



U.S. INTERNATIONAL DEVELOPMENT
FINANCE CORPORATION

OFFICE OF INSPECTOR GENERAL



Semiannual Report to Congress

October 1, 2020-March 31, 2021



Message from the Inspector General

I am pleased to present the U.S. International Development Finance Corporation (DFC) Office of Inspector General (OIG) Semiannual Report to the Congress for the period of October 1, 2020, through March 31, 2021, in accordance with the Inspector General Act of 1978 (IG Act), as amended.

The DFC OIG is an independent and objective oversight office created within DFC by the IG Act, as amended by the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act).

Since my appointment as DFC's first Inspector General in August 2020, DFC OIG has performed numerous outreach activities with the DFC's Board of Directors, executives, and other personnel to educate DFC on who the OIG is, what we do, and why we perform our audits and investigations. We have made significant progress in building the OIG's office to include actions to hire highly qualified staff, develop internal policies and procedures that will guide us when performing our legal, audit, and investigative duties, and establishing professional workspace for our staff.

This reporting period, we identified DFC's Top Management challenges and developed a strategic plan for the OIG. We also completed a Congressional request to investigate DFC's decision to issue a Letter of Interest to award a \$765 million loan to the Eastman Kodak Company to produce critical pharmaceutical components in support of the domestic response to COVID-19. We have annual audits related to DFC's Financial Statements and compliance with the Federal Information Security Modernization Act (FISMA), and are working to finalize contractor support for other required audits. In addition, we have six ongoing investigations related to fraud and other matters.

It is a privilege to lead OIG during this exciting time. I remain committed to working closely with the DFC, its Board of Directors, and Congress in promoting integrity and accountability in DFC's assistance and investments to developing countries.



Anthony "Tony" Zakel
Inspector General



About DFC

DFC consolidates capabilities of the Overseas Private Investment Corporation (OPIC) and the U.S. Agency for International Development's (USAID) Development Credit Authority, while introducing new and innovative financial products to better bring private capital to the developing world. DFC partners with the private sector to finance solutions to the most critical challenges facing the developing world today. DFC's Inaugural Development Strategy, which outlines investments of over \$25 billion and aims to mobilize an additional \$50 billion in private sector capital—catalyzing a total of \$75 billion—to reach more than 30 million people in developing countries by the end of 2025. Learn more at www.dfc.gov.



About DFC OIG

DFC OIG is an independent and objective oversight office created within DFC by the IG Act, as amended by the BUILD Act. This office was organized in August 2020, following the appointment of its first Inspector General. It was created to promote the integrity, transparency, and efficiency of DFC programs and operations by providing independent oversight and objective reporting to multiple stakeholders including the DFC Board of Directors and Congress. The mission of the OIG is to conduct and supervise audits, investigations, inspections, and evaluations related to agency programs and operations; provide leadership and coordination; as well as recommend policies that will promote economy, efficiency, and effectiveness in such programs and operations; and prevent and detect fraud, waste, abuse, and mismanagement.

The OIG consists of the Office of Audits and the Office of Investigations, supported by the Office of General Counsel, to accomplish OIG's mission. The Office of Audits conducts a



variety of independent statutorily mandated and discretionary reviews to assess DFC programs and operations to detect and address any waste, abuse, or mismanagement. The Office of Investigations conducts investigations into allegations of fraud that may result in suspensions, fines and convictions of subjects.

Prior to August 2020, USAID OIG provided oversight of OPIC, which merged in January 2020, with components of the USAID to become DFC as legislated by the BUILD Act. While DFC OIG was established in August 2020, USAID OIG continues to provide assistance to DFC OIG as we become fully operational. As such, some of the audit and investigative work performed for this Semiannual Report period is comprised of work performed by USAID OIG.





DFC OIG At-A-Glance

Mission

OIG conducts audits and investigations on behalf of the American public to improve the performance and integrity of DFC's operations and programs in providing foreign assistance to developing countries across the world.

Vision

The United States will have a more efficient and effective development finance institution because OIG enhances the development impact, performance, and integrity of DFC's operations and programs in advancing U.S. foreign policy while balancing revenues against its operating costs. OIG also will serve as a model Federal agency by maintaining a workplace culture that values its people as it continuously improves its performance.

