



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

Hearing before the
U.S. Senate
Committee on Appropriations
Subcommittee on State, Foreign Operations, and Related Programs

Written Testimony for the Record of
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U.S. International Development Finance Corporation
Office of Inspector General

**Strengthening American Competitiveness: Examining the Roles of the U.S.
International Development Finance Corporation, Export-Import Bank of the United
States, and Millennium Challenge Corporation**

May 15, 2024

Chairman Coons and Ranking Member Graham, and members of the Subcommittee, 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.

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 full-time equivalents (FTEs) and a \$7.2 million appropriated budget for FY 2024.

DFC currently has active investment portfolios in Africa, the Middle East, Latin America, the Caribbean, the Indo-Pacific, and Europe. At the end of FY 2023, DFC's development portfolio reached more than \$41 billion, bringing it closer to reaching its \$60 billion exposure ceiling. During that same period, DFC had active investments in 112 countries, with 73 percent of those investments in low-and lower-middle-income countries. DFC has invested more than \$1 billion in political and war risk insurance, equity investment, and debt financing to support Ukraine. DFC funds are flowing quickly, with urgency to mobilize private capital to meet U.S. strategic and foreign policy objectives in economies that may not have adequate safeguards to address fraud and corruption.

OIG's FY 2025 Appropriation Request

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. DFC OIG has requested \$8 million for FY 2025, which is the amount proposed in the President's FY 2025 budget. The OIG will continue to prioritize hiring and obtaining essential resources to conduct and supervise independent audits, investigations, inspections, and evaluations of DFC's growing investment portfolio and organization.

Increase OIG Staff to Match DFC's Growth

The OIG is tasked with overseeing a growing agency whose budget has increased to over \$1 billion and staff has grown to over 600 employees – with plans to grow to 700 FTEs. The OIG has formed an experienced oversight team of audit, investigative, legal, and other professionals that have already produced notable results in FYs 2023 and 2024, identifying more than \$95 million in monetary impact. To continue providing effective oversight in a portfolio of DFC's size and complexity, the OIG must attract and retain skilled, experienced auditors, evaluators, investigators, attorneys, and other professionals. The OIG proposes to hire an additional 5 FTEs by the end of FY 2024, which will include auditors, a data analyst, an attorney, and paid intern. The OIG faces a challenge with hiring investigators because we do not have law enforcement authority and the OIG's sole investigator left in April 2024 for an agency that already has law enforcement authority. We will continue to pursue this authority, which will improve our ability to recruit and retain experienced criminal investigators.

Oversight Work to Date

In the last year, DFC OIG completed all four of its congressionally mandated audits, issued a report to management on one performance audit, and completed more than 20 investigations. Some of our audit and investigative work is highlighted below and additional details can be found in our [Fall FY 2024 Semiannual Report to Congress](#) and [Spring FY 2023 Semiannual Report to Congress](#). Our semiannual reports to Congress, audit reports, [Top Management Challenges Facing DFC in FY 2024](#) 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. A recent performance audits is highlighted below:

- [DFC Can Improve Oversight of Renewable Energy and Financing 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, where we visited eight DFC-financed projects. The audit revealed DFC supported local country development in alignment with its mission and BUILD Act of 2018 requirements. However, DFC did not adequately support a waiver of environmental and social standards for one of the projects reviewed, resulting in \$54.91 million in unsupported questioned costs. DFC also did not develop sufficient internal controls to support the approval process for projects financed through subordinated debt. In addition, DFC's records management system was unreliable when compiling a complete set of documents for individual projects. Finally, DFC did not develop a risk-based assessment to determine which sites to visit or a method to track, report and monitor significant environmental and social events, particularly fatalities and serious injuries. Three fatalities and two serious injuries occurred on one of the reviewed projects.

The audit also revealed some positive findings. We were able to see the impact DFC-funded investments have firsthand. Specifically, we visited a school in rural India that received solar power and internet access from a DFC project sponsor as part of the sponsor's corporate social responsibility program. This was not only a great example of development impact, but also demonstrated the challenges DFC faces in quantifying its impact through its investments in the local community. In another example, DFC provided a \$250 million loan to a company specializing in pre-owned vehicle financing, and the audit team met with one such individual who was able to obtain a loan to purchase a pre-owned vehicle. He used the loan to start his own business and currently uses the vehicle for ridesharing and tourists. Lastly, we were cognizant of congressional concerns about whether any of DFC's investments in solar energy used goods or materials from Xinjiang, China or were connected to the use of forced labor from Xinjiang. Thus, during the fieldwork phase of this audit, we inspected solar panels financed by DFC. Fortunately, we did not find any panels from prohibited sources.

- OIG has several audits in progress including the following:
 - An audit of DFC's management of goods and services contracts will determine whether DFC complied with applicable goods and services contract regulations, policies, and procedures.

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- Three mandatory audits in progress: Financial Statement, Federal Information Security Modernization Act (FISMA), and Payment Integrity Information Act (PIIA).

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 quarterly newsletters to all DFC employees to inform on how OIG conducts investigations and protects those who report suspected fraud, illegal activity, or misconduct.

