Report of the
Overseas Private Investment Corporation
on
Audit and Investigative Activities
FY 2009

Submitted Pursuant to the
Inspector General Act Amendments of 1988

October 2009

INTRODUCTION

Pursuant to Section 8G of the Inspector General Act Amendments of 1988, the Overseas Private Investment Corporation (OPIC) is presenting the following annual report which provides Audit and Investigative Activities for Fiscal Year (FY) 2009.

INDEPENDENT AUDIT

KPMG, LLP Audit Report

OPIC received an unqualified audit opinion on its FY 2008 financial statements.

The independent accounting firm KPMG LLP performed the FY 2008 audit 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 and Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 07-04 required that KPMG LLP perform the audits to obtain reasonable assurance that OPIC’s financial statements are free of material misstatement. KPMG LLP opined that OPIC’s FY 2008 financial statements present fairly, in all material respects, the financial position of the Overseas Private Investment Corporation as of September 30, 2008 (and 2007), and the results of its operations and its cash flows for those years in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards KPMG also issued reports dated November 13, 2008 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.

As required, OPIC’s FY 2008 audited financial statements were submitted to the Office of Management and Budget (OMB) on November 17, 2008. The audited financial statements and accompanying reports were also included in OPIC’s Management Report for FY 2008 submitted to OMB and Congress pursuant to the Chief Financial Officers Act of 1990.
SIGNIFICANT REVIEWS

Internal Control Reviews

During FY2009, under the leadership of the Senior Management Council, which consists of all OPIC Vice Presidents, and is coordinated by the Office of the President & Chief Executive Officer (P&CEO), all OPIC departments completed, and satisfactorily addressed, all outstanding internal control deficiencies resulting from Management’s internal control assessment test findings performed in the previous years by a financial audit services firm, MorganFranklin. A final report from MorganFranklin was completed and submitted to the OPIC Board Audit Committee in September 2009.

The OPIC’s Board Audit Committee contracted MorganFranklin in FY2007 to perform a thorough internal control assessment and develop a three-year internal control audit plan (the “Audit Plan”) which includes the internal control assessment of all twelve key OPIC business processes using the guidelines of the Office of Management and Budget’s Circular A-123, Management’s Responsibility for Internal Control, Appendix A, Internal Control Over Financial Reporting. The twelve key business processes and their assessment timelines are as follows:

Phase I (FY2008): Direct Loans


Phase III (FY2010): Revenues & Receivables, Purchases & Payables (Comprizon), Payroll (FPPS/Kronos), Insurance, Legal Affairs, PP&E and D (Plant, Property, Equipment & Depreciation)

In addition, any business processes assessed in the prior years will be reviewed, updated and retested for transactions that occurred during the current assessment year.

In FY2009, Morgan Franklin completed Phase II - the assessment of Investment Funds, Investment Guaranties for Finance, Budget, Financial Reporting, Information Systems, and a review, update and retesting of Phase I (Direct Loans) - and reported that OPIC’s internal controls over these six business processes are properly designed and were operating effectively.

MorganFranklin noted nine (9) deficiencies and five (5) advisory comments. There were no reportable conditions or material weaknesses. In the immediate follow-up to the MorganFranklin’s FY2009 assessment, OPIC management have fully remediated five (5) deficiencies and three (3) advisory comments with the remaining (4) deficiencies and two (2) advisory comments to be fully remediated by FY2010.

With the completion of Phase II of the Audit Plan, the Audit Committee approved the final phase (Phase III) of the assessment, which will include the six remaining business processes:
● Insurance
● Legal Affairs
● Purchases & Payables (Comprizon)
● Revenues & Receivables
● Payroll (FPPS/Kronos)
● PP&E and D

In addition, the six business processes that were assessed in FY2008 and FY2009 will be reviewed, updated, and retested for transactions that occurred during FY 2010.

The assessment of Phase III will start in October 2009 with final reports expected no later than August 2010.

**Risk Management**

OPIC remains focused on Agency-wide risk management and the refinements and enhancement of risk management policies and practices. During FY 2009, the Loss Reserves Methodology was reviewed and updated, as necessary, to reflect new GAAP guidance and best practices in the industry.

OPIC 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. In light of the precipitous decline in global economic conditions during FY 2009, special attention was placed on sensitive sectors and areas of risk concentration in order to maintain a forward view of where significant portfolio deterioration could be expected. Likewise, particular attention continues to be given to sections of the portfolio exhibiting higher risk profiles through a quarterly review process that identifies credit quality deterioration in the portfolio.

Quarterly reports on the portfolio risk distribution and trends were provided to the OPIC Board Audit Committee, as were charge off reports and loan payment status reports. In addition to the quarterly reports to the Audit Committee, starting in March 2009 the Board of Directors was also briefed quarterly on the performance of the portfolio to keep them apprised of the current risk profile of the portfolio and areas of risk concentration.

**Office of Accountability**

OPIC’s Board of Directors approved establishment of an Accountability Mechanism in September 2004 as encouraged by Congress 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 OPIC’s President and CEO, and is independent of project operations. OA’s mandate, established by OPIC’s Board of Directors in response to guidance from Congress, is to deliver ombudsman and compliance review services in a manner that is fair, objective and transparent, thereby enhancing OPIC’s mission effectiveness.

The 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 webpage on OPIC’s external website explains in user-friendly terms how the two services work and how to use them, and tracks complaints.

The Office of Accountability completed a social policy compliance review of an OPIC-supported mining project in 2009, pursuant to its Administrative Order.

Consistent with Congress’ direction that OA should be accessible to project-affected parties and OPIC’s Board’s injunction that OA should ensure that local communities are aware of OA and its procedures, OA conducted major joint outreach with International Finance Corporation (IFC) and African Development Bank counterparts in FY 2009, including workshops in Ghana, Nigeria and Brazil. OA also distributed brochures for potential users of OA services, in Arabic, English, French, Portuguese, Russian, Spanish and Turkish.

The Director gave a presentation at the Sixth Annual Meeting of the Principals of Independent Recourse Mechanisms of International Financial Institutions and Related Institutions in Washington, at which participants shared experience on common issues. The Director engaged in outreach with concerned NGOs, other accountability mechanisms and other stakeholders in periodic informal meetings in Washington.

REFERRALS

Department Of Justice Referrals

During this reporting period OPIC made no referrals to the Department of Justice.