Audit Report

OIG-08-019

Audit of the Office of Thrift Supervision's Fiscal Years 2007 and 2006 Financial Statements

December 12, 2007

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 12, 2007

MEMORANDUM FOR JOHN M. REICH, DIRECTOR
OFFICE OF THRIFT SUPERVISION

FROM: Michael Fitzgerald /s/
Director, Financial Audits

SUBJECT: Audit of the Office of Thrift Supervision's Fiscal Years 2007 and 2006 Financial Statements

I am pleased to transmit the attached audited Office of Thrift Supervision (OTS) financial statements for fiscal years 2007 and 2006. Under a contract monitored by the Office of Inspector General, Deva & Associates, P.C. (DEVA), an independent certified public accounting firm, performed an audit of the financial statements of OTS as of September 30, 2007 and 2006, and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements;* and the *GAO/PCIE Financial Audit Manual*.

The following reports, prepared by DEVA, are incorporated in the attachment:

- Independent Auditors' Report;
- Independent Auditors' Report on Internal Control over Financial Reporting; and
- Independent Auditors' Report on Compliance with Laws and Regulations.

In its audit of OTS's financial statements, DEVA found:

- that the financial statements were fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America,
- no matters involving internal control and its operation that are considered material weaknesses, and
- no instances of reportable noncompliance with laws and regulations tested.

In connection with the contract, we reviewed DEVA's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. DEVA is responsible for the attached auditors' reports dated November 2, 2007 and the conclusions expressed in the reports. However, our review disclosed no instances where DEVA did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Mark S. Levitt, Audit Manager, Financial Audits at (202) 927-5076.

Attachment

2007
Financial Report

Office of Thrift Supervision

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Deva & Associates, P.C.

1901 Research Boulevard • Suite 410 • Rockville, MD 20850
(301) 610-5600 • FAX (301) 610-9910

INDEPENDENT AUDITORS' REPORT

To the Inspector General,
U.S. Department of the Treasury

We have audited the accompanying statements of financial position of the U.S. Department of the Treasury, Office of Thrift Supervision (OTS) as of September 30, 2007 and 2006, and the related statements of operations and changes in net position, and cash flows for the years then ended. These financial statements are the responsibility of OTS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable Office of Management and Budget (OMB) guidance for audits of federal financial statements. Those standards require that we plan and perform the audits 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 OTS as of September 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued a report dated November 2, 2007, on our consideration of OTS' internal control over financial reporting and a report dated November 2, 2007, on its compliance with laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deva & Associates, P.C.

Certified Public Accountants

November 2, 2007

UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF FINANCIAL POSITION
(In thousands)

	As of September 30	
	2007	**2006**
Assets		
Cash and cash equivalents (Note 3)	$ 227,146	$ 155,731
Accrued interest receivable	706	1,133
Accounts receivable	1,365	1,586
Investments held to maturity (Note 4)	79,180	123,966
Property and equipment, net (Note 5)	32,167	32,811
Other assets	1,438	1,109
Total Assets	$ 342,002	$ 316,336
Liabilities and Net Position		
Liabilities		
Accounts payable	$ 1,988	$ 1,627
Accrued annual leave	10,854	10,656
Workers' compensation liability (Note 6)	3,587	3,717
Deferred compensation liability (Note 7)	471	575
Deferred assessment revenue	55,312	55,821
Deferred rent credit	2,155	2,071
Post-retirement benefit liability (Note 8)	16,823	15,626
Other retirement plan liabilities (Note 9)	6,056	9,153
Payroll, benefits, and withholding	12,011	12,358
Other accrued liabilities (Note 10)	5,890	2,557
Total Liabilities	$ 115,147	$ 114,161
Net Position		
Assumed capital	$ 41,037	$ 41,037
Retained earnings	185,818	161,138
Total Net Position (Note 11)	$ 226,855	$ 202,175
Total Liabilities and Net Position	$ 342,002	$ 316,336

The accompanying notes are an integral part of these financial statements.

UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION
For the Years Ended September 30
(In thousands)

	For the Years Ended September 30 2007	2006
Revenues		
Industry assessments	$ 217,506	$ 212,290
Examination, application, and security filing fees	8,156	9,330
Interest	11,528	8,841
Rental income (Note 12)	4,984	4,818
Other	635	1,269
Total Revenues	$ 242,809	$ 236,548
Expenses		
Personnel compensation	$ 113,196	$ 105,820
Benefits (Note 9)	59,582	57,194
Rent, communication, and utilities (Note 13)	6,925	6,429
Travel and transportation	15,198	12,940
Services	7,918	5,948
Data processing	2,248	1,370
Building expenditures	5,238	3,401
Office equipment and software	3,107	2,131
Miscellaneous	2,843	2,350
Depreciation and amortization	1,874	1,914
Total Expenses	$ 218,129	$ 199,497
Excess of Revenues over Expenses	$ 24,680	$ 37,051
Net Position, Beginning Balance	202,175	165,124
Net Position, Ending Balance	$ 226,855	$ 202,175

The accompanying notes are an integral part of these financial statements.

UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF CASH FLOWS
For the Years Ended September 30
(In thousands)

	For the Years Ended September 30 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	$ 24,680	$ 37,051
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Amortization of net bond premium	(214)	(4)
Depreciation and amortization	1,874	1,914
Net gain on disposed assets	-	(76)
Changes in assets and liabilities:		
(Increase)/decrease in receivables	648	(394)
Increase in other assets	(329)	(240)
Increase in accounts payable	361	518
Increase in other liabilities	625	6,967
Net cash provided by operating activities	$ 27,645	$ 45,736
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	$ -	$ (28,638)
Maturities of investments	45,000	30,115
Purchases of equipment	(1,233)	(1,798)
Proceeds from sale of equipment	3	78
Net cash provided by/(used in) investing activities	$ 43,770	$ (243)
Net cash provided by operating and investing activities	$ 71,415	$ 45,493
Cash and cash equivalents, beginning of year	155,731	110,238
Cash and cash equivalents, end of year	$ 227,146	$ 155,731

The accompanying notes are an integral part of these financial statements.

UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION

NOTES TO FINANCIAL STATEMENTS

1. 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 (FHLBB) and transferred all examination and supervisory activities to OTS under the Department of the Treasury. The primary functions of OTS 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, taking measures needed to enforce such compliance and rehabilitate troubled institutions.

FIRREA provides that OTS assess the institutions it regulates to recapture operating costs. Assessments are collected semiannually on January 31 and July 31.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

OTS has historically prepared its financial statements in accordance with generally accepted accounting principles based upon accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. In October 1999, the American Institute of Certified Public Accountants designated the Federal Accounting Standards Advisory Board (FASAB) as the standards-setting body for financial statements of federal government entities with respect to the establishment of generally accepted accounting principles. FASAB has indicated, however, that financial statements prepared based upon accounting standards published by the FASB may also be regarded as being in accordance with generally accepted accounting principles for those federal entities such as OTS that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, OTS financial statements are presented in accordance with accounting standards published by FASB.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of OTS's account at the Department of the Treasury and funds invested overnight by Treasury on behalf of OTS.

INVESTMENTS HELD TO MATURITY

Effective January 1, 1994, OTS adopted Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Investments in Certain Debt and Equity Securities." Under the statement, OTS is required to classify investment securities under three categories: (1) trading, (2) available for sale, and (3) held to maturity. All of the agency's investments consist of Treasury obligations. OTS has the intent and ability to hold these investments to maturity. Therefore, all investments are classified as held to maturity and are stated at amortized cost. Certain Treasury securities are purchased at a discount or premium. Premiums and discounts are amortized over the term of the security using the interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

POST-RETIREMENT BENEFITS

OTS provides certain health and life benefits for all retired employees that meet eligibility requirements. Effective January 1, 1993, OTS adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," 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 employees' 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 twenty (20) years beginning in 1993 in accordance with the option available in the statement. Prior to 1993, OTS expensed its share of the costs as the retirees incurred claims and as OTS paid premiums. 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.

PROPERTY AND EQUIPMENT

Fixed assets acquired by OTS are capitalized at cost. Individual fixed assets in excess of $50,000 and bulk purchases in excess of $250,000 are capitalized. Aggregate purchases of multiple items directly related to a specific project (for example, leasehold improvements) are capitalized when the total cost exceeds a minimum threshold of $250,000, and the annual amortization amount exceeds $50,000. The building owned by OTS is being depreciated over 50 years. The agency's capitalized furniture, fixtures and equipment are depreciated over 3 to 5 years. Depreciation is computed on a straight-line basis.

INCOME TAXES

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

3. CASH AND CASH EQUIVALENTS

The following table summarizes the balances of cash and cash equivalents (in thousands):

	September 30 2007	September 30 2006
Cash	$ 1,019	$ 1,020
Overnight investment with Treasury	226,127	154,711
Total cash and cash equivalents	$ 227,146	$ 155,731

Interest earned on cash and overnight investments totaled $7.8 million and $4.8 million for the years ended September 30, 2007 and 2006, respectively.

