected property items that, if lost or stolen, might compromise national security, the public's safety, or ongoing investigations. Sensitive property at OCC included computers only. Based on our audit, we judged that the risk that these property items could be lost or stolen was moderate. OCC had written guidance, directives, and procedures for managing and safeguarding computers. OCC required reporting, administrative review, and a determination of liability for all lost or stolen computers. However, we noted that OCC's annual physical inventory of computers did not evidence personnel independent of the custodial function participated. This provided inadequate internal control against loss or theft.

We conducted this audit at the request of Senator Charles E. Grassley, member of the Senate Committee on Finance. Our specific objectives were to answer the following questions:

1. Are Treasury's inventory regulations sufficient to prevent loss or theft of its inventory?
2. Which Treasury bureaus are most susceptible to inventory loss or theft and why?
3. Have any Treasury inventory items been identified as lost or stolen within the last 3 fiscal years?
4. Does Treasury have a sufficient plan to recoup inventory that cannot be located?

The audit fieldwork was performed from February to August 2002. We interviewed OCC officials and evaluated records and

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procedures. The scope of the review covered FY 1999 to FY 2001. See Appendix 1 for a more detailed description of the audit objectives, scope, and methodology.

## Results in Brief

OCC reported 39 computers lost or stolen during fiscal years (FY) 1999 through 2001, having a total acquisition cost of \$108,610. Our assessment of the risk that computers could be lost or stolen was moderate (●).<sup>1</sup> OCC had written guidance, directives, and procedures for managing and safeguarding computers. It also required reporting, administrative review, and a determination of liability for all lost or stolen computers. Although OCC generally conducted periodic physical inventories of its property, they were not independent of the custodial function. Property custodial personnel conducted physical inventories of the property over which they were responsible. Therefore, the physical inventories provided inadequate internal control against loss or theft.

We made one recommendation in the draft report recommending that the Comptroller of the Currency ensure personnel independent of the custodial function conduct a complete annual physical inventory of computers.

OCC concurred with the finding and recommendation. As a result, OCC will take the necessary steps to ensure that personnel independent of the custodial function conduct the annual inventory.

## Background

OCC charters, regulates, and supervises all national banks. It also supervises the federal branches and agencies of foreign banks. Headquartered in Washington, DC, OCC has six district offices plus an office in London to supervise the international activities of national banks. OCC's nationwide staff of examiners conducts on-

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<sup>1</sup> The Office of Inspector General (OIG) judgment ( ● Low ● Moderate ● High)

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site reviews of national banks and provides sustained supervision of bank operations. The agency issues rules, legal interpretations, and corporate decisions concerning banking, bank investments, bank community development activities, and other aspects of bank operations.

## Finding And Recommendation

### ● OCC Lacked Evidence of Independent Physical Inventories

For FY 2001, OCC reported that it had 4,801 computers (1,040 desktops and 3,761 laptops). It also reported that 39 computers (1 desktop, 38 laptops), having a total acquisition cost of \$108,610, had been lost or stolen during the audited period. We reviewed a sample of the supporting documentation for the subsequent investigation of these losses. OCC did not find employees financially liable for the missing computers. We judged the risk of loss or theft of computers to be moderate. OCC had written policies and procedures. This factor reduced the risk of loss or theft. However, OCC had (1) a large number of computers dispersed throughout the country and (2) no evidence of independent physical inventories. These factors increased the risk of loss or theft. In addition, because there was no evidence of an independent physical inventory, there was no reasonable assurance that the information OCC reported was reliable. OCC did have controls that limited access to computer files and its computer network. Those controls decreased the risk that sensitive data would be compromised, if a computer were lost or stolen.

#### Written policies

OCC had written policies that provided guidance on the control and management of computers. These policies included conducting physical inventories; reporting lost or stolen items; obtaining computers from departing employees; and disposing of excess property.

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### Quantity and geographic dispersion

OCC personnel were assigned computers to use in the performance of their duties. Examiners often used their computers in the field (off-site). A large number of computers dispersed over numerous geographic locations, many of which were carried in the field, increased the risk that some of those items would be lost or stolen. Since OCC's mission made it impractical to reduce the number of computers or centralize their location, it was important that a strong control environment be in place.

### Physical inventories

OCC conducted and documented annual physical inventories of all computers. However, these inventories did not meet accepted internal control standards because they did not involve personnel independent of the property custodial function. Therefore, the results of these physical inventories are subject to question. The General Accounting Office's (GAO) *Standards for Internal Control in the Federal Government* stated, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud."<sup>2</sup> In a recent study, GAO stated, "the strongest control employed by leading-edge locations was to exclude those with asset custody from the counting activity."<sup>3</sup>

### Data security

OCC had sensitive but unclassified information.<sup>4</sup> Accessing a computer or OCC network required unique access rights and a related password. All users of OCC information technology resources had to receive security training with periodic refresher courses. OCC policy required periodic reviews at least every three years to check whether the controls established for a system were operating effectively. OCC procedures also required that hard

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<sup>2</sup> *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1), November 1999.

<sup>3</sup> *Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property* (GAO-02-447G), March 2002.

<sup>4</sup> OCC defined sensitive but unclassified information as information that the loss, misuse, or unauthorized access to or modification of could adversely affect the national interest, the conduct of Federal programs, or the privacy to which individuals are entitled under the Privacy Act.

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drives of retired computers must be downloaded and stored, and the hard disks must be wiped clean.