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 the OIG easily and confidentially from anywhere in the world. We have also conducted several proactive initiatives to detect fraud and illegal conduct. Since the OIG's inception, we have investigated more than 70 allegations of misconduct, fraud, and other illegal activity. OIG has also investigated several complaints by whistleblowers, including two substantiated whistleblower reprisal complaints against senior officials in the last three years. Below are highlights from some of our recent investigative work:

- The OIG received a complaint from a DFC employee alleging various types of misconduct committed by a DFC senior executive. The employee also alleged that the senior executive was retaliating against the employee for filing a complaint with the OIG. During the investigation, the senior executive gave the whistleblower a failing rating, proposed the removal of the whistleblower from federal service, and placed the whistleblower on administrative leave. The OIG and the Office of Special Counsel (OSC) separately investigated the allegation of whistleblower reprisal. Both investigations obtained evidence supporting the whistleblower's reprisal claim. The OIG investigation also revealed the senior executive created a hostile work environment within the executive's department. During the investigation, the senior executive resigned. Near the end of the investigation, the whistleblower was reinstated and returned to the whistleblower's previous position. Additional details from this investigation can be found in the OIG's external website in the FOIA Reading Room.¹
- The OIG conducted a joint investigation with USAID OIG involving a land developer in the Middle East that applied for a loan to finance a development project. The investigation found that the land developer submitted false financial statements to DFC to support its loan application. The falsified financial statements improperly presented shareholder loans as equity instead of long-term debt, dramatically improving the borrower's debt-to-equity ratio. The OIG informed DFC about the falsified financial statements. Notwithstanding the concerns raised by the OIG, DFC committed to loan the borrower \$41 million for the development project. When DFC OIG and USAID OIG attempted to interview the principals of the borrower and their project advisor, the borrower canceled the loan commitment, resulting in a \$41 million cost avoidance. DFC OIG sent a report to DFC management detailing its findings and referred the subjects of the investigation to DFC for debarment.

¹ [DFC OIG Report of Investigation-Alleged Misconduct](#), Case Number 23-001-I, September 2023

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- The OIG received information from a whistleblower that DFC was considering a project with a large footprint that could potentially displace almost 10,000 people who would need to be resettled. DFC environmental and social policy and procedures categorically prohibit DFC from participating in projects resulting in the resettlement of over 5,000 persons. The OIG reported the information received to DFC. DFC advised the OIG that the origination team was aware of the issue and had decided to recommend terminating DFC’s involvement in the project.
 - The OIG received a complaint alleging that a DFC-funded lender in India had engaged in unfair and illegal debt collection practices. The OIG investigation confirmed that the lender obtained arrest warrants against many of the defendants in these lawsuits, including 12 DFC-funded sub-borrowers. The debt collection practices, though very aggressive by American standards, were found to be legal in India. However, the OIG reported to DFC management its concerns about the policy implications raised by the DFC-funded lender’s conduct. The OIG noted that, under Indian law, individuals who miss a single loan payment can have criminal charges brought against them by a private party – punishable by up to two years’ imprisonment – with a burden of proof that amounts to strict liability. Further, lenders can file a lawsuit in any jurisdiction in India, regardless of whether there is a connection to the lender or borrower, and regardless of the burden imposed on borrowers to travel to a distant court, if the lender simply uses a bank account in the jurisdiction to process payments. Thus, while the OIG’s investigation did not find legal wrongdoing, it nonetheless revealed a concern about DFC’s ability to protect sub-borrowers from aggressive debt collection practices. We look forward to working with DFC and Congress to strengthen DFC’s consumer protection and monitoring requirements to ensure aggressive debt collection practices are prevented moving forward.

Ukraine Management Oversight

DFC OIG will continue 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 OIG is also a member of the Ukraine Oversight Interagency Working Group, coordinates 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.

Memoranda of Understanding

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 executed Memoranda of Understanding (MOUs) 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 MOUs 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 and it is more than halfway there. 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 effectively oversee 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.

Future Audits

The OIG currently has a planned audit of DFC’s workforce planning efforts that will start at the end of FY 2024. Because of DFC’s dramatic growth² and the recent organization realignment, we plan to assess if DFC is hiring the right people in the right places, how decisions are 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 made its first suspension and debarment referral to DFC in September 2023 based on an investigation that confirmed a loan applicant submitted false financial statements to DFC (details discussed above). DFC’s suspension and debarment rules will become effective on May 30, 2024, after several years of collaboration between the OIG and DFC. OIG looks forward to working with DFC to ensure bad actors do not have access to American taxpayer dollars.

Inspections & Evaluations of DFC Projects Worldwide

To enhance our oversight efforts, DFC OIG will mobilize an inspections and evaluations (I&E) program in late FY 2024 to annually assess 8-10 DFC-funded projects around the world. The I&E program will improve transparency and provide timely status of project progress and development impact as DFC’s portfolio continues to grow. The I&E program will also 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 more than 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, more staff, expanded investment authority (including equity investments), and increased focus on development impact and 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, hire and retain experienced investigators, who naturally want to continue their law enforcement careers. Indeed, OIG has lost its sole investigator, who returned to his prior OIG—which has law enforcement authority. He cited the frustrations related to the lack of law enforcement authority, which did not permit him to work effectively, as the main reason which

² DFC plans to have 700+ employees by 2025 and is currently at 660+ employees, which is over double the number of employees since January 2020.

propelled his departure. The lack of access to law enforcement databases and information makes investigations inefficient.

2. Access to Contractor, Partner, and End Beneficiary Information in DFC Contracts

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 with DFC is imperative to evaluate program and operational effectiveness and to confirm if allegations have merit. This also includes requiring project sponsors to provide the OIG Hotline contact information to all its staff, subcontractors, local governments, and non-governmental organizations to help mitigate fraud, waste, abuse and corruption.

We look forward to continuing the conversation on these and other key issues during reauthorization to best position the OIG to oversee DFC's operations and programs well into the future.

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.