4. INVESTMENTS HELD TO MATURITY

Investment securities held at September 30, 2007 and 2006 are marketable Treasury securities maturing through February 2010. The amortized cost and market value of these securities are summarized as follows (in thousands):

	September 30 2007	September 30 2006
Face value	$ 80,000	$ 125,000
Unamortized premium, net of unamortized discount	(820)	(1,034)
Book value of investments held to maturity	$ 79,180	$ 123,966
Market value	$ 79,231	$ 122,183

Effective interest yields range from 2.7 percent to 4.8 percent. Interest earned on these investments totaled $3.7 million and $4.0 million for the years ended September 30, 2007 and 2006, respectively.

5. PROPERTY AND EQUIPMENT

The following table summarizes the fixed asset balances (in thousands):

	September 30 2007	September 30 2006
Land	$ 7,101	$ 7,101
Building	49,188	49,188
Furniture, fixtures, and equipment	4,856	3,850
Leasehold Improvements	1,852	1,852
Total cost	$ 62,997	$ 61,991
Accumulated depreciation, building	$ (27,599)	$ (26,546)
Accumulated depreciation, furniture, fixtures, and equipment	(2,591)	(2,134)
Accumulated amortization, leasehold improvements	(640)	(500)
Total accumulated depreciation and amortization	$ (30,830)	$ (29,180)
Property and equipment, net	$ 32,167	$ 32,811

6. WORKERS' COMPENSATION LIABILITY

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. Benefit claims incurred for active and former employees of OTS and its predecessor, the Federal Home Loan Bank Board, are administered by the U.S. Department of Labor (DOL) and are ultimately paid by OTS. Actuarial estimates of future workers' compensation estimates are generated by DOL. The estimated actuarial liability for FECA benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The annual benefit payments have been discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. Based on information provided by DOL and the Department of the Treasury, OTS estimates that its FECA liability was $3.6 million and $3.7 million as of September 30, 2007 and September 30, 2006, respectively. Actual FECA expenses currently payable are included in other accrued liabilities and totaled $742 thousand and $741 thousand as of September 30, 2007 and September 30, 2006, respectively. Changes in the actuarial liability and payments related to FECA are reflected as reductions or increases in benefits expense in the appropriate year.

7. DEFERRED COMPENSATION LIABILITY

Under provisions of FIRREA, OTS assumed the Deferred Compensation Plans of the employees transferred from the Federal Home Loan Banks of Dallas and San Francisco. These plans allowed employees to defer a portion of their income and provided for employer matching contributions. OTS froze these plans and discontinued all plan deferrals or employer matches effective January 1, 1991. Under the assumed plans, benefits were intended to be provided by cash value life insurance policies issued by Mutual Benefit Life; Mutual Benefit Life went into rehabilitation on July 16, 1991. OTS surrendered all but two of these policies in 1994 and retained the full cash values on deposit with Mutual Benefit Life. Under the rehabilitation plan, withdrawal of cash values prior to December 31, 1999, was restricted and subject to substantial withdrawal penalties. In 2003, OTS elected to receive the cash values for surrendered policies and invest the funds with Treasury. The cash value of the one remaining policy, included in other assets in the accompanying Statements of Financial Position, is approximately $15 thousand in 2007 and $13 thousand in 2006. Plan payments are funded by OTS.

8. POST-RETIREMENT BENEFIT LIABILITY

OTS sponsors a life insurance plan (the Plan) for all employees that meet eligibility requirements. The agency funds benefit costs principally on a pay-as-you-go basis, with retiree contributions that are adjusted annually based on certain factors, some of which are discretionary. The Plan is unfunded, with participants paying a portion of the costs. As stated in the 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 and amortize such obligation over twenty (20) years on a straight-line basis.

A Memorandum of Understanding (MOU) was signed in December 1994 between OPM and 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 (FEHB) Program for coverage effective on or after January 8, 1995.

OTS agreed to pay a one-time fee to OPM of approximately $11.0 million in consideration of OPM assuming the health portion of the post-retirement plan liability. In accordance with SFAS No. 106, the agreement with OPM constitutes a settlement and, accordingly, OTS recognized a gain on the settlement of approximately $16.7 million in 1994. 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 $16.8 million in the accompanying Statements of Financial Position at September 30, 2007 and $15.6 million at September 30, 2006 represents OTS's recognized portion of the remaining liability for participants' future life insurance benefits.