Core Values

Integrity is OIG's foundation. OIG maintains the highest standards of integrity in its work for the American people, Congress, the Board of Directors, Chief Executive Officer, and senior DFC officials, and strives to set the example for objectivity, accuracy, and transparency.

Accountability is at the heart of OIG's work. Through independent and fair audits and investigations, OIG seeks to ensure that DFC is accountable for their results and the resources the public invests in them.

Respect is central to OIG's identity. We promote a fair and professional working environment to maintain the highest standards of conduct, and have a deep respect for the mission and role of DFC in investing in highly impactful projects in developing countries.

Strategic Goals

1. Increase the effectiveness of DFC supported development projects and programs, and alignment with U.S foreign policy goals.
2. Improve DFC's oversight mechanisms and deter fraud, waste, and abuse.
3. Strengthen DFC's business operations through improved financial and resource management, and the development of a secure and modern information technology infrastructure.
4. Communicate the results of OIG's work to the public, Congress, DFC and its Board of Directors.
5. Promote organizational and workforce excellence.



Moving Forward

We have taken the following steps towards building DFC OIG and supporting DFC in meeting its mission:

- Identified the Top Management Challenges facing DFC in Fiscal Year (FY) 2021;
- Developed a 5 year OIG strategic plan;
- Began recruiting senior leaders who reflect our values, can provide a sustained high level of engagement with DFC and other stakeholders, and have the expertise necessary to effectively execute our mission of quality and impactful audits, reviews, and investigations;
- Developed policies, procedures, and processes to ensure our work is of the highest caliber and our standards and policies reflect best practices across the OIG community;
- Issued solicitations to obtain contractor support for performing mandatory and discretionary audit work, which include FISMA, risk assessment of government charge cards, the Digital Accountability and Transparency Act (DATA Act), the Payment Integrity Information Act (PIIA), and examining DFC's Enterprise Risk Management and Internal Controls (OMB Circular A-123).
- Developed a DFC OIG website (<https://www.dfc.gov/oig>) with links to all our final products related to audits, investigations, and correspondence (as well as DFC's open audit recommendations), and the OIG Hotline to allow DFC employees, contractors, and stakeholders to report fraud, waste, and abuse using the DFC OIG Hotline.

Statistical Highlights from Audits and Investigations

The following statistics summarize the OIG's audits, investigations, findings and recommendations which are covered in this report.

Completed Projects

- Respond to Congressional request
- Complete the FY 2020 FISMA Audit
- Define the DFC Top Management Challenges for FY 2021
- Develop the DFC OIG 5 year Strategic Audit Plan
- Address six complaints closed/referred



Office of Audit

Findings / Recommendations Produced

- –Eight findings produced / –Four recommendations given

Audits in Progress

- FY 2021 FISMA audit
- FY 2021 Financial Statement Audit

Office of Investigations

- 14 allegations received
 - Six investigations initiated
 - Six investigations opened

OIG Outreach

We performed various outreach activities this reporting period as part of our continuous effort to deepen our understanding of the DFC programs we oversee, as well as educate DFC management, staff, and stakeholders on the role of the OIG.

We conducted outreach training to the following DFC offices regarding audits, investigations, whistleblower protections, and the OIG hotline:

- Office of Development Credit (ODC)
- Office of Financial and Portfolio Management (OPMD)
- Office of Development Policy (ODP)
- Office of Information Technology (OIT)
- Office of Investment Funds (IFD)
- Office of Structured Finance and Insurance (SFI)

In the reporting period, we also performed outreach to DFC stakeholders to discuss ongoing audits and best practices. This outreach included USAID OIG, the World Bank Internal Evaluation Group (IEG), and the Government Accountability Office (GAO). Specifically, we discussed the continued support of the FISMA audit with USAID OIG as well as best practices to measure the development impact with the World Bank IEG. We also coordinated with GAO regarding their ongoing audit of DFC's activities under the Defense Production Act (DPA).



We also briefed several congressional committees regarding our audits, investigations and DFC’s top management challenges. The committees included the Senate and House Appropriations Committees, subcommittees on Foreign Operations, as well as the House Foreign Affairs Committee.



