



DFC's Consolidated Financial Statements for Fiscal Year 2022

November 15, 2022
Audit Report DFC-23-002-C

1100 New York Avenue NW
Washington, D.C. 20527
<https://www.dfc.gov/oig>



OFFICE OF INSPECTOR GENERAL

U.S. International Development Finance Corporation

Date: November 15, 2022

MEMORANDUM FOR: MR. SCOTT NATHAN
CHIEF EXECUTIVE OFFICER (CEO)

MS. MILDRED CALLEAR
CHIEF FINANCIAL OFFICER (CFO)

SUBJECT: DFC's Consolidated Financial Statements for Fiscal Year
2022 (Report Number DFC-23-002-C)

Enclosed is the Fiscal Year 2022 Consolidated Financial Statement opinion audit report.

We contracted with the independent public accounting firm RMA Associates, LLC (RMA) to audit the consolidated financial statements of the United States International Development Finance Corporation (DFC) for the fiscal year ended September 30, 2022, report on internal control over financial reporting, and report on compliance with laws and other matters. The contract required the audit to be performed in accordance with U.S. generally accepted auditing standards, Office of Management and Budget audit guidance, and the Government Accountability Office's and Council of the Inspectors General on Integrity and Efficiency's Financial Audit Manual.

In its audit of DFC, RMA reported

- the consolidated financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- one material weakness¹ and no significant deficiencies² in internal control over financial reporting; and
- no reportable noncompliance with provisions of laws tested and other matters.

¹ A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

² A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

RMA reported a material weakness in DFC's internal control over financial reporting regarding the fiscal year (FY) 2021 Statement of Budgetary Resources (SBR). Since the Department of Treasury Fiscal Service did not include DFC in its listing of agencies with Distributed Offsetting Receipts, DFC overstated the financial statement line for Distributed Offsetting Receipts in its Combined Statement of Budgetary Resources (SBR) by \$460 million. DFC corrected the error by restating this line item without the inclusion of the \$460 million. DFC also implemented effective policies and procedures necessary to properly record and report these types of deposits going forward, therefore no further recommendation is necessary.

RMA is responsible for the attached auditor's report dated November 15, 2022 and the conclusions expressed therein. We do not express opinions on DFC's consolidated financial statements, or report on internal control over financial reporting, or report on compliance with selected provisions of laws tested and other matters.

A handwritten signature in blue ink that reads "Anthony Zakel". The signature is fluid and cursive, with the first name "Anthony" written in a larger, more prominent script than the last name "Zakel".

Anthony "Tony" Zakel
Inspector General
U.S. International Development Finance Corporation

Independent Auditor's Report

To the Chief Executive Officer and Inspector General of United States International Development Finance Corporation:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the United States International Development Finance Corporation (DFC) which comprise the consolidated balance sheet as of September 30, 2022, and the related consolidated statements of net cost and changes in net position, and the combined statement of budgetary resources (hereinafter referred to as 'financial statements'), for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the DFC as of September 30, 2022, and its net cost, changes in net position, and combined budgetary resources for the year then ended, in accordance with accounting principles generally accepted in the United States.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for the Federal Financial Statements*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the DFC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the prior period were audited by a predecessor auditor. The opinion expressed by the predecessor auditor was an unmodified opinion as of and for the years ended September 30, 2021, and 2020. The predecessor auditor report was dated November 12, 2021.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DFC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and Combining Statement of Budgetary Resources by Major Budget Account be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our

audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the Annual Management Report. The other information comprises the DFC's *Agency Head Letter*, Report on Payment Integrity Information Act, and Climate-Related Financial Risk but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statement, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the DFC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DFC's internal control. Accordingly, we do not express an opinion on the effectiveness of the DFC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. We identified one deficiency in internal control, described in the accompanying Exhibit I that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DFC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 22-01.

Management's Response to Audit Findings and Recommendations

DFC's comments can be found in Exhibit II. DFC's response was not subject to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of the Other Reporting Required by *Government Auditing Standards*

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DFC's internal control or compliance. This section is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DFC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RMA Associates

RMA Associates

Arlington, VA
November 15, 2022

Exhibit I – Material Weakness in Internal Control

Distributing Offsetting Receipts Restatement

Since the Department of Treasury Fiscal Service did not include DFC in its listing of agencies with Distributed Offsetting Receipts, DFC overstated the financial statement line for Distributed Offsetting Receipts in its Combined Statement of Budgetary Resources (SBR) by \$460 million. The \$460 million represented unobligated amounts from liquidating funds transferred to DFC from the legacy United States Agency for International Development lending programs that were deposited into the Department of Treasury’s General Fund Receipt Account (GFRA). Deposits into the GFRA Account are considered by the Department of Treasury’s Bureau of Fiscal Service (Fiscal Service) to be Capital Transfers to the Department of Treasury’s General Fund rather than Distributed Offsetting Receipts.

Therefore, the inclusion of the \$460 million in the Distributed Offsetting Receipts financial statement line item was reported in error and was materially misstated in DFC’s Combined SBR for the year ended September 30, 2021. DFC corrected the error by restating the financial statement line item without the inclusion of the \$460 million. DFC also implemented the effective policies and procedures necessary to properly record and report these types of deposits going forward.

Recommendation:

No further recommendation is needed as we have verified that DFC has implemented effective policies and procedures necessary to properly record and report these types of deposits going forward.

Exhibit II – Management’s Response to the Material Weakness in Internal Control



MEMORANDUM

November 14, 2022

TO: Anthony Zakel

Inspector General

DFC – Office of the Inspector General

FROM: Mildred Callear

MILDRED CALLEAR
Digitally signed by MILDRED CALLEAR
Date: 2022.11.10 15:47:04 -05'00'

Vice President and Chief Financial Officer

SUBJECT: DFC’s Management Comments to “DFC’s Consolidated Financial Statements for Fiscal Year 2022 (Report Number DFC-23-002-C)”

DFC wishes to thank the Office of the Inspector General (OIG) for the deep level of collaboration and cooperation that was realized throughout this audit. As stewards of federal funds, DFC takes very seriously its responsibility to uphold high standards of internal control over financial reporting. We greatly appreciate the recognition from RMA Associates that DFC’s financial statements fairly present the financial position of DFC for FY 2022. DFC also appreciates the acknowledgement that DFC has remedied the control issues surrounding the restatement of DFC’s FY 2021 Statement of Budgetary Resources and that no further corrective actions are necessary.

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