8. POST-RETIREMENT BENEFIT LIABILITY (continued)

Net periodic post-retirement benefit cost for life insurance provisions under the Plan included the following components in 2007 and 2006 (in thousands):

	For the Years Ended September 30	
	2007	2006
Service cost - current year	$ 574	$ 546
Interest on accumulated post-retirement benefit obligation	988	931
Amortization of transition obligation	253	253
Net post-retirement benefit expense	$ 1,815	$ 1,730

The following table sets forth the Plan's funded status reconciled with the liability recognized in the Statements of Financial Position (in thousands):

	September 30	
	2007	2006
Accumulated post-retirement benefit obligation:		
Retirees	$ 10,478	$ 9,852
Other fully eligible participants	6,082	71
Other active participants	2,733	8,617
Accumulated post-retirement benefit obligation	19,293	18,540
Unrecognized transition obligation	(1,327)	(1,579)
Unrecognized net loss	(1,143)	(1,335)
Total post-retirement benefit liability	$ 16,823	$ 15,626

The weighted average discount rates used in estimating the accumulated post-retirement benefit obligations at September 30, 2007 and September 30, 2006 were 5.50 percent and 5.42 percent, respectively

9. OTHER RETIREMENT PLAN LIABILITIES

OTS employees participate in three retirement systems. Two are administered by OPM. For funding purposes, these two plans function as defined contribution plans; however, the retirement benefits accrue in a manner consistent with a defined benefit plan. The third is a private defined benefit plan, the Financial Institutions Retirement Fund (FIRF), administered by Pentegra Retirement Services (Pentegra).

The Civil Service Retirement System (CSRS) is two-tiered. For employees hired prior to January 1, 1984, OTS withholds 7.0 percent of regular earnings. OTS also contributed 7.0 percent of regular earnings during 2007 and 2006 for each employee in this tier. The sum is transferred to the Civil Service Retirement Fund, from which this employee group will receive retirement benefits. Employees do not contribute to, or receive benefits from, the Social Security System.

9. OTHER RETIREMENT PLAN LIABILITIES (continued)

For employees with more than five years of (not necessarily continuous) service, hired on or after January 1, 1984, OTS withholds 0.8 percent of regular earnings, in addition to Social Security withholding. OTS also contributed 7.0 percent of regular earnings in 2007 and 2006, respectively, for each employee in this tier. When regular earnings exceed the FICA maximum wages, employees covered under this tier of CSRS are required to have 7.0 percent of their earnings withheld. This employee group will receive retirement benefits from both CSRS and the Social Security System.

Beginning in January 1987, all employees hired since January 1, 1984, either as new employees or having less than five years of accumulated service (with a break in service over one year) are included in the Federal Employee Retirement System (FERS). For these employees, OTS withheld 0.8 percent of regular earnings in 2007 and 2006. The agency contributed 11.2 percent of regular earnings in both 2007 and 2006 for FERS employees. This group of employees will receive benefits from FERS as well as the Social Security System, to which they concurrently contribute.

Pursuant to FIRREA, the Office of Regulatory Activities (ORA) and its twelve examination districts became part of OTS. OTS assumed the cost of their retirement system, which is part of FIRF. OTS contributes a percentage of total FIRF salary. The percentage varies from year to year. Employees do not contribute to FIRF but do contribute to the Social Security System. Changes in percentages are based on the number and average age of active FIRF employees, the number of people who have retired, the benefits paid out, and adjustments to the actuarial gain or loss. The estimated FIRF plan contributions for the plan years beginning July 1, 2007 and July 1, 2006 consist of two components: (1) Normal Cost and (2) amortization of the retirement plan's Unfunded Accrued Liability (UAL) for the plan year. The estimated UAL totaled $48.2 million for the plan year beginning July 1, 2007. The actual UAL totaled $50.2 million for the plan year beginning July 1, 2006. The plan year UAL is amortized over approximately five years in conformance with IRS Rules.

Prior to OTS's fiscal year closing, OTS receives notice of the plan year minimum required contribution from the FIRF plan administrator. OTS recognizes one-fourth of the required contribution in current fiscal year expense and the remainder in the next fiscal year. For the fourth quarter of fiscal year 2006, OTS recognized $7.6 million of the $30.6 million required contribution as expense. The remaining contribution of $23.0 million was reduced by prepayment to $21.8 million, which was recognized in fiscal year 2007. The minimum required contribution for the plan year beginning July 1, 2007 is $25.5 million, which was reduced to $24.2 million by prepayment of the contribution. Accordingly, OTS recognized $6.1 million in expense for the fourth quarter of fiscal year 2007, and this amount is included in other retirement plan liabilities.

