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New OCC Handbook Will Help Bankers
Achieve Effective Internal Controls

WASHINGTON, D.C. -- The Office of the Comptroller of the Currency has issued a new manual to help examiners evaluate the internal control systems national banks use to guard against fraud and financial mismanagement, as well as to ensure compliance with laws, regulations and the institution's own policies.

"We are seeing increasing evidence that bank internal controls are slipping," said acting Comptroller of the Currency Julie L. Williams. "And we have learned over the years that when internal controls are neglected, banks get into trouble."

Ms. Williams attributed slippage in effective internal controls to complacency created by the industry's current prosperity and to cost-cutting pressures, which most often affect non-income producing areas of bank operations.

"Effective internal control is the foundation of safe and sound banking and a critical component of overall risk management," the acting Comptroller said.

In each bank examination, the OCC incorporates a specific review of the bank's internal controls. Examiners focus attention on the bank's control environment, policies and procedures, and information and communications systems. Examiners also assess such factors as the integrity, ethical values and competence of bank personnel, the systems used to manage and monitor risks, and contingency planning for information systems.

"The commitment of directors and managers to a strong internal control environment is absolutely essential to an effective internal control system," said Wayne Rushton, the OCC's senior deputy comptroller for supervision policy. "Our examiners will be looking for that commitment when they go into banks."

While internal controls take many forms, depending on the size and complexity of a bank, they generally fall under one of these categories:

- Limits on authorities;
- Safeguards on access to and use of records;
- Separation and rotation of duties; and
- Both regular and unscheduled reviews, including testing.

According to Kevin J. Bailey, the OCC's deputy comptroller for core policy, "an effective control system will help to ensure efficient and effective bank operations, the accuracy and integrity of recorded transactions, the reliability of financial reporting, and an effective risk management system. It will also support compliance with banking laws and regulations, as well as with internal policies and procedures."

"The bottom line is that an effective internal control system will help the bank avoid surprises, he said. Another important goal of internal controls is to prevent and detect any fraudulent activity that could be undertaken by a bank insider."

Copies of Internal Control, part of the Comptroller's Handbook series, are being mailed to national banks, OCC examiners and subscribers to the OCC handbook series. To order copies of the Internal Control handbook, send a written request and a \$15 check per copy to the Office of the Comptroller of the Currency, P.O. Box 70004, Chicago, IL 60673-0004.

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The OCC charters, regulates and examines approximately 2,600 national banks and 62 federal branches and agencies of foreign banks in the United States, accounting for 58 percent of the nation's banking assets. Its mission is to ensure a safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States.