~~25136~~
121357

BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

# Examination Of The Overseas Private Investment Corporation's Financial Statements For The Fiscal Years Ended September 30, 1982 And 1981

GAO examined the financial statements of the Overseas Private Investment Corporation for the years ended September 30,1982 and 1981. The examination was made in accordance with generally accepted government auditing standards.

In GAO's opinion, the financial statements present fairly the financial position of the Corporation at September 30, 1982 and 1981, and the result of its operations, changes in its capital and reserves, and changes in its financial position for the years then ended in conformity with generally accepted accounting principles.



UNITED STATES GENERAL ACCOUNTING OFFICE

GAO/ID-83-40
MAY 6, 1983

025576

Request for copies of GAO reports should be sent to:

U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are $3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are $1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-201607

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the examination of the Overseas Private Investment Corporation's comparative financial statements for fiscal years 1982 and 1981. The Corporation insures and guarantees U.S. private investments in friendly developing countries on a self-sustaining basis.

Our examination was made pursuant to 31 U.S.C. 9101-9109 and in accordance with generally accepted government auditing standards. In connection with our examination, we also tested the Corporation's compliance with applicable laws and regulations and made a limited study and evaluation of its system of internal accounting control. Our opinion, which follows, was submitted to the Corporation's board of directors on January 20, 1983.

We are sending copies of this report to the Director, Office of Management and Budget; Secretary of the Treasury; Director, Office of Personnel Management; Administrator, Agency for International Development; President, Overseas Private Investment Corporation; and appropriate congressional committees.

Charles A. Bowsher
Comptroller General
of the United States

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

January 20, 1983

B-201607

The Board of Directors
Overseas Private Investment Corporation

We have examined the balance sheets of the Overseas Private Investment Corporation as of September 30, 1982 and 1981, and the related statements of income, changes in capital and reserves, and changes in financial position for the years then ended. Our examinations were made pursuant to the Government Corporation Control Act (31 U.S.C. 9101-9109) and in accordance with generally accepted government auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As a result of the work performed during our examination of the Overseas Private Investment Corporation's financial statements, we also issued separate reports in January 1983 on compliance with laws and regulations, and internal accounting controls.

In our opinion, the accompanying financial statements present fairly the financial position of the Overseas Private Investment Corporation as of September 30, 1982 and 1981, and the results of its operations, changes in its capital and reserves, and changes in its financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

Charles A. Bowsher
Comptroller General
of the United States

# APPENDIXES



| | | Page |
|---|---|---|
| I | Report on internal accounting controls | 1 |
| II | Report on compliance with laws and regulations | 3 |
| III | Overseas Private Investment Corporation's financial statements | 4 |
| | Balance sheet | 4 |
| | Statement of income | 5 |
| | Statement of changes in capital and reserves | 6 |
| | Statement of changes in financial position | 7 |
| | Notes to the financial statements | 8 |

## REPORT ON INTERNAL ACCOUNTING CONTROLS

As part of our examination of the Overseas Private Investment Corporation's financial statements for the years ended September 30, 1982 and 1981, we made a study and evaluation of the system of internal accounting control of the Corporation to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. This report pertains only to our study and evaluation of the system of internal accounting control for the year ended September 30, 1982. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

--Cash and investment in U.S. Treasury securities.
--Accounts receivable.
--Insurance premiums and guaranty fee.
--Insurance and guaranty claims payments.
--Direct investments.
--Personnel compensation and benefits.
--Furniture, fixtures, and equipment.

Our study included all of the control categories listed above. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Corporation's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of the Overseas Private Investment Corporation is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Overseas Private Investment Corporation taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed the following conditions that we believe could result in errors or irregularities in amounts that would be material in relation to the financial statements of the Corporation and not be detected within a timely period. We found that

--the Corporation's internal control system, including written operating policies and procedures, current accounting manual and functions statements, and vulnerability assessments, was not adequately defined or documented;

--adjustment data entered into the Corporation's automated accounting system often lacked sufficient description and evidence of review; and

--improved oversight of the Corporation's administrative practices was needed.

Except for these three conditions, our study and evaluation disclosed no other condition that we believed to be a material weakness. We also considered these conditions in determining the nature, timing, and extent of the audit tests to be applied in our examination of the fiscal year 1982 and 1981 financial statements, and this report does not affect our report on the financial statements.

## REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the Overseas Private Investment Corporation for the years ended September 30, 1982 and 1981. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. This report pertains only to our review of compliance with laws and regulations for the year ended September 30, 1982.

In connection with our examination, we tested the Corporation's compliance with provisions of the Overseas Private Investment Corporation Amendments Act of 1981 and congressionally established spending limits for certain purposes.

In our opinion, the Overseas Private Investment Corporation complied with the terms and provision of laws, and regulations for the transactions tested that could have materially affected the entity's financial statements.

Nothing came to our attention in connection with our examination that caused us to believe that the Corporation was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

Balance Sheet
Overseas Private Investment Corporation
(In Thousands)

| At September 30 | 1982 | 1981 |
|---|---|---|
| **Assets** | | |
| Cash and investments: | | |
| Cash | $ 24,433 | $ 79,195 |
| U.S. Treasury securities at cost plus accrued interest (Note 2) | 664,684 | 577,187 |
| | $689,117 | $656,382 |
| Direct Investment Fund loans outstanding less allowance for uncollectable loans of $6,097 in 1982 and $5,097 in 1981 (Note 3) | 28,346 | 20,392 |
| Accrued interest and fees | 2,586 | 2,081 |
| Accounts receivable | 11,749 | 18,293 |
| Prepaid reinsurance premiums | 1,232 | 1,179 |
| Furniture and equipment at cost less depreciation of $334 in 1982 and $282 in 1981 | 576 | 558 |
| Leasehold improvements at cost less amortization of $826 in 1982 and $421 in 1981 | 587 | 765 |
| Assets acquired in claims settlements | 44,486 | 45,396 |
| | $778,679 | $745,046 |
| **Liabilities, Capital and Reserves** | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | $ 2,614 | $ 1,100 |
| Direct liabilities related to claims settlements | 1,980 | 3,081 |
| Participations in DIF loans | - 0 - | 44 |
| Unearned premiums | 14,546 | 14,591 |
| Fees held pending claims determinations | 223 | 459 |
| | $ 19,363 | $ 19,275 |
| Contingent liabilities (Notes 5 and 6) | | |
| Capital and reserves: | | |
| Capital held by U.S. Treasury | 50,000 | 50,000 |
| Insurance reserve (Notes 4 and 5) | 558,676 | 530,954 |
| Guaranty reserve (Notes 4 and 6) | 137,415 | 133,391 |
| Retained earnings (Note 7) | 13,225 | 11,426 |
| | 759,316 | 725,771 |
| | $778,679 | $745,046 |

The accompanying notes are an integral part of this statement.

Statement of Income
Overseas Private Investment Corporation
(In Thousands)

| For the year ended September 30 | 1982 | 1981 |
|---|---|---|
| **Revenues** | | |
| Political risk insurance premiums | $31,077 | $30,152 |
| Less premiums on shared risks | 5,446 | 5,075 |
| | $25,631 | 25,077 |
| Investment guaranty fees | 2,690 | 2,139 |
| Direct investment interest | 2,216 | 2,496 |
| Other income | 215 | 67 |
| | 30,752 | 29,779 |
| Interest | 69,937 | 56,997 |
| | 100,689 | 86,776 |
| **Expenses** | | |
| Salaries and benefits | 5,031 | 4,366 |
| Loss (gain) on claim settlements: | | |
| Political risk insurance | 2,278 | 1,754 |
| Investment guaranties | 1,976 | 202 |
| Provision for uncollected DIF loans | 1,000 | 1,000 |
| Contractual services | 3,617 | 1,106 |
| Investment encouragement | 774 | 362 |
| Rent, communications and utilities | 970 | 819 |
| Travel | 531 | 325 |
| Printing and supplies | 303 | 265 |
| Depreciation and amortization | 494 | 350 |
| Miscellaneous and other expenses | 170 | 23 |
| | 17,144 | 10,572 |
| Net Income | $83,545 | $76,204 |

The accompanying notes are an integral part of this statement.