Building DFC OIG

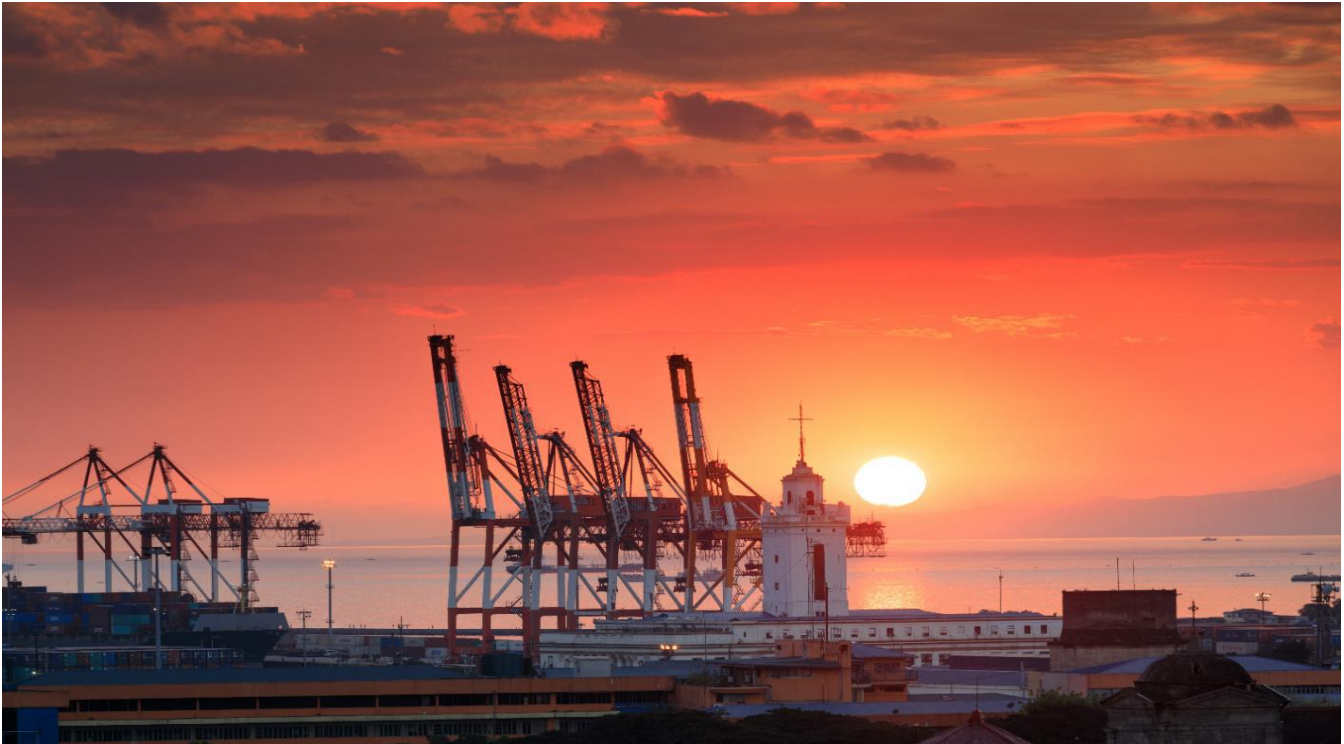
We have made significant strides towards building DFC OIG with the expertise, tools, resources, and support needed to accomplish our mission. Our goal is to ensure that DFC OIG audits, investigations, and reviews are conducted in a thorough and professional manner and performed in accordance with the rigorous standards of objectivity, independence, accuracy and transparency upon which Congress and the American public have come to rely.

Specifically, we have developed internal policies, processes, and procedures for our legal, performance, audit and investigation efforts. This will ensure our work complies with Generally Accepted Government, Council of Inspectors General, and other applicable standards.



We are also making progress towards hiring full time staff for OIG. This reporting cycle we submitted a request and obtained approval for out-of-cycle Senior Leader positions to begin the process of filling our critical executive positions. We issued vacancy announcements to fill our General Counsel/Deputy Inspector General, Assistant Inspector General for Audits, and Assistant Inspector General for Investigations positions.

We are securing office space and plan on moving in this calendar year. Further, we are working with DFC to procure critical audit and investigative tools such as audit and investigative documentation software. We are also working to gain access to other critical audit and investigative tools and systems such as the Financial Crimes Enforcement Network databases and other financial and record search databases.



We have submitted a request to the Department of Justice to obtain Law Enforcement Authority and have developed a Memorandum of Agreement with USAID OIG to support our hotline and perform investigative work pending approval of our Law Enforcement Authority request.

