

**Report of the
OVERSEAS PRIVATE INVESTMENT CORPORATION**

on

AUDIT AND INVESTIGATIVE ACTIVITIES

FISCAL YEAR 2006



**Submitted Pursuant to the
Inspector General Act Amendments of 1988**

October 2006

INTRODUCTION

This report from the Overseas Private Investment Corporation (OPIC) is in compliance with annual reporting requirements of the Inspector General Act Amendments of 1988. The report provides information on the Fiscal Year (FY) 2006 activities of the agency's formal management control review program.

REVIEW OF CONTROL ACTIVITIES BY INDEPENDENT PARTIES

KPMG, LLP Audit Report

On November 11, 2005, OPIC received an unqualified audit opinion on its FY 2005 financial statements. The independent accounting firm KPMG LLP performed the FY 2005 audit, which was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. In accordance with *Government Auditing Standards* KPMG also issued reports dated November 11, 2005 on their consideration of OPIC's internal control over financial reporting and its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. Those reports included Independent Auditors' Reports on Financial Statements; Internal Control Over Financial Reporting; Compliance and Other Matters; and Compliance with Laws and Regulations.

OPIC's FY 2005 audited financial statements were submitted to the Office of Management and Budget (OMB) on November 15, 2005. The audited financial statements and accompanying reports were included in OPIC's Management Report for FY 2005 submitted to OMB and Congress pursuant to the Chief Financial Officers Act of 1990.

Internal Control Reviews

In FY 2005 OPIC engaged Mayer Hoffman McCann (MHM), an independent audit firm, to conduct an internal control assessment of OPIC's organizational structure. MHM noted that OPIC's departments appear to have a well-designed set of organizational structure controls in place to help manage the risk over activities carried out within each of the respective departments. MHM offered five sets of observations and recommendations based on their assessment, which OPIC has acted upon.

In FY 2006 OPIC established an internal audit and internal control governance structure that reports to the President and CEO and the Board of Directors. Actions in FY 2006 include the establishment of an independent Audit Committee composed of a subset of the OPIC Board of Directors, a Senior Management Council composed of the OPIC Vice Presidents, and a Senior Assessment Team composed of senior staff members from each OPIC department and covering all major line and support functions. OPIC's FY 2006 internal control self-assessment focused on proper segregation of duties and existence of

adequate guiding documents to provide effective internal control over its program areas. In FY 2007 OPIC will identify, document and test internal controls and perform an internal audit led by the Board Audit Committee to ensure that risks are appropriately mitigated.

SIGNIFICANT INTERNAL CONTROL ACTIVITIES

Information Resource Management

Privacy Program

To ensure compliance with Section 208 of the E-Government (E-Gov) Act of 2002, OPIC developed and posted to its web site Privacy Impact Assessments covering electronic information collections that collect information in identifiable form from members of the public. OPIC will continue to apply its Privacy Impact Assessment process to new systems, applications, and electronic information collections as required by the E-Gov Act. OPIC also posted a machine-readable privacy policy to its web site, bringing the site into full compliance with OMB Federal web site privacy policy.

Information Security

OPIC has continued to enhance its information security program. Accomplishments include development of security baseline configurations, implementation of password policies, initiation of annual security awareness refresher training, implementation of configuration management procedures, deployment of an enterprise backup solution, completion of system documentation, and significant progress towards achieving Certification and Accreditation.

Risk Management

The Agency remains focused on Agency-wide risk management and the refinements and enhancement of risk management policies and practices developed and implemented over the last eight years.

Risk Management continued the practice of independently evaluating the credit quality of the Finance and Investment Funds portfolios. The reviews focus on validation of the risk rating recommendations and the extent of loss in the event of default within the different portfolios. Particular attention continues to be given to cross-sections of the portfolio exhibiting higher risk profiles through a quarterly review process for criticized assets and guarantees. A comprehensive review of the current portfolio risks was presented to senior management.

In FY 2006, Risk Management, in conjunction with the line and monitoring departments briefed senior management on the current risk profile of the portfolio, trends and status of criticized assets and insurance claims. This meeting, to be held quarterly going forward,

provides a venue for active discussion across departments regarding portfolio performance and proactive measures to improve portfolio quality.

Office of Investment Policy

Additionality

In FY 2006, OPIC developed and applied a more robust analytical model for assessing the additionality of OPIC projects. This model identifies a set of country and project-specific factors that project officers must consider in assessing whether OPIC support is necessary for a developmentally desirable project to go forward. The factors include: host country risk, US investor status, project size and tenor, availability of private equity in the host country, sectoral innovation, rural or impoverished location of a project, and a project's infrastructure impact. In FY 2007, Structured Finance, SMEF, Insurance and Investment Funds will apply this model to the evaluation of the additionality of projects under consideration. OPIC's Investment Policy Department conducts the additionality assessments while undertaking statutory clearance reviews of U.S. Effects, Developmental Impact, Worker Rights and Human Rights, and Environmental Impact.

Developmental Matrix FY 2006

In FY 2006, OPIC applied the Developmental Matrix to nearly all of its commitments, including subprojects of investment funds and framework agreements. In FY 2007, OPIC will introduce a new scoring methodology for financial intermediaries, expanding further the universe of projects that will be evaluated under a consistent platform. This effort complements the Agency's increased focus in working with financial intermediaries to achieve its development mission.

ADDITIONAL ACTIVITIES

Office of Accountability

An Accountability Mechanism was established by OPIC in 2005 to provide a forum for local communities that may be adversely affected by OPIC-supported projects to voice and resolve problems (ombudsman); and assess and report on complaints regarding OPIC's compliance with environmental, social, worker rights and human rights policies and procedures (compliance review).

The Director, Office of Accountability (OA), reports directly to the President and CEO, and is independent of project operations. OA's mandate is to deliver ombudsman and compliance review services in a manner that is fair, objective and transparent, thereby enhancing OPIC's mission effectiveness.

An Office of Accountability Directive and an Administrative Order on Problem-solving and Compliance Review Procedures govern OA's operations. The Administrative Order

establishes eligibility criteria for requesters of Office of Accountability services, and outlines ombudsman and compliance review procedures. The Office of Accountability web page on OPIC's external website explains in user-friendly terms how the two services work and how to use them.

Office of Accountability's first compliance review is underway, pursuant to its Administrative Order.

To promote access to project-affected parties and ensure that local communities are aware of OA and its procedures, OA conducted major outreach in FY 2006 to businesses, NGOs and think tanks in four Latin American countries. Brochures for potential requestors have been issued in English, Spanish and Portuguese.

DEPARTMENT OF JUSTICE REFERRALS

During this reporting period, OPIC made one referral to the Department of Justice (DOJ). In January 2006, OPIC made a referral to the Department of Justice regarding an OPIC-supported project. Specifically, OPIC forwarded information concerning possible false representations that may rise to the level of criminal violations. DOJ is currently reviewing this matter.