



**Hearing Before the
Subcommittee on Oversight and Accountability
House Committee on Foreign Affairs
U.S. House of Representatives**

**Testimony of
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**Foreign Policy, Interrupted:
How Fraud, Waste, and Abuse Blunt America’s Impact Abroad**

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Rayburn House Office Building, Room 2172
Washington, DC 20515

Chairman Mast and Ranking Member Crow, and members of the Subcommittee, thank you for allowing me the opportunity to discuss the U.S. International Development Finance Corporation (DFC) Office of Inspector General's (OIG) oversight work.

About DFC OIG

DFC is America's development finance institution and provides an important bridge between federal resources and private sector development by investing in projects across sectors including energy, healthcare, critical minerals, infrastructure, small business support, and technology through debt financing, equity investments, feasibility studies, investments funds, political risk insurance, and technical assistance.

Congress established DFC OIG in the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act) ([Public Law 115- 254](#)) to create a dedicated OIG for DFC. Our mission at DFC OIG is to prevent, detect, and deter fraud, waste, abuse, and corruption by conducting and supervising audits, inspections, and investigations of DFC's programs and operations worldwide. Like other Offices of Inspectors General, DFC OIG gets its authority from the Inspector General Act of 1978, as amended ([IG Act](#)). I was appointed DFC's first Inspector General in August 2020. I report directly to the DFC Board of Directors and Congress.

DFC OIG is a lean office with 16 full-time equivalents (FTEs). Though we are small and only four years old, we have made a positive impact on the efficiency and effectiveness of DFC's programs and operations. Since our office began in 2020, we have issued over 50 audit recommendations for improving the efficiency and effectiveness of DFC's programs and operations. DFC has concurred with all of them and there are currently 6 open recommendations. Through our investigations, we have addressed whistleblower retaliation, identified loan application fraud, and brought attention to questionable debt collection practices. Through in-person site visits we have addressed congressional concerns about Chinese forced labor by visually inspecting solar panels at DFC-funded solar energy sites in India to confirm that DFC funds were not used to pay for panels from prohibited sources. By visiting DFC projects in person, we have also seen first-hand the positive development impact of DFC-financed projects, such as businesses, schools, and clinics that otherwise would not be available to remote, rural communities. Through our hard work, we achieved a return-on-investment ratio of greater than seven to one (7:1) in fiscal years 2023 and 2024.

Oversight Work to Date

In the last year, DFC OIG completed all of its congressionally mandated audits, issued one performance audit, and completed 12 investigations. Some of our audit and investigative work is highlighted below and additional details can be found in our [Spring FY 2024 Semiannual Report to Congress](#) and [Fall 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. One performance audit we issued this fiscal year 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. We visited eight DFC-financed projects in India and found that 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, which was not reported by DFC.

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. 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. Through our work, we were able to confirm that no panels from prohibited sources were installed at the four solar energy fields we visited in India.

Every year since we were established, the OIG has completed all of its congressionally mandated audits, including Financial Statements, Federal Information Security Modernization Act (FISMA), and Payment Integrity Information Act (PIIA).

Investigations

The Office of Investigations conducts investigations into allegations of fraud, abuse, and misconduct, which may result in criminal, civil, or administrative sanctions. 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 potential whistleblowers, the OIG provides training to new DFC employees and issues quarterly newsletters to all DFC employees informing them how we conduct investigations and how they can report suspected fraud, illegal activity, or misconduct.

The OIG Hotline is available 24/7 [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. Since the OIG’s inception, we have investigated and closed nearly 70 allegations of misconduct, fraud, and other illegal activity. We have investigated several complaints alleging retaliation against whistleblowers, including two substantiated cases of whistleblower reprisal by DFC senior executives in the last three years. Below are highlights from some of our recent investigative work.

Whistleblower Reprisal by DFC Senior Executive. 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 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 about this investigation can be found in the Report of Investigation, which has been posted on the OIG's external website in the [DFC OIG FOIA Reading Room](#).

Submission of False Financial Statements by Borrower. 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. The debarment request is currently pending with DFC.

Environmental and Social Policy Issue Averted. 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.

Aggressive Debt Collection Practices Revealed. 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 would welcome the opportunity to work 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 seeks to proactively protect DFC's investments in Ukraine. DFC has invested more than \$1 billion in political risk insurance, equity investment, and debt financing to support 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 a member of the Ukraine Oversight Interagency Working Group and coordinates with other OIGs, international law enforcement entities, and various domestic and international stakeholders to share information and resources to proactively monitor and evaluate DFC-funded projects in Ukraine.