OIG Products

During this reporting period we addressed the following Congressional request.



Congressional Request

On August 21, 2020, we received from the Pandemic Response Accountability Committee (PRAC) an August 20, 2020, request from Senator Elizabeth Warren to investigate DFC's decision to issue a Letter of Interest (LOI) to award a \$765 million loan to the Eastman Kodak Company (Kodak) to produce critical pharmaceutical components in support of the domestic response to COVID-19.

On May 14, 2020, the President signed Executive Order 13922 to delegate to the DFC Chief Executive Officer (CEO) authority under the DPA loan program to:

"further expand domestic production of strategic resources needed to respond to the COVID-19 outbreak, including strengthening relevant supply chains within the United States and its territories to ensure that our country has the capacity, capability, and strong and resilient domestic industrial base necessary to respond to the COVID-19 outbreak."

Specifically, the Executive Order delegated to the DFC CEO, the authority to:

"make loans, make provision for purchases and commitments to purchase, and take additional actions to create, maintain, protect, expand, and restore the domestic industrial base capabilities, including supply chains within the United States and its territories ("domestic supply chains"), needed to respond to the COVID-19 outbreak."

We reviewed DFC's legal authority to enter into an LOI with a domestic company like Kodak; DFC's rationale and methodology for considering the LOI; DFC processes, procedures, and controls for domestic LOIs; and DFC controls in place to avoid conflicts of interest and influence from lobbying that may have impacted DFC officials considering the Kodak loan. In addition, we reviewed the DFC response and documentation regarding the Kodak LOI provided to the U.S House Committee on Financial Services (dated August 14, 2020) and to the Chief investigative Counsel for the House Select Subcommittee on the Coronavirus Crisis, Committee on Oversight and Reform (dated October 1, 2020). Finally, we consulted with the PRAC, the USAID OIG, and the Security Exchange Commission and its OIG, to review the allegations and ensure there was no additional pending or planned work regarding the LOI.



Based upon the evidence we requested and received, our review did not find any evidence of misconduct on the part of DFC officials. However, we plan to conduct a future audit to review DFC DPA projects, processes, and procedures. As part of this future audit, we plan to review DFC's communication of market-sensitive announcements for financial transactions involving publicly traded companies. Currently, GAO announced on September 29, 2020, its intention to audit DFC activities under the DPA, and we will coordinate with GAO as appropriate. At the conclusion of GAO's audit and based upon its findings and recommendations, DFC OIG will plan and scope this future audit to ensure a thorough review of DFC's activities under the DPA program. Link to Report: [Kodak LOI Investigation.](#)





Top Management Challenges

The Reports Consolidation Act of 2000 (Public Law 106–531) requires Federal agencies to include in their performance and accountability reports a statement by their Inspector General summarizing the most serious management and performance challenges facing the agency and progress in addressing those challenges.

From recent audits and investigations conducted by USAID OIG, DFC OIG identified four top management challenges for DFC in FY 2021:

1. **Managing Risks While Balancing Revenues Against Operating Costs.** The mission of DFC is to invest with private sector partners to advance the interests of the American people through development in emerging markets. While the BUILD Act does not require it, for decades, DFC (formerly OPIC) has a cumulative record of generating earnings for the U.S. Treasury and contributed billions towards deficit reduction. However, the BUILD Act states that in general DFC shall prioritize the provision of support in less developed countries with a low-income economy or a lower-middle-income economy. This will translate to additional risks and an emphasis on proactively managing those risks. These countries are now facing a combination of demand shocks reducing income availability, and supply shocks disrupting global supply chains due to the COVID-19 pandemic. Also, the flow of substantial funding into crisis environments increases the risk of fraud, a top management challenge that has been reported by USAID for several years running.
2. **Increase Partnerships with Agencies to Efficiently and Effectively Advance U.S. Foreign Policy and Security Objectives.** The BUILD Act, DFC reorganization plan, and the coordination report¹ indicate several areas where there is a need for strong linkages among the DFC, State Department, USAID, Millennium Challenge Corporation, and other agencies. DFC has taken the first step in its selection of a Chief Development Officer (CDO). The CDO and others will be responsible for developing the linkage with these agencies.
3. **Improve Performance Management, Transparency, Accuracy and Availability of Project Data as DFC's Commitments Grow.** Previous audits have identified areas to improve DFC's broader performance management framework, as well as measuring

