



**U.S. International Development Finance Corporation
Office of Inspector General**

Hearing before the
U.S. Senate
Committee on Foreign Relations

Written Testimony for the Record of
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Build Act Reauthorization and Development Finance Corporation Oversight
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Chairman Cardin and Ranking Member Risch, and members of the Committee, thank you for allowing me the opportunity to provide written testimony for the record to discuss the U.S. International Development Finance Corporation (DFC) Office of Inspector General's (OIG) oversight work related to DFC.

About DFC OIG

DFC OIG's mission is to prevent, detect, and deter fraud, waste, and abuse by conducting and supervising audits and investigations of DFC's programs and operations worldwide. Congress established DFC OIG in the Better Utilization of Investments Leading to Development (BUILD) Act of 2018 ([Public Law 115-254](#)). Like other Offices of Inspector General, DFC OIG gets its authority from the Inspector General Act of 1978, as amended ([IG Act](#)). I was appointed as DFC's first Inspector General in August 2020 and report directly to the DFC Board of Directors and Congress. DFC OIG is a lean office with 13 FTEs and a \$5.5 million budget in FY 2023. However, we are tasked with overseeing a growing agency whose budget has increased to over \$1 billion, staff has grown to 513 employees, and has increased the number of new projects by about 132% between FY 2020 and FY 2022.

DFC's development portfolio has reached almost \$40 billion¹ and is expected to grow in the coming years, especially in economies that may not have adequate safeguards to address fraud and corruption. DFC products include debt financing, equity investments, feasibility studies, investments funds, political risk insurance, and technical assistance.² These products are essential to supporting key sectors, such as small business, energy, water, infrastructure, agriculture, and health, which improve the quality of life for millions and lay the groundwork for creating modern economies and providing financing for women or other borrowers who do not have sufficient access to commercial financing.

DFC needs an effective OIG to safeguard American taxpayer dollars as DFC fulfills its dual mission to partner with the private sector to finance solutions to the most critical challenges facing the developing world today, while also advancing U.S. foreign policy priorities.

Oversight Work to Date

In the last year, DFC OIG completed all four of its congressionally mandated audits, issued a draft report to management on one performance audit, and conducted eight investigations, four of which were referred to the Department of Justice for prosecution. Some of our audit and investigative work is highlighted below and additional details can be found in our [Spring FY 2023 Semiannual Report to Congress](#) and [Fall FY 2022 Semiannual Report to Congress](#). Our semiannual reports to Congress, as well as our audit reports, Top Management Challenges Facing DFC,³ and other public documents and correspondence can be found on our external website, www.dfc.gov/oig.

Audits

The Office of Audits conducts a variety of independent, statutorily mandated, and discretionary performance audits assessing controls of DFC programs and operations to detect and deter waste and mismanagement. Mandatory audit work includes Financial Statements, Federal Information Security Modernization Act (FISMA), Risk Assessment of Government Charge Cards, and Payment Integrity

¹ [U.S. International Development Finance Corporation. Annual Management Report, FY 2022](#)

² DFC Website: <https://www.dfc.gov/what-we-offer/our-products>

³ DFC OIG website: <https://www.dfc.gov/oig/reports/strategic-plans-top-management-challenges>

Information Act (PIIA) audits. Performance audits determine if programs or functions are operating as intended to achieve stated goals. Two recent performance audits are highlighted below.

- [DFC Made Significant Progress Implementing Provisions of the BUILD Act](#) This audit revealed that DFC complied with and implemented 116 of the 118 subsections of the BUILD Act. The two subsections not fully implemented were: (1) the roles, responsibilities, and authorities of the Chief Development Officer and Chief Risk Officer; and (2) DFC publicly reporting performance metrics including development impact on a country-by-country basis. In addition, we noted two observations regarding: (1) the methodology of calculating and tracking the progress of investments in less developed countries;⁴ and (2) the Annual Report timeliness.
- We are finalizing an audit of DFC-funded renewable energy and finance projects in India. This was DFC OIG's first audit where we had "boots on the ground," allowing us an opportunity to review projects and see DFC's impact in developing countries firsthand. Our audit team, along with DFC staff, traveled to India in February and March 2023, where we visited eight DFC-financed projects. We issued a draft report to management in September. Issues identified in the report include records management, waiver of environmental and social standards, project monitoring, reporting fatalities and serious injuries, and subordinate loans policies. The final report of our audit findings and recommendations will be published later this month.