Statement of Changes in Capital and Reserves
Overseas Private Investment Corporation
(In Thousands)

| For the 2 years ended September 30, 1982 | Capital | Insurance reserve | Guaranty reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| Balance September 30, 1980 | $ 50,000 | $ 452,708 | $ 123,593 | $ 23,266 | $ 649,567 |
| Net income | | | | 76,204 | 76,204 |
| Adjustment for (loss) on claim settlements | | (1,754) | (202) | 1,956 | |
| Transfers from retained earnings | | 80,000 | 10,000 | (90,000) | |
| Balance September 30, 1981 | $ 50,000 | $ 530,954 | $ 133,391 | $ 11,426 | $ 725,771 |
| Net income | | | | 83,545 | 83,545 |
| Adjustment for (loss) on claim settlements | | (2,278) | (1,976) | 4,254 | |
| Transfers from retained earnings | | 30,000 | 6,000 | (36,000) | |
| Return of Appropriation to Treasury | | | | (50,000) | (50,000) |
| Balance September 30, 1982 | $ 50,000 | $ 558,676 | $ 137,415 | $ 13,225 | $ 759,316 |

The accompanying notes are an integral part of this statement.

Statement of Changes in Financial Position
Overseas Private Investment Corporation
(In Thousands)

| For the year ended September 30 | 1982 | 1981 |
|---|---|---|
| **Source of Funds** | | |
| Net income | $83,545 | $76,204 |
| Depreciation and amortization | 494 | 350 |
| Provision for uncollectible DIF loans | 1,000 | 1,000 |
| | 85,039 | 77,554 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 1,514 | (340) |
| Decrease (increase) in: | | |
| Assets acquired in claim settlements | 910 | 7,000 |
| Accounts Receivable | 6,544 | (9,212) |
| | 94,007 | 75,002 |
| **Application of Funds** | | |
| Net disbursement on DIF loans | 8,954 | 2,634 |
| Acquisition of: | | |
| Furniture and equipment | 107 | 173 |
| Leasehold improvements | 228 | 89 |
| Return of Appropriated Funds | 50,000 | - 0 - |
| Increase(decrease) in: | | |
| Prepaid reinsurance premiums | 52 | 43 |
| Accrued interest and fees | 505 | (161) |
| Decrease (increase) in: | | |
| Participation in DIF Loans | 44 | 44 |
| Unearned premiums | 45 | (368) |
| Fees held pending claims determinations | 236 | (114) |
| Direct liabilities related to claims settlements | 1,101 | (71) |
| | 61,272 | 2,269 |
| Increase in cash and investments | $32,735 | $72,733 |

The accompanying notes are an integral part of this statement.

## Notes to the Financial Statements

Overseas Private Investment Corporation

### Note 1: Summary of Significant Accounting Policies

The significant policies are summarized below:

Revenue recognition: In accordance with generally accepted accounting principles, revenue from political risk insurance is recorded on a pro-rata basis over the contract period; all other revenue is recognized when earned. However, when interest income has become 90 days past due, related investments are placed on nonaccrual status, previously accrued interest, including that which has been capitalized, is reversed and interest income is recognized only when cash is received.

Valuation of assets acquired in claims settlements: Debt of a foreign government acquired in the settlement of a claim is valued at the lower of its present value or the cost of acquisition. All other assets acquired in claims settlements are valued at the lower of management's estimate of the present value of the recovery on the asset or the cost of acquisition. Present value is determined at the time of acquisition using the composite yield for all U.S. Government securities.

Depreciation and amortization: Furniture and equipment are depreciated on a straight-line basis over a 10-year life. Leasehold improvements are amortized over the life of the related lease.

Pending claims: OPIC follows a policy of recording investment insurance contract claims as financial liabilities only upon determination that a liability exists and where the amount of such liability can be reasonably estimated. In the case of most expropriation claims, the expropriatory action must continue for a period of one year before the claim matures. Formal applications for compensation are generally filed only with respect to mature claims and specify the particular events which have occurred and which, in the opinion of the investor, subject OPIC to liability.

### Note 2: Investments in U.S. Treasury Securities

In conformance with Section 239(d) of the Foreign Assistance Act of 1961, as amended (FAA), investments in U.S. Treasury securities are limited to funds derived from fees and other revenues. The funds available for investment were $649.4 million and $561.0 million at September 30, 1982 and 1981, respectively. Of these funds $648.8 million and $560.4 million respectively, represent the original cost of investments included in the Balance Sheet.