¹ The BUILD Act, section 1462, required a report to the appropriations committee detailing the reorganization plan and coordination between DFC and USAID.



the projected development effects of projects. The BUILD Act require the DFC to develop a performance measurement system to evaluate and monitor projects and to guide plans for future projects, which DFC has begun addressing with its creation of the Impact Quotient (performance measurement tool) and a draft transparency policy. DFC’s challenge will be meeting OMB’s guidance to build and rely on a “portfolio of evidence”—quality data to make informed policy decisions and determine whether they are meeting the essential goals of their mission.

4. **Organizational Transition and Additional Responsibilities.** DFC blended personnel from USAID and OPIC into a single organization in accordance with the BUILD Act. Merging organizational cultures, creating new ones, and embedding core values into all aspects of the new corporation is still evolving. This task is not facilitated by continued staff turnover, including at the highest levels in DFC—even as the organization is building and transforming itself to DFC. Leadership, organizational, and transformation skills of leaders are particularly important to the success of DFC as it implements its new mandates under the BUILD Act. In addition, DFC has assumed a new role in providing domestic manufacturing financial services, under the DPA program, through which DFC assists DOD in its national response to the pandemic. DFC must ensure that its DPA commitments do not distract from or negatively impact its core mission of providing financial assistance to developing countries.

Link to DFC’s Top Management Challenges: [DFC Top Management Challenges FY 2021.](#)



DFC OIG Strategic Plan

We issued our *Strategic Plan 2021-2025* which describes how, over the next 5 years, OIG aims to fulfill its statutory responsibilities, improve the value that citizens in developing countries receive from DFC's assistance and investment, and work with members of Congress, the Board of Directors, Chief Executive Officer and senior officials to oversee DFC's efforts to address development challenges and foreign policy priorities of the United States. Our strategic plan, including our strategic goals, is available at [DFC OIG Strategic Plan](#).

Completed and Ongoing Audit Work and Recommendations

We have several completed and ongoing audits during this reporting period.

USAID OIG issued report [A-DFC-21-005-C](#), DFC Generally Implemented an Effective Information Security Program for FY 2020 in Support of FISMA. The USAID OIG contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP (CLA) to conduct the audit of DFC's information security program for FY 2020, in support of FISMA. The audit firm concluded that DFC generally implemented an effective information security program. DFC OIG has coordinated with USAID OIG to continue CLA's contract to perform DFC's FISMA audit for FY 2021.



DFC OIG is assuming the Contracting Officer's Representative role for the contact with CLA for the audit of DFC's FY 2021 financial statements. We are also working with the Department of the Interior, Interior Business Center, to obtain contract assistance with certain legislatively mandated and performance audits for FY 2021 and beyond. These audits include DFC's purchase card program, Digital Accountability and Transparency Act (DATA), and the Payment Integrity Information Act as well as the FY 2022 Financial Statement and FISMA audits. The performance audits will include an assessment of DFC's plans to fully implement the BUILD Act and an assessment of the integration and efficiency of DFC (a follow-up audit similar to report [9-OPC-19-002-P](#) referenced below)

We also closed three recommendations in prior audit reports based on actions taken by DFC management to address the recommendations:

1. Report [A-OPC-20-003-C](#), OPIC Has Generally Implemented Controls in Support of FISMA for Fiscal Year 2019
 - a. Recommendation 1: Document and implement a process to maintain current and up-to-date agreements for backup telecommunications.
2. Report [9-OPC-19-002-P](#), OPIC Investments Increased Chile's Energy Capacity, but Weak Processes and Internal Controls Diminish OPIC's Ability To Gauge Project Effects and Risks.
 - a. Recommendation 4: Implement a process and related guidance to verify and document how projects seeking approval complement U.S. development assistance objectives. It should include considerations for connecting to the Department of State's integrated country strategies and for complementing the work of other U.S. Government agencies and other donors.
 - b. Recommendation 16: Formalize a process for capturing and disseminating lessons learned agencywide that acknowledges strengths and weaknesses associated with business practices, and modify relevant policies and procedures accordingly.

See [Appendix A](#) for a list of open recommendations.



