SAN ANTONIO -- Comptroller of the Currency John D. Hawke, Jr. told bankers today that too many institutions are allowing internal controls to slip and said his agency is reconcentrating its supervisory focus on internal controls and audits as a result.

"Where effective policies and procedures, and the will to enforce them, strike us as lacking, we will bring our concerns to the attention of management and the board, and make clear their responsibility in this area," he said in a speech to the annual convention of the Independent Community Bankers of America.

The Office of the Comptroller of the Currency has become increasingly concerned about the quality of audit and internal control functions at many banks, Mr. Hawke said.

"We've noted with dismay cut backs in the size, status, independence and proficiency of many banks' internal audit departments," he said.

"And we've identified --and criticized --the emerging subculture in bank management that, under pressure to maximize earnings, accepts a higher risk of operational losses stemming from weak internal controls in return for whatever quick savings might be realized by failing to make those controls more robust," he added.

Mr. Hawke said that community banks are as vulnerable as large banks to risks from inadequate internal controls. "Large banks may have more to lose in dollar terms when internal controls slip," he said. "But community banks' smaller margins for error make them no less vulnerable to such slippage."

The OCC gives its examiners the discretion to tailor procedures to individual banks. As a result, while the OCC strongly believes that all banks should have the benefits of an external audit, the agency recognizes that there are a number of ways to accomplish that goal, from full financial audits by independent public accountants to directors' examinations performed by other independent parties.

However, as part of every examination, OCC examiners are required to include their conclusions about a bank's performance on external audits in the report of examination and in their summary discussions with bank management.

Mr. Hawke told the community bankers that while supervisory oversight is critical, supervisory intervention should always be a last resort.

"We bring a useful outside perspective to your business," he said. "But if we find weaknesses in your audit or control environment or have the ability to catch a problem before you do,
then you may have an issue requiring your board's attention."

The OCC charters, regulates and examines approximately 2,400 national banks and 59 federal branches and agencies of foreign banks in the United States, accounting for 59 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.