



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

Perspectives on Oversight of the U.S. International Development Finance Corporation

Statement of
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Subcommittee on State, Foreign Operations, and Related Programs
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Madam Chairwoman Lee, Ranking Member Rogers, and Members of the Subcommittee, thank you for inviting me here today to discuss perspectives on our oversight of the U.S. International Development Finance Corporation (DFC). DFC is America's development bank, created by the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act)¹ and blending personnel from the U.S. Agency for International Development (USAID) and the Overseas Private Investment Corporation (OPIC) into a single organization. DFC's private sector tools provide a critical bridge between Federal resources and dynamic private-sector-driven development while promoting U.S. national security interests.

Through DFC, the U.S. Government accelerates the flow of private capital to less-developed countries by supporting private sector investments that cannot obtain financing from other sources. This support is essential to advancing key sectors, such as infrastructure, agriculture, and health, which improve the quality of life for millions and lay the groundwork for modern, inclusive, and sustainable economies. DFC has outlined investments of over \$25 billion and aims to mobilize an additional \$50 billion in private sector capital—for a total of \$75 billion—to reach more than 30 million people by the end of 2025.

The DFC Office of Inspector General was also created by the BUILD Act, and I was appointed as the first DFC Inspector General in August 2020. Since that time, I have set the course for oversight through careful coordination with Congress, DFC, USAID OIG, the U.S. Government Accountability Office (GAO), and others to assess and reprioritize prior and ongoing audits and investigations of DFC. I look forward to building DFC OIG with the expertise, tools, resources, and support needed to accomplish our mission.

My testimony today will focus on 1) the mission and priorities of the newly created DFC OIG, 2) the audit and investigative work we have completed and are planning for the future, and 3) the top management challenges facing DFC in fiscal year (FY) 2021.

¹ https://www.dfc.gov/sites/default/files/2019-08/BILLS-115hr302_BUILDAct2018.pdf.

Summary

Through the passage of the BUILD Act, Congress recognized the importance of strong oversight. We at DFC OIG are prepared to meet that responsibility by focusing on three key areas. First, our main priority is to implement and follow the Inspectors General Act of 1978 (IG Act).² Our mission is to conduct audits and investigations to improve the performance and integrity of DFC's operations and programs in providing foreign assistance to developing countries across the world, either through direct loans and guarantees, equity investments, political risk insurance, feasibility studies or technical assistance. Second, since I became Inspector General in August 2020, we have completed several products including our first Semiannual Report to Congress, Top Management Challenges, our OIG Strategic Plan, a Cooperation Memo with DFC, and a Federal Information Systems audit report. We also currently have six administrative and criminal investigations underway. This summer, we will announce the start of several audits—including those requested by this Committee—and will report on DFC's progress in implementing the provisions of the BUILD Act. Third, from recent audits and investigations conducted by USAID OIG, we identified four top management challenges for DFC: 1) managing risks; 2) increasing partnerships to efficiently and effectively advance U.S. foreign policy and security objectives; 3) improving performance management and accuracy of DFC project data; and 4) transitioning the organization. DFC OIG's future audits and investigations will be aligned to address these challenges.

DFC OIG Mission and Priorities

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. Our main priority at DFC OIG is to implement and follow the IG Act. According to the IG Act, the role of an OIG is to prevent and detect fraud, waste, and

² Inspector General Act, October 1978.

abuse relating to each agency's programs and operations, and to promote economy, efficiency, and effectiveness in the agency's operations and programs.

As outlined in our Strategic Plan,³ our mission is to conduct audits and investigations to improve the performance and integrity of DFC's operations and programs in providing foreign assistance to developing countries across the world, either through direct loans and guarantees, equity investments, political risk insurance, feasibility studies or technical assistance. Drawing inspiration from my experience at the Department of Transportation OIG, DFC OIG will adhere to the following core values when performing our work:

- **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 its results and for the resources the public invests in the corporation.
- **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 supporting highly impactful projects in developing countries.