Investigations

The Office of Investigations conducts proactive investigations and responds to allegations of fraud, abuse, and misconduct, which may result in criminal, civil, or administrative sanctions. DFC OIG investigations protect whistleblowers and address critical and sensitive issues supporting not only DFC's mission, but also U.S. foreign policy objectives and national security interests more broadly. The Office of Investigations seeks to foster the integrity of DFC employees, partners, and contractors, and encourages them to report suspected wrongdoing through outreach and training. To inform and protect whistleblowers, DFC OIG provides training to new DFC employees and issues periodic newsletters to all DFC employees to inform on how OIG conducts investigations and protect those who report suspected fraud, illegal activity, or misconduct. OIG has investigated several complaints by whistleblowers, including whistleblower reprisal complaints against two senior officials, both of which were substantiated.

The OIG Hotline is available 24 hours every day [online](#) or by phone, +1 833-OIG-4DFC. This permits information and complaints to be submitted to DFC OIG easily and confidentially from anywhere in the world. Since DFC OIG's inception, we have received 64 allegations, which have resulted in 39 preliminary inquiries or investigations. During that time, we conducted 6 proactive initiatives to detect fraud and illegal conduct. In a recent investigation, we found that a loan applicant submitted false financial statements to DFC in support of a \$41 million loan for a construction project in the Middle East. Fortunately, the loan commitment was cancelled before funds were dispersed. We sent a report to DFC management detailing our findings and have referred the subjects of the investigation to DFC for debarment. This will be the first suspension and debarment referral to DFC.

As part of a proactive investigative initiative OIG traveled to India to verify that solar panels used in projects funded by DFC loans were not linked to forced labor programs as identified by a Federal interagency advisory.⁵ We examined the solar modules and inverters and confirmed that although they

⁴ Under the BUILD Act, DFC is required to prioritize support for less developed countries with a low-income economy or a lower-middle-income economy. See 22 U.S.C. § 9612(c)(1); see also 22 U.S.C. § 9601(2).

⁵ [U.S. Interagency: Xinjiang Supply Chain Business Advisory](#): Risks and Considerations for Businesses and Individuals with Exposure to Entities Engaged in Forced Labor and other Human Rights Abuses linked to Xinjiang, China, updated July 13, 2021.

were manufactured by companies in the PRC, they were not linked to forced labor origins.

Ukraine Management Advisory

DFC OIG intends to proactively protect DFC's investments in Ukraine. To raise awareness of potential areas for fraud and abuse, we issued a management advisory, [Key Considerations to Inform DFC's Response in Ukraine](#), to DFC management in June 2023. DFC plans to mobilize well over \$1 billion in private sector capital to support the economy and people of Ukraine. While it has been reported that Ukraine has made significant improvements in its efforts to address corruption, it still faces challenges with implementing internal controls to ensure effective and efficient reconstruction efforts. DFC OIG is a member of the Ukraine Oversight Interagency Working Group; coordinating with other OIGs, international law enforcement entities, and various domestic and international stakeholders, and intends to commit resources to proactively monitor and evaluate DFC-funded projects in Ukraine.

DFC Top Management Challenges in FY2023

Last fall, in collaboration with DFC, OIG published Top Management Challenges (TMCs) facing DFC in FY 2023 and discussed four challenges:⁶ (1) improving monitoring and evaluating actual development impact; (2) improving performance management, transparency, accuracy and availability of project data as DFC's commitments grow; (3) balancing heightened expectations of Congress and stakeholders while managing risks; and (4) managing organizational transition while building internal controls of core management systems. Specifically, we identified that DFC needs to take action to make actual development impact achieved and promotion of our nation's foreign policy the primary metrics of its success. We are currently working with DFC to identify FY 2024 TMCs, which likely will be similar to those previously identified.

Memorandum of Agreements

DFC OIG has been actively establishing international partnerships to support anti-fraud and anti-corruption initiatives that will enrich our audit and investigative efforts. We recently executed Memoranda of Agreement (MOA) with the United Nations Office of Project Services (UNOPS) Internal Audit and Investigations Group, the European Anti-Fraud Office (known by the acronym OLAF), and the World Bank Group Internal Audit (GIA). These MOAs are based on a common interest to enhance relationships that support sharing information and other resources with these international partners, which is critical given the international nature of our work.

Looking Ahead

The BUILD Act authorizes DFC to grow its portfolio to \$60 billion. To reach this goal, DFC plans to increase its staff level to 700 by September 2024. As DFC's portfolio and staff levels grow, the OIG also must grow. To audit program and operational effectiveness, as well as investigate allegations of fraud, in a portfolio of DFC's size and complexity, the OIG must attract and retain skilled, experienced auditors, evaluators, investigators, attorneys, and other professionals. We also want to effectively monitor and evaluate DFC-funded projects worldwide, which includes site visits, as a critical aspect of evaluating progress, assessing development impact, developing relationships, and identifying potentially fraudulent activity.

