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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

B-201607

APRIL 15, 1983

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Mr. Craig A. Nalen, President
Overseas Private Investment Corporation
1129 Twentieth Street, N.W.
Washington, D.C. 20527

Dear Mr. Nalen:

Subject: Observations on Financial Statement Disclosure and Internal Accounting Control (GAO/ID-83-39)

We recently issued to your Board of Directors an unqualified opinion on the Corporation's fiscal year 1982 financial statements. However, as discussed with the Treasurer and his staff, we believe that the Corporation's financial statements and notes should provide greater disclosure. Also, our limited study and evaluation of the Corporation's system of internal accounting control showed certain conditions that need to be improved. We do not regard the existing shortcomings in disclosure and internal control as materially affecting the fairness of the fiscal year 1982 financial statements. In addition, we determined that the Corporation complied with existing laws and regulations, including provisions of the OPIC Amendments Act of 1981 and congressionally established spending limits for certain purposes. Details are provided below.

IMPROVEMENTS NEEDED IN FINANCIAL STATEMENT DISCLOSURE

Following our examination of the Corporation's fiscal year 1981 financial statements (ID-82-33, Aug. 16, 1982), we recommended that the Corporation make additional disclosures regarding its delinquent nonearning investment projects. While you describe your policy of nonrecognition of delinquent interest income in note 1 to the statements, you said that further disclosure of the effects of projects in default is not warranted or required by generally accepted accounting principles. This letter provides the basis for the need for improved disclosure regarding the Direct Investment Fund (DIF) program and certain other matters.

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Information concerning DIF program

Your reply to our August 1982 report states that the Corporation's financial statements set out all the relevant information about the DIF that a reader needs to make intelligent decisions regarding the program and potential losses. We do not fully agree. Although the statements and the accompanying note 3 do provide ample detail concerning (1) loans committed and outstanding at year-end, (2) income generation during the year, and (3) current and cumulative loss provisions, they omit disclosure of the annual credit ceiling imposed by the Congress on new loan authorizations and the composition of the loan portfolio at year-end. The absence of this information could mislead a reader of the fiscal year 1982 statements.

The Corporation states that its DIF credit authority is subject to advance approval by the appropriation acts but does not show the current year limit and use of this authority. The schedule in note 3 shows unused authority of $13.6 million and $7.8 million, respectively, as of September 30, 1982 and 1981. This refers to the DIF statutory authority, not the budget authority. In fact, the Corporation used all of its $10 million appropriated lending authority during both fiscal years 1982 and 1981. The Corporation's Treasurer agreed to clarify the note.

Further, the Corporation did not disclose the composition of its finance receivables and maturities. The American Institute of Certified Public Accountants through its Committee on Finance Companies states that this information, including the cash collection experience applicable to direct cash loans, should be disclosed (see Audits of Finance Companies pp. 66 and 72 to 74.) Further, the Financial Accounting Standards Board (FASB) states that it is appropriate for a financial institution to disclose, in aggregate form, the amount of outstanding reduced-earning and nonearning receivables and related loss of interest income during the period (FASB Statement No. 15, June 1977). At September 30, 1982, 19 of the 62 DIF loans outstanding with a value of $9.9 million (compared to the total of $34.4 million) were in a reduced-earning or nonearning status. The average yield on DIF loans outstanding during fiscal year 1982 was approximately 7 percent.

We appreciate and are mindful of your concern that further disclosure of DIF loan experience could bring about increased delinquencies. Although we may not view the significance of this risk as you do, we would nevertheless encourage you to make greater disclosure of DIF program results, consistent with risks you deem to be acceptable.

Income statement description

Interest received from investments in U.S. Treasury securities represents the bulk of the Corporation's gross revenues and net income, yet the amount is not separately identified either in the income statement or in note 2, "Investments in U.S. Treasury Securities." The caption "Interest" on the fiscal year 1982 income statement was made up of:

	(thousands)
Interest on U.S. Treasury securities	$65,977
Interest received under rescheduled agreements	3,633
Interest income-claims--finance	282
Other interest income	45
	$69,937

For increased clarity and to permit a matching of the related asset with income, "Interest on U.S. Treasury securities" could be shown separately. The remaining interest revenue items could be shown as "Other interest income" or be consolidated with "Other income." Alternatively, interest earned on investments in U.S. Treasury securities could be shown in note 2 to the statements.