These controls over data security decreased the risk that sensitive information would be compromised, even if a computer was lost or stolen.

Reporting, investigating, and recouping lost or stolen computers

OCC employees were required to immediately report lost or stolen computers assigned to them. During the audited period, one desktop and thirty-eight laptop computers were reported lost or stolen. The total acquisition cost of these computers was \$108,610. We reviewed a sample of ten stolen computers' supporting documentation. Based on this information, the circumstances associated with these cases are summarized below:

<b>Circumstance of Theft</b>	<b>Number of Computers</b>
Stolen from OCC premises	3
Stolen from client office (during regular business hours)	2
Stolen from client office (after regular business hours)	1
Stolen while being shipped	1
Stolen by contract person	1
Stolen from hotel room	1
Stolen from personally owned vehicle	1
Total	10

With two exceptions, the losses were reported to the OIG and/or local police departments for investigation. A contractor was investigating one of the two exceptions. OCC had no investigative information on the other exception. No one was held accountable for these losses. None of the computers were recovered, but OCC received reimbursement from the shipper for one of the losses.

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Recommendation

We recommend that the Comptroller of the Currency ensure that:

1. Personnel independent of the custodial function conduct a complete annual physical inventory of computers.

Management Comments

OCC agreed with the finding and recommendations. As a result, beginning with the FY 2003 inventory, OCC will take the necessary steps to ensure that personnel independent of the custodial function conduct the annual inventory.

OIG Comments

We consider this recommendation to have a management decision with a target completion date of September 30, 2003.

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We appreciate the cooperation we received from OCC officials during this audit. If you wish to discuss this report, you may contact me at (312) 886-6300, ext. 118.

/s/

Roberta N. Rickey  
Regional Inspector General for Audit

The overall objective of this audit was to address concerns Senator Charles E. Grassley, member of the Senate Committee on Finance, raised regarding Treasury-wide inventory practices for items that if lost or stolen, might compromise the public's safety, national security, or ongoing investigations. Our specific objectives were to answer the following questions:

- (1) Are the bureau's policies and practices sufficient to prevent loss and theft?
- (2) What items have been lost or stolen during FY 99 – 01?
- (3) Does the bureau have a sufficient plan to recoup lost items?
- (4) What improvements can be made to prevent future losses?

At OCC, we considered computers to be a sensitive property item. Our audit scope covered FY 1999, 2000, and 2001 (from October 1, 1998 through September 30, 2001). To accomplish our objectives, we requested data on inventory levels at or near the end of FY 2001<sup>5</sup> and computers reported lost/stolen during FY 1999 – FY 2001; reviewed pertinent laws and regulations; reviewed written bureau policies; reviewed the latest physical inventory reports; reviewed reports/ investigations related to lost/stolen computers; and interviewed officials.

To assess the risk of loss or theft of sensitive items, we examined elements related to six factors: Policies, Physical Controls, Inventory Records, Physical Counts, Quantity, and Threat.

Policies - establish management guidelines and standards.

Physical Controls - limit access.

Property Records - identify accountability.

Physical Counts - assure reliability of records.

Quantity - impacts the opportunity for loss or theft.

Threat – includes ease of loss and harm of unauthorized use.

Having weighed these factors and the resulting overall control environment, we assigned a risk factor of low (●), moderate (●), or high (●).

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<sup>5</sup> The date of the reported inventory levels for the computers was from August 2001.

Appendix 1  
Objectives, Scope and Methodology

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We conducted our audit between February and August 2002 in accordance with generally accepted government auditing standards.



## MEMORANDUM

Comptroller of the Currency  
Administrator of National Banks

Washington, DC 20219

**To:** Roberta N. Rickey, Regional Inspector General for Audit, Central Region

**From:** John D. Hawke, Jr., Comptroller of the Currency 

**Date:** September 5, 2002

**Subject:** Draft Audit Report on OCC's Control Over Computers

We have received and reviewed your draft audit report titled *Protecting the Public: Office of the Comptroller of the Currency's Control Over Computers Needs To Be Improved*. The objective of the audit was to address concerns raised by Senator Charles E. Grassley regarding inventory practices for items that if lost or stolen might compromise the public's safety, national security, or ongoing investigations. You determined that computers were a sensitive property item for the OCC. From FY 1999 to FY 2001, the OCC reported 39 computers with a total acquisition value of \$108,610 lost or stolen. Based on your evaluation of six factors -- policies, physical controls, property records, physical counts, quantity, and threat -- you determined that the OCC was at moderate risk.

The audit found that the OCC's inventory practices do not meet accepted internal control standards. While the OCC has policies and procedures in place for the conduct of annual physical inventories of computers, personnel independent of the custodial function do not conduct the inventory. Accordingly, you are recommending that the Comptroller of the Currency ensure that personnel independent of the custodial function conduct a complete annual physical inventory of computers.

We agree with the finding and the recommendation. Beginning with the FY 2003 inventory, we will take the necessary steps to ensure that personnel independent of the custodial function conduct the annual inventory.

Thank you for the opportunity to review and comment on the draft report.

**Central Region**

Roberta N. Rickey, Regional Inspector General  
Charles Allberry, Audit Manager  
Bradley Mosher, Audit Manager  
Claire Schmidt, Auditor

**Department of the Treasury**

Office of the Under Secretary of the Treasury for Enforcement  
Office of the Assistant Secretary of the Treasury for  
Management/Chief Financial Officer  
Office of Strategic Planning and Evaluations  
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