OTS funds a portion of CSRS and FERS pension benefits and collects the appropriate payroll withholdings. OTS does not account for the assets of either government 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 OPM for both government retirement systems and are not allocated to the individual agencies.

In addition to the retirement plans described above, OTS employees have the option of participating in retirement savings plans. Employees covered under CSRS or FERS may participate in the OPM-sponsored Thrift Savings Plan (TSP), a plan with characteristics similar to a private-sector 401(k) plan. CSRS and FERS covered employees may also participate in the Financial Institutions Thrift Plan (FITP), a 401(k) plan administered by Pentegra. Employees covered under FIRF may participate in FITP only. All employees may contribute up to 15 percent of their earnings to the plans. OTS makes matching contributions of up to 7 percent to the plans for FERS and FIRF participants and up to 2 percent for CSRS participants.

9. OTHER RETIREMENT PLAN LIABILITIES (continued)

In 2004, OTS implemented a new Employee Savings Plan (ESP). The ESP was administered by Pentegra and had characteristics similar to the FITP 401(k) plan described above, except all contributions were funded by OTS and vesting was scheduled to begin in year four of participation in the plan. On September 29, 2006, the ESP was terminated which resulted in immediate vesting for the plan participants. To complete the termination, the plan administrator distributed participant account balances in accordance with the plan provisions in fiscal year 2007.

In the plan years ended September 30, 2005 and 2004, ESP contributions totaling $748 thousand and $720 thousand, respectively, caused some employees to exceed the Internal Revenue Code Section 415 limits. Excess contributions were removed from the affected employee's ESP accounts. OTS recorded a nonqualified retirement savings plan (NQRS) liability to cover the excess contribution amounts removed from employee accounts due to the IRS limits. The total nonqualified plan liability of $1.5 million as of September 30, 2006 was distributed in fiscal year 2007 in conjunction with the ESP termination.

The liabilities for all OTS plans, included in other retirement plan liabilities in the accompanying Statements of Financial Position, are as follows (in thousands):

	September 30	
	2007	2006
FIRF	$ 6,056	$ 7,649
NQRS	-	1,504
Total	$ 6,056	$ 9,153

The expenses for all OTS plans, included in benefits expense in the accompanying Statements of Operations and Changes in Net Position, are as follows (in thousands):

	For the Years Ended September 30	
	2007	2006
CSRS	$ 904	$ 931
FERS	4,299	3,510
TSP	1,644	1,370
FITP	4,755	4,646
FIRF	29,002	28,174
ESP	-	(61)
NQRS	-	735
Total	$ 40,604	$ 39,305

10. OTHER ACCRUED LIABILITIES

The following table summarizes the other accrued liabilities (in thousands):

	September 30 2007	September 30 2006
Post-employment benefits payable	$ 742	$ 749
Goods and services	5,148	1,808
Total other accrued liabilities	$ 5,890	$ 2,557

11. NET POSITION

The land and building owned by the FHLBB were transferred to OTS under FIRREA. OTS also assumed all furniture, fixtures and equipment previously owned by FHLBB. These assets were recorded at their existing book values established in the FHLBB's accounting records. Their value is reported as assumed capital in the Net Position section of the comparative Statements of Financial Position. Assumed capital totaled $41.0 million as of September 30, 2007 and 2006.

Beginning in fiscal year 2005, OTS set aside a portion of its retained earnings as contingency and special reserves. The contingency reserve supports OTS's ability to accomplish its mission in the case of foreseeable but rare events. Foreseeable but rare events are beyond the control of OTS, such as a major change in the thrift industry. The special reserve supplements revenue from assessments and other sources that are made available to fund OTS's annual budget. The special reserve reduces the effect on operations of unforecasted revenue shortfalls or unbudgeted and unanticipated requirements or opportunities. Undelivered orders represent the amount of goods and services ordered that have not been actually or constructively received and for which amounts have not been prepaid or advanced.

The following table summarizes the components of the retained earnings (in thousands):

	September 30 2007	September 30 2006
Contingency reserve	$ 130,222	$ 121,496
Special reserve	50,000	35,000
Undelivered orders	5,596	4,642
Total retained earnings	$ 185,818	$ 161,138

12. RENTAL INCOME

OTS leases a portion of its building as office and retail space under noncancellable operating leases expiring at various dates through 2021. Some of the leases provide renewal options. The leases provide for annual base rent and additional rents for building operating expenses. Some leases provide for fixed future increases in rents over the term of the lease.