Disclosure of pension information

The Corporation's financial statements or notes thereto did not disclose pension plan information required by FASB Statement No. 36. The Treasurer agreed to state in note 1, "Summary of Significant Accounting Policies," that Corporation employees are covered by the Civil Service Retirement and Disability Fund and the contribution that the Corporation and its employees make to the fund.

IMPROVEMENTS NEEDED IN ADMINISTRATIVE AND INTERNAL ACCOUNTING CONTROLS

Our limited study and evaluation of the Corporation's system of internal accounting control disclosed certain conditions in need of improvement. These conditions, while they did not affect our opinion on the current financial statements, could potentially result in significant undetected errors or irregularities. We found that

—the Corporation's administrative policies and procedures were not adequately defined or documented,

--adjustment data entering the Corporation's accounting system should have been better supported, and

--the Corporation's administrative practices lacked sufficient oversight.

Documentation of procedures

Office of Management and Budget (OMB) Circular No. A-123 which prescribes standards for agency internal control systems requires that control objectives and techniques be documented and readily available and that lines of personnel responsibility and accountability be clear. While the Corporation made some progress in the past year in documenting its policies and procedures and defining functional responsibilities, there was room for improvement. For example, the accounting manual had not been revised since 1976 and was badly out of date; vulnerability assessments required by OMB had not been performed; and written operating procedures for billing, cash handling, property management, and designations of personnel responsibility and authority were not available or were incomplete.

Support for adjustments

The Corporation's accounting system was fully computerized during the year. As might be expected with the start-up of a new system, numerous correcting and adjusting entries were made as personnel gained familiarity with the system, recorded various changes, and brought control and subsidiary records into agreement. At September 30, 1982, only very minor differences remained. However, we found that many of the adjustments--while they appeared to be reasonable--were not adequately described and lacked evidence of proper advance review and approval. Furthermore, system controls designed to identify persons entering incorrect information into the computer were not being properly used.

Oversight

Oversight of the Corporation's administrative activities appeared to be inadequate. We found no indication that internal control reviews were conducted on an ongoing basis, as required by OMB Circular No. A-123. The Agency for International Development (AID) Inspector General has not conducted a review of the Corporation's activities since 1976. Instead, the Corporation relies almost solely on annual GAO audits for external review.

We believe that certain of the Corporation's administrative practices indicate a need for improved internal review or management oversight. This is illustrated by the extent of cash bonuses (discussed in our August 1982 report), unliquidated travel advances and misplaced petty cash funds. Brief details are provided below.

1. The Corporation continues to budget approximately 3 percent of its payroll for cash incentive awards. The Office of Personnel Management recommends that agencies allocate not more than 1 percent of their payroll for employee awards.

2. Nearly one-third of the $71,000 in employee travel advances outstanding at August 31, 1982, was for individual amounts of $1,000 or more outstanding for over 3 months.

3. The Corporation reported to the Treasury in December 1982 that its $2,000 imprest fund was short by $648, attributing the problem to misplaced receipts.

4. After-the-fact approval and obligation of funds for procured supplies and services impaired the Treasurer's ability to maintain effective expenditure control.

Except as noted, we found no other material control weakness. The Corporation's management believes that the existing internal accounting controls provide an appropriate balance between the cost and expected benefits of specific control measures. Nonetheless, it has recently improved its system of administrative and internal accounting control and it continues to be receptive to audit suggestions which do not place an additional or undue burden on the Corporation's small staff.

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Your views of the suggested improvements will be appreciated. If you wish to discuss them or require further information, please let us know.

We are sending copies of this report to the Chairmen, House and Senate Appropriation Committees; Director, Office of Management and Budget; Secretary of the Treasury; Director, Office of Personnel Management; Administrator, Agency for International Development; and other interested House and Senate committees.

I also want to take this opportunity to thank you for the cooperation and assistance that you and your staff provided to us during the course of the audit.

Sincerely yours,

Frank C Conahan

Frank C. Conahan
Director