⁶[Top Management Challenges Facing DFC in FY 2023](#), DFC OIG website: www.dfc.gov/oig

Future Planned Audits

The OIG currently has two future audits planned for FY2024. The first is an audit of DFC's goods and services contracts. We issued an audit announcement letter to management this week. The objective of this audit is to determine whether DFC complied with applicable goods and services contract regulations, policies, and. In the second audit, because of DFC's dramatic growth⁷ and the recent organization realignment announcement, we plan to audit DFC's workforce planning efforts. We will assess if DFC is hiring the right people in the right places, how decisions were made, and explore current employee retention efforts. We will also review DFC's strategic human capital management as it positions the organization to be more effective and results-oriented by managing DFC's most valued resource – its people.

DFC's Suspension and Debarment Program

The OIG referred its first suspension and debarment referral to DFC in September 2023. This involved a loan applicant who submitted false financial statements to DFC in support of a \$41 million loan for a construction project in the Middle East. Fortunately, the loan commitment was cancelled before funds were dispersed. OIG sent a report to DFC management detailing our findings and requesting that the involved parties be debarred from doing future business with the U.S. Government.

Inspections & Evaluations of DFC Projects Worldwide

DFC has a global reach and currently has development initiatives in four regions: Africa and the Middle East; Latin America and the Caribbean; Indo-Pacific; and Eastern Europe and Eurasia. DFC has also stated that it plans to open several offices in strategic global locations. In addition, DFC has also made investment commitments in Ukraine, which will likely increase in the future. To enhance our oversight efforts, DFC OIG intends to establish and mobilize an inspections and evaluations (I&E) program in FY 2024 to assess 8-10 DFC-funded projects around the world. An I&E program is needed to improve transparency and provide timely status of project progress and development impact as DFC's portfolio continues to grow. The I&E program will provide "boots on the ground," giving DFC OIG the ability to provide real-time input regarding project status and effectiveness to help make timely recommendations for improvement and identify where administrative action might be necessary. The OIG's I&E program will incorporate lessons learned from our recent audit of DFC investments in India and we will also collaborate with DFC's Office of Accountability and DFC's Impact Management and Monitoring Division.

Reauthorization Considerations

While DFC OIG is in the process of evaluating meaningful recommendations for Congress to consider as it deliberates policy options to ensure DFC is equipped to accomplish its dual mandate, so far, we have identified the following items for DFC OIG to continue to provide efficient and effective oversight.

1. Need for Law Enforcement Authority

DFC OIG is hampered in its ability to independently conduct certain law enforcement activities because we do not have law enforcement authority. Our request for such authority has been pending with the U.S. Attorney General's Office for close to three years. Prior to the BUILD Act, DFC's predecessor, the Overseas Private Investment Corporation (OPIC), was overseen by USAID OIG, which has law enforcement authority. Compared to OPIC, DFC has a significantly larger portfolio, a larger staff, expanded investment authority (including equity), and increased focus on development impact and

⁷ DFC plans to have 700+ employees by 2025.

promoting U.S. national interests. DFC OIG cannot properly oversee DFC without the same law enforcement authority that its predecessor OIG – and almost all other OIGs – have. Our lack of law enforcement authority has also hampered our ability to recruit and hire experienced investigators, who naturally want to continue their law enforcement careers.

Should a legislative authorization be introduced by Congress, it can include the following language.

Add at the end of subtitle G of division E the following:

SEC. . LAW ENFORCEMENT AUTHORITY OF THE INSPECTOR GENERAL
OF THE UNITED STATES INTERNATIONAL DEVELOPMENT FINANCE
CORPORATION.

Section 6(f)(3) of the Inspector General Act of 1978 (5 U.S.C. App.) is amended by inserting “International Development Finance Corporation,” before “Environmental”.

2. Access to Contractor, Partner, and End Beneficiary Information

As DFC OIG conducts audits of DFC’s programs and operations as well as investigates allegations of fraud and corruption, access to information from all entities involved is imperative to evaluate program and operational effectiveness and to confirm if allegations have merit.

Conclusion

DFC OIG is dedicated to safeguarding the critical resources entrusted to DFC to carryout U.S. development initiatives and foreign policy priorities. As we complete our work, we will continue to address new vulnerabilities and challenges, and will consult with Congress, our Board of Directors, OMB, and other stakeholders to provide the most impactful and responsive oversight possible.

I appreciate the opportunity to provide you with this overview of our work and our needs. My staff and I are always available to brief you and your staff and look forward to working with you on prioritizing future oversight efforts.