12. RENTAL INCOME (continued)

The future minimum rentals to be received under noncancellable operating lease arrangements, not including renewals, are as follows (in thousands):

Years ending September 30	Total
2008	$ 4,678
2009	939
2010	470
2011	420
2012	381
Thereafter	2,393
	$ 9,281

Rental income totaled $5.0 million and $4.8 million for the years ended September 30, 2007 and 2006, respectively.

13. LEASE COMMITMENTS

OTS conducts most of its regional operations in leased facilities under noncancellable operating leases expiring at various dates through 2020. 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 or stated annual rental increases in the amount of base rent over the lives of the leases. The accompanying comparative Statements of Operations and Changes in Net Position reflect rent expense on a straight-line basis over the lives of the leases.

The minimum rental commitments under noncancellable operating leases are as follows (in thousands):

Years ending September 30	Total
2008	$ 3,661
2009	3,512
2010	3,436
2011	3,157
2012	2,062
Thereafter	8,165
Total	$ 23,993

Rent expense under noncancellable operating leases totaled $3.9 million and $3.6 million for the years ended September 30, 2007 and 2006, respectively.

14. COMMITMENTS AND CONTINGENCIES

There are approximately twenty-one lawsuits pending against the United States in the Court of Federal Claims and the Court of Appeals for the Federal Circuit, in connection with Congress's elimination of the capital treatment of supervisory goodwill or other intangible assets of certain thrift institutions. These cases arise from the enactment of FIRREA. The U.S. Department of Justice (Department of Justice) is defending these cases on behalf of the United States, and OTS is supporting the Department of Justice in its defense efforts. Under 28 U.S.C. § 2517, any judgment issued by the Court of Federal Claims must be paid from appropriated funds. Therefore, OTS funds, which are non-appropriated, cannot be used to pay judgments in these cases.

In addition, there are two preliminary matters that have not yet reached the point of litigation. In one of those matters, the claimant has submitted, and OTS has denied, an administrative claim for $5 million in damages. In the other matter, an entity is contesting a proposed OTS rule, but no claim has yet been submitted. Given the preliminary stage of both of these matters, OTS is not presently able to estimate either the likelihood of success or any potential loss that may ultimately result if litigation ensues from either matter.

Deva & Associates, P.C.

1901 Research Boulevard • Suite 410 • Rockville, MD 20850
(301) 610-5600 • FAX (301) 610-9910

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Inspector General,
U.S. Department of the Treasury

We have audited the financial statements of the U.S. Department of the Treasury, Office of Thrift Supervision (OTS) as of and for the year ended September 30, 2007, and have issued our report thereon dated November 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable Office of Management and Budget (OMB) guidance for audits of federal financial statements.

In planning and performing our audit, we considered OTS' internal control over financial reporting as a basis for designing our auditing procedures, obtained an understanding of the design effectiveness of internal controls, determined whether the internal controls have been placed in operation, assessed control risk, and performed tests of OTS' internal controls for the purpose of expressing our opinion on the financial statements and OMB guidance for audits of federal financial statements, but not for the purpose of expressing an opinion on the effectiveness of OTS' internal control

Accordingly, we do not express an opinion on the effectiveness of OTS' internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Inspector General of the U.S. Department of the Treasury, the management of OTS, OMB, the Government Accountability Office and Congress and is not intended to be and should not be used by anyone other than those specified parties.

Deva & Associates, P.C.

Certified Public Accountants

November 2, 2007

Deva & Associates, P.C.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

To the Inspector General,
U.S. Department of the Treasury

We have audited the financial statements of the U.S. Department of the Treasury, Office of Thrift Supervision (OTS) as of and for the year ended September 30, 2007, and have issued our report thereon dated November 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable Office of Management and Budget (OMB) guidance for audits of 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.

As part of obtaining reasonable assurance about whether OTS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of applicable laws and regulations, and contracts, noncompliance with which could have a direct material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB guidance for audits of federal financial statements.

This report is intended solely for the information and use of the Inspector General of the U.S. Department of the Treasury, the management of OTS, OMB, the Government Accountability Office and Congress and is not intended to be and should not be used by anyone other than those specified parties.

Deva & Associates, P.C.

Certified Public Accountants

November 2, 2007