We had planned to perform an inspection of DFC projects in Ukraine this fiscal year. However, our research revealed that DFC currently has only one project in the "green zone" that we could visit. Accordingly, we determined it would be more efficient to inspect DFC projects in Ukraine in the future, dependent on risk, accessibility, and security.

Memoranda of Understanding

DFC OIG has been proactively 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 as OLAF), the World Bank Group Internal Audit (GIA), among others. These MOUs are based on a common interest in enhancing 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. Recent congressional legislation, specifically H.R. 8926 has proposed raising this authority to \$120 billion. As DFC's portfolio and staff levels grow, the OIG also must grow to effectively oversee DFC-funded projects worldwide. This will include site visits as a critical aspect of evaluating project progress, assessing development impact, and identifying potentially fraudulent activity.

Increase OIG Staff to Match DFC's Growth

At the end of FY 2024, DFC's development portfolio will reach more than \$46 billion. At the end of FY 2024, DFC had active investments in 112 countries, with 73 percent of those investments in low-and lower-middle- income countries. DFC intends to grow its current 675 staff significantly and expand its presence in more than 12 countries by the end of FY 2025.

The OIG is tasked with overseeing this complex and growing agency. The OIG has formed an experienced oversight team that has 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 current staffing ratio is 42:1, for every one OIG employee, there are 42 DFC employees. We will need additional staff if we are to keep pace with the growth of DFC's staff and investment portfolio.

On-Going and Future Audits

The OIG is currently conducting a performance audit of DFC’s management of goods and services contracts. We expect to issue our audit report this fall. At the request of Senator Charles Grassley, the OIG is conducting an assessment of DFC’s compliance with the “anti-gag” provision of the Whistleblower Protection Enhancement Act of 2012. We expect to issue a management advisory in October.

Beginning next month, the OIG plans to conduct a performance audit of DFC’s workforce planning efforts. Because of DFC’s dramatic growth 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 became effective on May 30, 2024, after several years of collaboration between the OIG and DFC. The 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, this coming year the OIG plans to inspect 4-6 DFC-funded projects around the world. These inspections will improve transparency and provide timely status of project progress and development impact as DFC’s portfolio continues to grow. DFC OIG will also gain 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.

Challenges that Require Congressional Support

DFC has submitted a proposal for its reauthorization. Similarly, the OIG has submitted its own draft legislation for reauthorization, which is intended to complement DFC’s proposal. Our top requests are law enforcement authority and improved access to records and information.

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 what will be four years this December. Prior to the BUILD Act, USAID OIG served as the OIG for DFC’s predecessor, the Overseas Private Investment Corporation (OPIC). When Congress established DFC OIG as DFC’s dedicated OIG, we were given responsibility for overseeing the newly formed DFC but were not given the law enforcement authority that USAID – and most federal OIGs – have.

Our lack of law enforcement authority has hampered our ability to recruit, hire, and retain experienced criminal investigators, who naturally want to continue their law enforcement careers. Indeed, we lost our sole investigator this year when he returned to his prior OIG, which has law enforcement authority.

In addition to hampering our ability to recruit, hire, and retain experienced criminal investigators, our lack of law enforcement authority has prevented us from accessing critical law enforcement databases and information. To conduct a criminal investigation, we need other federal agencies (the FBI or other OIGs)

to take the lead on the investigation and allocate personnel and resources to assist us in such an investigation, which is not only inefficient but takes away personnel and resources from their own investigations.

Improved Access to Records and Information. As we conduct audits, investigations and other reviews of DFC's programs and operations, we need access to records and information. This includes access not only to DFC records and personnel, but also to those of DFC's contractors, investment partners, end-users, and third-party beneficiaries. Often, these entities and individuals are overseas and thus outside of IG or grand jury subpoena authority. Thus far, DFC has not agreed to our requests to include a standard provision in its investment agreements that would give the OIG contractual rights of access to such records and personnel. Our reauthorization proposal includes a statutory requirement that DFC include such a provision in its agreements. Our reauthorization proposal also includes a statutory requirement that DFC include a provision in its investment agreements requiring project sponsors to report suspected fraud, corruption, and other criminal conduct, as required by federal law.

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 implement American development initiatives and foreign policy priorities. As we confront new vulnerabilities and challenges, we will consult with Congress, the 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. My staff and I are always available to brief you and your staff. I look forward to continuing to work with you on oversight of DFC and am prepared to answer your questions.