Note 3: Direct Investment Fund

The FAA authorized the establishment of a Direct Investment Fund (DIF), that consisted of the $40 million paid in as capital of the corporation, to make loans on terms and conditions established by OPIC, to the extent provided in advance by the appropriation acts. The DIF is charged with realized losses and credited with realized gains and such additional sums as determined by the Board of Directors. During 1976 OPIC increased the DIF by $10 million. For each fiscal year beginning in 1982, OPIC is required by statute to increase the DIF by the principal and interest repayments received during the previous year and at least ten percent of net income for the previous year. During 1982, OPIC increased the DIF by $13.3 million in compliance with this statutory requirement.

The status of the DIF was as follows, in millions:

| | September 30 1982 | September 30 1981 |
|---|---|---|
| Appropriated DIF authorization | $40.0 | $40.0 |
| Corporate increases | 23.3 | 10.0 |
| Net losses including allowance for uncollectable loans of $6.1 in 1982; $5.1 for 1981 | (8.5) | (7.5) |
| Unused authority | (13.6) | (7.8) |
| Outstanding commitments | 41.2 | 34.7 |
| Undisbursed commitments | (6.8) | (9.2) |
| Loans outstanding | $34.4 | $25.5 |

Note 4: Statutory Reserves and Full Faith and Credit

Section 235(c) of the FAA established a fund with separate accounts known as the Insurance Reserve and the Guaranty Reserve for the respective discharge of liabilities under investment insurance and under guaranties issued under Section 234(b) of the FAA and similar predecessor guaranty authority.

Both Reserves may be replenished or increased by transfers from retained earnings or by new Congressional appropriations. Retained earnings at September 30, 1982, and 1981, available for transfer to the Insurance or Guaranty Reserves, were $13.2 million and $11.4 million, respectively.

Should funds at any time not be sufficient to discharge obligations arising under investment insurance or guaranties, and if OPIC exceeds its $100 million borrowing authority, Congress would have to appropriate funds to fulfill the pledge of full faith and credit to which such obligations are entitled. Standing authority for such appropriations is contained in Section 235(f) of the FAA.

All investment insurance issued by OPIC, all guaranties issued by OPIC in connection with the settlement of claims under investment insurance and all guaranties referred to in the first paragraph above constitute obligations of the United States of America. The full faith and credit of the United States of America is pledged for the full payment and performance of such obligations.

Note 5: Insurance Reserve

The Insurance Reserve at September 30, 1982 and 1981 totaled $558.7 million and $531.0 million, respectively. Charges against the Insurance Reserve could arise from contingent obligations under (A) guaranties issued in settlement of claims arising under investment insurance contracts, (B) pending claims under investment insurance contracts, and (C) outstanding investment insurance contracts. These three categories of contingent obligations are discussed in more detail in the balance of this Note.

(A) Claims Settlement Guaranties

Pursuant to Sections 237(i) and 239(d) of the FAA, OPIC has in some instances settled claims arising under investment insurance contracts by issuing payment guaranties of host government obligations. These claims settlement guaranties represent contingent obligations backed by the Insurance Reserve.

The contingent liability at September 30, 1982 under these guaranties, including liability as to interest, was $66.0 million. If the principal obligors default in full, and if OPIC does not exercise certain prepayment rights, OPIC would be liable during the following fiscal years for the following amounts, in millions:

| Fiscal year | Contingent liability |
|---|---|
| 1983 | $31.9 |
| 1984 | 21.4 |
| 1985 | 5.8 |
| 1986-88 | 6.9 |
| | $66.0 |

Of the total contingent liability under claims settlement guaranties, $60.2 million represents guaranties of obligations either incurred by the Government of Chile in compensation agreements with OPIC insureds or recognized by the Government of Chile in respect of debt previously insured by OPIC.

Also, in connection with the settlement of one claim, OPIC entered into an indemnity agreement with an insured in 1978 which could result in OPIC liability of up to $8 million.

(B) Pending Claims

At September 30, 1982, the total amount of compensation formally requested in connection with investment insurance contract claims for which no determination of liability has yet been made is approximately $10 million. There are 3 claims filed under inconvertibility coverage, 4 under expropriation, and 1 under war/revolution/insurrection, and 2 under construction.

