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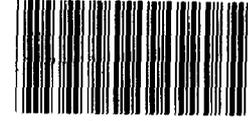


UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

MAR 30 1981

Mr. Gerald T. West, Acting President
Overseas Private Investment Corporation
1129 Twentieth Street, N.W.
Washington, D.C. 20527



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Dear Mr. West:

We have recently completed our audit of the Overseas Private Investment Corporation's fiscal year 1980 financial statements and would like to thank you for the cooperation and courtesy extended to us by your entire staff.

We thought it would be useful to you to summarize the observations we made during our audit which were not included in our report to the Board of Directors. These matters, presented in detail below, have been discussed with Mr. Leslie V. Porter and other members of your staff, who promised to give them consideration and take appropriate action.

These issues did not have a material effect on the fairness of your September 30, 1980, financial presentation. We believe they are important, however, because they identify some areas in which better internal accounting controls could improve your operations and the timeliness of our audit work.

NEED TO UPDATE ACCOUNTING MANUAL

The accounting manual has not been updated to show changes which have occurred since 1976. The manual contains accounts which have not been used for at least 3 fiscal years; misused accounts, especially those related to the former method of recording claims settlements; and accounts which are misnomers of transactions they represent, such as the interest income account 4740, which actually represents fees.

An up-to-date accounting manual is an important part of a sound internal control system and helps to ensure accurate and reliable accounting records. It should contain the policies and procedures necessary for prompt, accurate, and consistent recording of accounting transactions; periodic reconciliation and review of accounts; and effective control over documents and records.

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We recommend that a high priority be given to revising and updating the accounting manual on a continuing basis. It is particularly important that the manual be reviewed and changed before the new computer system is placed in operation.

NEED FOR WRITTEN OPERATING PROCEDURES

The Corporation does not have formal written procedures for all key financial operations involving asset acquisition and disposition, expenses, and payment of liabilities, although some procedures have been drafted.

Formal procedures are especially needed for payroll, cashier, property control, accounting, and financial analyst functions. Only one person performs most of these operations, and any extended absences--such as vacations, sickness, injuries, or detailing the employee to other jobs--can cause problems. We noted many accounting errors and encountered delays in our audit because of the absence of key personnel. Finding and correcting errors required additional time and effort for the Corporation and for us.

Well documented and applied accounting procedures would eliminate the accounting weaknesses we noted and the loss or absence of certain key personnel would have a minimal effect on operations. Also, since job performance is a major consideration in pay increases and awards, written operating procedures would provide benchmarks for assessing performance and identifying those employees deserving of recognition. Finally, good complete, up-to-date procedures would help to expedite our annual financial audit work.

We recommend that written procedures be prepared for all key financial operations and reviewed and revised periodically to keep them current.

NEED FOR TIMELY REVIEW OF INTERIM REPORTS AND RELATED ACCOUNTING RECORDS

Interim financial reports prepared by the Corporation during fiscal year 1980 were inaccurate because of incorrect accruals and untimely adjustments for errors in the accounting records, especially those for the investment guaranty and direct investment fund programs. For some accounts related to these programs, lengthy adjustments for erroneous accruals and posting errors covering several prior months were not prepared until mid-October 1980. As a result, information in interim reports relating to these programs could not be relied on for audit purposes.

Because interim financial reports are important management tools, they should be as accurate as possible if they are to effectively serve this purpose. Also, to complete our annual examination of the financial statements in a timely manner, we must do a substantial amount of interim audit work before the year end closing of the books; we cannot perform this work efficiently unless interim reports and related accounting records are reasonably accurate.

We recommend that interim financial reports and supporting accounting records be reviewed at least quarterly to ensure that they incorporate all needed adjustments and accruals to make them accurate and reliable so that they will be of value to management.

NEED FOR PERIODIC PHYSICAL INVENTORIES

GAO's Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO 12.5g) points out the importance of periodic physical inventories as independent checks on the accuracy of property accounting records.

A physical inventory of furniture and equipment was last taken as of August 31, 1979. According to Corporation officials, no physical inventory was taken in fiscal year 1980 because it would have been awkward in view of the extensive office renovation work during most of the year. Although we appreciate this situation, we believe that, as a normal practice, a complete physical inventory of this property should be taken sometime during each fiscal year. Otherwise, there is no assurance that the amounts recorded in the furniture and equipment account are correctly stated or that all items shown in the account actually are on hand.

We recommend that a physical inventory of furniture and equipment be taken at least once during each fiscal year. All differences between quantities determined by physical inspection and those in the accounting records should be investigated to determine causes of differences and identify necessary improvements in procedures to prevent errors, losses, or irregularities, and the accounting records should be adjusted to bring them into agreement with the results of the physical inventories. Property control records also should be adjusted on the basis of the physical inventories and periodically reconciled with the accounting records.

NEED FOR BETTER ACCOUNTING FOR INSURANCE FEES

In verifying insurance fee income, we noted an inconsistent application of procedures which resulted in the misstatement of amounts in 3 accounts.

According to the accounting manual, fees received after a claim has been filed should be recorded in liability account 2260 (fee rebates--claims pending), while fees received when no claim has been filed should be recorded primarily in income account 4100 (income fees) and liability account 2500 (deferred income). In practice, this procedure was not always followed. In two instances, fees received when no claim had been filed were incorrectly recorded in account 2260; in four instances, fees received after claims were filed were incorrectly recorded in account 2500; and one fee payment, correctly recorded in account 2260, was erroneously allowed to remain in that account after the claim had been settled. As a result, as of September 30, 1980, account 2260 was understated by \$48,850, account 2250 was overstated by \$17,364, and account 4100 was overstated by \$31,486.

We recommend that, to ensure correct accounting for insurance fees and more accurate financial statement presentation, the prescribed procedures for recording insurance fees be consistently followed.

NEED TO IMPROVE PAYROLL-RELATED CONTROLS

We noted the following internal control weaknesses in payroll operations, in addition to the lack of written procedures.

1. Timekeeping and paycheck distribution functions are not effectively separated. GAO's Manual (6 GAO 16.6) provides that persons designated to deliver pay checks, pay envelopes, and bonds shall not participate in the preparation, approval, or certification of payroll vouchers and personnel action documents or in the maintenance of the payrolls, time and attendance records, and leave records. Separation of the timekeeping and paycheck distribution functions is an important element of effective internal control.

We recommend that the duties of timekeepers and paycheck distributors be separated.

2. Computer printouts showing overtime hours worked by employees each pay period are not reconciled with manual payroll records. The only reconciliations made are those for employees who work irregular hours. GAO's Manual (6 GAO 16.2) provides that suitable control procedures shall be incorporated in each payroll system to ensure that the processing of payroll data is accurately performed and that no unauthorized alterations are made to transactions and records during the various processing stages.

We recommend that, for better control, computer records of overtime hours be reconciled with manual records each pay period. The Corporation's personnel assistant assured us that this will be done.

Your views concerning these areas will be appreciated. We will be happy to discuss these items with you or to furnish any additional information that may be of assistance to you.

Sincerely yours,



Frank M. Zappacosta
Senior Group Director