Investigations

DFC OIG began undertaking investigative activity during this semiannual reporting period. Previously, allegations pertaining to DFC were investigated by the USAID OIG. To date, DFC OIG's efforts have been primarily focused on building the framework and capacity of its Office of Investigations (OI) to independently conduct criminal and administrative investigations. DFC OIG and USAID OIG signed a Memorandum of Agreement whereby OI can request USAID OIG investigative support during the transition. We are currently working cooperatively with USAID OIG on two fraud investigations and are jointly assessing a fraud complaint.

DFC OIG also requested that the Attorney General grant law enforcement authority to OIG special agents. OIG began the process of filling a vacancy for the Assistant Inspector General for Investigations (AIGI), a position currently filled by an acting AIGI who is detailed from the Peace Corps OIG. OIG issued an Investigative Manual, setting forth policies and procedures for investigative staff.

During this period, OIG received 14 allegations of fraud, waste, and abuse, and initiated six preliminary inquiries and investigations. In determining whether to open a case, OIG placed special emphasis of whistleblower reprisal.



APPENDIX A

OPEN RECOMMENDATIONS (<https://www.dfc.gov/oig>)

Report Title	Report Number	Date of Report	Recommendation Number	Recommendation
OPIC Implemented Controls in Support of FISMA for Fiscal Year 2017 but Improvements Are Needed	A-OPC-17-007-C	9/28/2017	1	OPIC's chief information officer remediate network vulnerabilities identified by the Office of Inspector General's contractor, as appropriate, or document acceptance of the risks of those vulnerabilities.
OPIC Investments Increased Chile's Energy Capacity, but Weak Processes and Internal Controls Diminish OPIC's Ability To Gauge Project Effects and Risks	9-OPC-19-002-P	2/1/2019	5	OPIC implement a performance management framework that complies with the Government Performance and Results Modernization Act of 2010 and enables OPIC to fully capture its goals and report on progress in achieving its mission.
			6	OPIC implement a process with a sound methodology for validating data provided by borrowers in the self-monitoring questionnaire, and strengthen procedures for timely submissions.



Report Title	Report Number	Date of Report	Recommendation Number	Recommendation
			11	OPIC conduct and document a review of the Office of Investment Policy's guidance to identify any gaps and check for consistency among other offices' related guidance, and update as necessary.
			14	OPIC implement a system to track the receipt, review, and certification of all project deliverables, including third-party reports.
			15	OPIC develop and implement a borrower evaluation system that contains information on performance, including violations, repayment history, compliance, and development impact. Develop a policy requiring this information to be used in the review process for future deals with reoccurring borrowers.
OPIC Has Generally Implemented Controls in Support of FISMA for Fiscal Year 2018	A-OPC-19-006-C	1/30/2019	1	OPIC's chief information officer document and implement a process to update its Privacy Impact Assessments for the Corporation's information systems.



Office of Inspector General
U.S. Development Finance Corporation

Report Title	Report Number	Date of Report	Recommendation Number	Recommendation
			2	OPIC's chief information officer remediate patch and configuration vulnerabilities in the network identified by the Office of Inspector General, as appropriate, and document the results or document acceptance of the risks of those vulnerabilities.
			3	OPIC's chief information officer document and implement a process to verify that patches are applied in a timely manner.
			4	OPIC's chief information officer document and implement a process to verify (1) the account management system is updated promptly to support the management of information system accounts and (2) inactive accounts are promptly disabled after 30 days in accordance with the Corporation's access control procedures.



Office of Inspector General
U.S. Development Finance Corporation

Report Title	Report Number	Date of Report	Recommendation Number	Recommendation
			7	OPIC's chief information officer conduct (1) contingency training and (2) a test of the information system contingency plan in accordance with OPIC's policy.
OPIC Has Generally Implemented Controls in Support of FISMA for Fiscal Year 2019	A-OPC-20-003-C	1/16/2020	2	Implement asset management procedures to include processes for ensuring information system assets are inventoried on an organization-defined frequency.



Office of Inspector General
U.S. Development Finance Corporation



HOTLINE

Call **1-800-230-6539** (via USAID OIG)

Or visit: [**DFC OIG USAID HOTLINE**](#)

OFFICE OF INSPECTOR GENERAL
U.S. International Development Finance
Corporation 1100 New York Avenue, NW
Washington, DC 20527



<https://www.dfc.gov/oig>