In addition to requiring formal applications for claimed compensation, the contracts require investors to notify OPIC promptly of host government action which the investor has reason to believe is or may become an expropriatory action. Careful investor compliance with this notice provision will sometimes result in their filing notice of events that do not mature into expropriatory actions.

The highly speculative nature of these notices both as to the likelihood that the event referred to will constitute expropriatory action and the amount of compensation, if any, that may become due leads OPIC to follow a consistent policy of not recording liability related to such notices in its financial statements. Any claims that might arise from these situations are, of course, encompassed in management's estimate that maximum potential exposure, prior to reinsurance, under existing investment insurance contracts is $3.1 billion (Note 5C).

(C) Political Risk Investment Insurance

OPIC issues investment insurance under limits fixed by the legislative authorization in the FAA and prior authorities. The utilization of these authorized amounts at September 30, 1982 (excluding obligations under guaranties issued in settlement of claims) was as follows, in millions:

| | Total | Uncommitted | Outstanding |
|---|---|---|---|
| Prior authorities | $1,440 | | $1,440 |
| FAA Section 235 | 7,500 | $3,637 | 3,863 |
| | $8,940 | $3,637 | $5,303 |

Effective October 1, 1981, the FAA provides that OPIC can issue insurance coverage only to the extent or in the amounts provided in Congressional appropriation acts. OPIC, as did its predecessors, insures the same investment against three different risks (inconvertibility of currency; expropriation; and war, revolution or insurrection). Under some contracts issued by predecessors, theoretically an investor could make successive claims under more than one coverage with respect to the same investment, thereby collecting aggregate compensation exceeding any single coverage amount. The outstanding amount reflects this theoretical possibility and in addition includes provision for insurance as to which OPIC is not currently at risk, but is contractually obligated to provide upon the investor's future request to cover increases in retained earnings and accrued interest.

The outstanding amount pursuant to legislative authorizations is of little use in evaluating realistically the maximum exposure at September 30, 1982 to insurance claims, because it includes insurance for which OPIC is not currently at risk and because it is improbable that multiple payments would be made for each investment. Management believes that a more accurate representation of maximum potential exposure to future claims arising from existing investment insurance contracts can be obtained by assuming that only one claim would be brought under each contract and that the coverage under which the claim would be brought would be the coverage with the highest amount of current insurance in force. Based on this assumption, management believes the maximum potential liability of OPIC as to claims at September 30, 1982 is $3.1 billion.

Note 6: Guaranty Reserve

The Guaranty Reserve at September 30, 1982 and 1981 totaled $137.4 million and 133.4 million, respectively. Section 235 of the FAA requires OPIC to have, at the time OPIC commits itself to issue any guaranty under Section 234(b) of the FAA, a Guaranty Reserve equal to at least 25 percent of guaranties then issued and outstanding or committed under 234(b) and prior authorities. At September 30, 1982, the Guaranty Reserve exceeded by $39.3 million the required minimum reserve. (See Note 4 for description of the Guaranty Reserve and full faith and credit status of guaranties.) Guaranties under prior authorities and Section 234(b) of the FAA include guaranties of debt, equity, and participations in DIF loans.

Effective October 1, 1981, the FAA provides that guarantiesmay be issued only to the extent or in the amounts provided in Congressional appropriation acts. The outstanding commitments at September 30, 1982 were as follows, in millions:

| | Prior authority | FAA 234(b) and 235 | Total |
|---|---|---|---|
| Legislative authorization | $ 6.6 | $750.0 | $756.6 |
| Uncommitted | - | 364.2 | 364.2 |
| Total outstanding commitments | $ 6.6 | $385.8 | $392.4 |
| Currently at risk, net of unfunded commitments | $ 6.6 | $153.1 | $159.7 |

Note 7: Return of Appropriated Funds

Commencing in fiscal year 1982, Section 240B of the FAA requires OPIC, in each fiscal year, to pay to the United States Treasury an amount equal to 25 percent of its net income after making suitable provisions for transfers to Reserve and Capital until the $106 million aggregate amount appropriated to OPIC has been repaid. OPIC returned $50 million to the Treasury in fiscal year 1982.

25136

AN EQUAL OPPORTUNITY EMPLOYER

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

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE,$300

POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE

THIRD CLASS