

OVERSEAS PRIVATE INVESTMENT CORPORATION
WASHINGTON, D.C. 20527, USA



OFFICE OF THE
PRESIDENT

October 31, 2008

The Honorable Nancy Pelosi
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Madame Speaker:

I am pleased to provide you a copy of the annual report to Congress on the Overseas Private Investment Corporation (OPIC) audit and investigative activities, pursuant to the Inspector General Act Amendments of 1988.

OPIC received an unqualified audit opinion on its FY 2008 financial statements, as it has every year of its history. The audit was performed KPMG LLP and we are pleased to report that they found no material weaknesses.

If you have any questions or would like further information, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Bob Mosbacher, Jr.", written in a cursive style.

Robert Mosbacher, Jr.
President & CEO

Enclosure

**Report of the
Overseas Private Investment Corporation
on
Audit and Investigative Activities
FY 2008**

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

October 2008

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) 2008.

INDEPENDENT AUDIT

KPMG, LLP Audit Report

OPIC received an unqualified audit opinion on its FY 2007 financial statements.

The independent accounting firm KPMG LLP performed the FY 2007 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 2007 financial statements present fairly, in all material respects, the financial position of the Overseas Private Investment Corporation as of September 30, 2007 (and 2006), 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 14, 2007 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 2007 audited financial statements were submitted to the Office of Management and Budget (OMB) on November 15, 2007. The audited financial statements and accompanying reports were also included in OPIC's Management Report

for FY 2007 submitted to OMB and Congress pursuant to the Chief Financial Officers Act of 1990.

SIGNIFICANT REVIEWS

Internal Control Reviews

During 2008, under the leadership of the Senior Management Council, which consists of all OPIC Vice Presidents and coordinated by the Office of the Chief Financial Officer, all OPIC departments completed--and satisfactorily addressed--all outstanding internal control deficiencies resulting from Management's internal control self assessment test findings performed in the previous year. A final report from the Senior Management Council through the Chief Financial Officer to the President and Chief Executive Officer was completed and submitted in October 2008.

In April 2008, OPIC's Board of Directors Audit Committee contracted with an independent financial audit services firm, MorganFranklin, to perform a thorough internal control assessment of the agency's Direct Loan business processes at each step from Loan Origination to disbursement to loan repayment. The Direct Loan assessment was the initial step in a three-year internal control audit plan which includes the internal control assessment of all twelve 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*. In September 2008, MorganFranklin completed the assessment of the Direct Loan processes and reported that OPIC's internal controls over the Direct Loans business processes are properly designed and were operating effectively. MorganFranklin noted two Internal Control Deficiencies and four Management Advisory Comments. There were no Reportable Conditions or Material Weaknesses.

In follow-up to the MorganFranklin assessment, OPIC management collectively agreed that the Direct Loan internal control findings should highlight those areas of internal controls that can be improved or enhanced with the amendment of certain procedures or the documentation of procedures for controls that are currently being performed but not formally documented. The departments involved are working collaboratively to develop and implement a detailed remedial action plan for each of the six findings.

With the completion of the initial phase of the three-year internal control assessment plan, the Audit Committee approved the next phase of the assessment which will include Loan Guaranties, Information Systems, Financial Reporting and Budget. The second phase of the assessment will start in October 2008 with final reports expected no later than August 2009.

Risk Management

OPIC remains focused on Agency-wide risk management and the refinements and enhancement of risk management policies and practices. Of note during FY 2008, 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. Particular attention continues to be given to cross-sections of the portfolio exhibiting higher risk profiles through a quarterly review process that identifies credit quality deterioration in the portfolio, with particular attention to criticized assets and guarantees.

Starting with the second quarter of FY 2008, quarterly reports on the portfolio risk distribution and trends were provided to the OPIC Board of Directors Audit Committee, as were charge off reports and loan payment status reports. OPIC will continue to provide these quarterly reports to the Board Audit Committee in order to keep them apprised of the current risk profile of the portfolio.

Office of Accountability

OPIC established an independent Office of Accountability (OA) in 2004 to assess and review complaints about OPIC-supported projects. The Director reports directly to OPIC's President & CEO.

The Office of Accountability gives local communities, which may be materially, directly and adversely affected by an OPIC-supported project, and project sponsors a means of raising complaints, independently from OPIC operations. Its mandate is to deliver problem-solving and compliance review services in a manner that is fair, objective and transparent, thereby enhancing OPIC's mission effectiveness. The office has two primary functions:

- to review and attempt to resolve outstanding complaints of local communities, with or without allegations of non-compliance by OPIC (problem solving); and
- to assess and report on complaints regarding OPIC's compliance with its policies related to environment, social impacts, worker rights and human rights under an OPIC-supported project (compliance review).

During 2008 the Office of Accountability accepted one compliance review. That review is now underway pursuant to established procedures.

REFERRALS

Department Of Justice Referrals

During this reporting period OPIC made one referral to the Department of Justice. The Department of Justice is evaluating this referral.