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. Through our oversight work, we help to ensure that DFC effectively delivers the development and financial assistance needed around the world while enhancing U.S. foreign policy and national security interests.

³ [OIG Strategic Plan 2021-2025](#), March 2021.

DFC OIG Completed and Planned Work

Prior to the creation of DFC OIG through the BUILD Act, USAID OIG conducted oversight of what was then OPIC. Since DFC OIG started in August 2020, we have been working on setting up the infrastructure to conduct oversight of DFC through audits, reviews, and investigations. We took the following actions to build an OIG that is responsive to the expectations of Congress, DFC, and its Board of Directors:

- We applied to the Office of Personnel Management (OPM) for out-of-cycle allocation to DFC OIG for three senior leaders—General Counsel, and Assistant Inspectors General (AIGs) for Audits and Investigations. OPM approved this request, and since that approval, we have worked with DFC’s human resources office to advertise for these three OIG leadership positions. After a competitive process, we recently made a tentative offer for the General Counsel/Deputy IG position and look to make tentative offers for the AIG positions later this month. Our goal is to have a staff of nine full-time employees for DFC OIG by the end of this fiscal year.
- In the interim, with the assistance of the Council of Inspectors General on Integrity and Efficiency (CIGIE), DFC OIG benefits from the services of three senior leaders on detail from other Federal OIGs who are helping DFC OIG conduct our audits and investigations. In addition, USAID OIG continues to assist DFC OIG as we become fully operational.
- We have also submitted a request to the Department of Justice to obtain Law Enforcement Authority and developed a Memorandum of Agreement with USAID OIG to support our hotline and perform investigative work pending approval of our Law Enforcement Authority request.
- We issued solicitations to obtain contractor support for performing mandatory and discretionary audit work, which include the Federal Information Security Modernization Act (FISMA), Risk Assessment of Government Charge Cards, the Digital Accountability and Transparency Act (DATA Act)⁴, the Payment Integrity

⁴ Public Law No. 109-282.

Information Act (PIIA)⁵, and—as requested by this Committee—a review of DFC’s compliance with appropriations and DFC’s processes and controls to gauge project effects and risks.⁶

- For greater transparency and ease of access to OIG work, we developed a [DFC OIG website](#) with links to all of our final products related to audits, investigations, and correspondence; DFC’s open audit recommendations; whistleblower rights and protections; and links to the OIG Hotline to allow DFC employees, contractors, and stakeholders to report fraud, waste, and abuse.
- We identified the Top Management Challenges facing DFC.⁷ We also published our Strategic Plan for 2021-2025,⁸ which describes how OIG aims to fulfill its statutory and oversight responsibilities over the next 5 years.
- To ensure transparency, accountability and access, we established a process and responded to several Freedom of Information Act (FOIA) requests from the media and other stakeholders seeing information on DFC OIG work.

We have also completed and initiated oversight work to inform Congress and safeguard DFC operations and programs. For example:

- We responded to a request from Senator Elizabeth Warren 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-19.⁹ Our review did not find any evidence of misconduct on the part of DFC officials.
- DFC OIG has received 14 allegations of fraud, waste, and abuse since August 2020. In response we have initiated 6 preliminary inquiries and investigations. We are also working with USAID OIG on two fraud cases and jointly assessing a fraud complaint.

⁵ Public Law 116-117.

⁶ House Report 116-444.

⁷ [DFC Top Management Challenges FY 2021](#), March 2021.

⁸ [DFC OIG 5 Year Strategic Plan](#), March 2021.

⁹ [Kodak LOI Investigation](#), December 2020.

Looking ahead, we will continue our preliminary inquiries and investigations and plan to initiate audits in the upcoming year and beyond, with contractor assistance. Specifically, we will start the following legislatively required audits:

- The DFC Financial Statement and Federal Information Security Modernization Act (FISMA) audits. Both audits have already been initiated for FY 2021.
- The Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act) requires all executive branch agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts consistent with existing guidance. The objective of this audit will be to determine if DFC has established adequate safeguards and internal controls over the Purchase Card Program.

We also plan to initiate the following performance audits:

- *Assessment of DFC's Progress in Implementing the BUILD Act.* We will assess DFC's progress in implementing the provisions of the BUILD Act and ascertain the time and challenges remaining to fully implement the remainder of the provisions not yet implemented by DFC.
- *Follow-Up Audits of DFC's Processes and Procedures.* As requested by this Committee, DFC OIG will submit a report to the Committee on Appropriations assessing the integration and efficiency of policies, procedures, and processes at DFC. After consulting with this Committee, we will be initiating two audits similar to those recently completed by USAID OIG. The first will be similar to the USAID OIG audit conducted to ensure compliance with the FY 2018 Consolidated Appropriations Act.¹⁰ The second audit will be similar to the USAID OIG audit of DFC's Chile Energy Sector Portfolio completed in 2019.¹¹
- *Evaluation of DFC's Enterprise Risk Management Procedures and Chief Risk Officer Responsibilities.* Section 1413 of the BUILD Act created the management position of Chief Risk Officer and assigned specific duties to that office related to the risk

¹⁰ <https://oig.usaid.gov/sites/default/files/2019-07/9-OPC-19-005-P.pdf>.

¹¹ <https://oig.usaid.gov/sites/default/files/2019-02/9-OPC-19-002-P.pdf>.

management policies and procedures of DFC. In addition, Section 1441 of the BUILD Act provides that the Risk Committee has oversight responsibility of specific DFC activities and processes. The objective of this audit is to assess DFC's Enterprise Risk Management program along with Chief Risk Officer policies and procedures to determine if DFC meets the requirements of the BUILD Act and OMB Circular A-123¹².

We will continue to assess the impact of our work and consult with Congress, DFC, and its Board of Directors as we identify new and evolving risks, vulnerabilities, and challenges at DFC through our audits and investigations.

DFC's Top Management Challenges for FY 2021

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, my statement today outlines the four top management challenges for DFC. Focusing attention in the following areas is critical in promoting the efficiency and effectiveness of DFC's operations and programs:

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 had a cumulative record of generating earnings for the U.S. Treasury and has contributed billions toward 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 that reduce income availability and supply shocks that disrupt global supply chains due to the COVID-19 pandemic. Also, the flow of

¹² <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2016/m-16-17.pdf>.

substantial funding into crisis environments increases the risk of fraud, a top management challenge that has been reported by USAID OIG for several years.

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 Report¹³ 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. This senior leader 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 the projected development effects of projects. The BUILD Act requires 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 the corporation is meeting the essential goals of its 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 a work in progress. This task is made more challenging by continued staff turnover, including at the highest levels in DFC—even as the organization is building and transforming itself. Leadership, organizational, and transformation skills of leaders are critical 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

¹³ The BUILD Act, section 1462, required a report to the appropriations committee detailing the reorganization plan and coordination between DFC and USAID (https://www.dfc.gov/sites/default/files/2019-08/CoordinationReport_Shelby_7_31_19.pdf).

Department of Defense (DOD) Defense Production Act program, through which DFC assists DOD in its national response to the pandemic. DFC must ensure that its commitments to this program do not impact its core mission of providing financial assistance to developing countries.

Conclusion

It is an honor to serve as DFC's first Inspector General since my appointment in August 2020. I have been impressed by the commitment and professionalism of DFC and have a deep respect for the mission and the opportunity for DFC to invest in highly impactful projects in developing countries and advance our nation's foreign policy. My job is to establish DFC OIG as a trusted partner of the corporation, its Board of Directors, and Congress, while carrying out our independent and objective oversight work. I look forward to working with all the members of the Board, DFC, Congress, and this Subcommittee to accomplish our mission as legislated in the BUILD and IG Acts. I also look forward to working with you to ensure that DFC is successful in meeting its mandate to facilitate market-based private sector development and inclusive economic growth in less-developed countries.

Thank you for the opportunity to testify on the start of DFC OIG. This concludes my prepared statement. I will be happy to answer any questions Members of the Subcommittee may have.