



November 2021

U.S. INTERNATIONAL DEVELOPMENT FINANCE CORPORATION

Actions Needed to Improve Management of Defense Production Act Loan Program

Accessible Version

GAO Highlights

Highlights of [GAO-22-104511](#), a report to congressional committees

Why GAO Did This Study

DFC, the U.S. government's international development finance institution, began operations in December 2019. In June 2020, DFC and DOD started using certain DPA authorities to conduct a 2-year domestic loan program to respond to the COVID-19 pandemic and strengthen relevant U.S. supply chains, under the President's Executive Order 13922. Members of Congress have expressed concern about DFC's ability to manage DPA activities along with its international development mission.

House of Representatives Report 116-444 included a provision for GAO to review DFC's activities under the DPA. This report examines the extent to which DFC has (1) made loans that contributed to the pandemic response and planned to assess program effectiveness; (2) assessed and responded to the organizational risks of carrying out DPA activities along with its international development responsibilities; and (3) implemented internal controls to ensure full accounting of its DPA costs for DOD reimbursement. GAO reviewed DPA Loan Program procedures and documents, analyzed DFC data on loan applications, and interviewed DFC and DOD officials.

What GAO Recommends

GAO is recommending that DFC, in consultation with DOD, develop a plan to evaluate the DPA Loan Program's effectiveness; and that DFC complete its methodologies for accounting for all reimbursable DPA program costs. DFC did not concur with the first recommendation but did concur with the second. GAO continues to believe both recommendations are valid.

View [GAO-22-104511](#). For more information, contact Chelsa Kenney at (202) 512-2964 or KenneyC@gao.gov.

November 2021

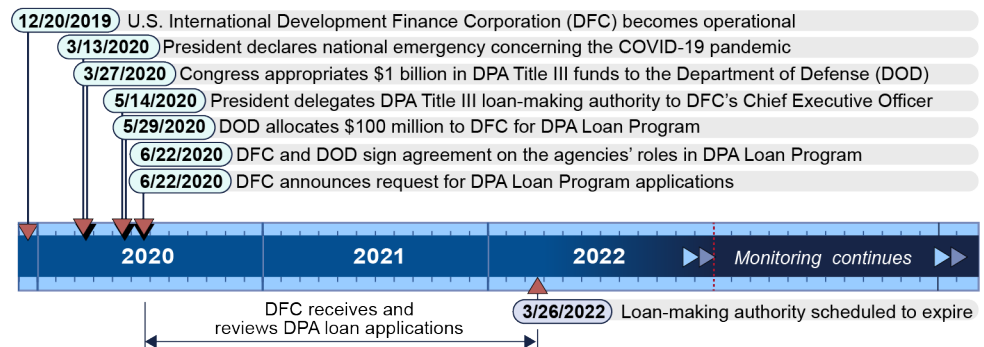
U.S. INTERNATIONAL DEVELOPMENT FINANCE CORPORATION

Actions Needed to Improve Management of Defense Production Act Loan Program

What GAO Found

The primary mission of the U.S. International Development Finance Corporation (DFC) is to partner with the private sector to invest in development projects around the world. Since the Defense Production Act (DPA) Loan Program began in June 2020 to respond to the COVID-19 outbreak and strengthen domestic supply chains, DFC and the Department of Defense (DOD) have received 178 applications. As of mid-October 2021, the agencies have completed no loans (see figure). DFC officials said factors that slowed the process included more applications and more complex interagency involvement than DFC expected. To improve efficiency, DFC and DOD have prioritized medical applications and revised procedures, but they lack plans to evaluate the program's overall effectiveness. Such plans could inform decisions about the future use of DPA lending authority and increase congressional and public confidence that program costs and risks are reasonable relative to outcomes.

DFC Defense Production Act (DPA) Loan Program Timeline



Source: GAO analysis of public, DFC, and DOD information. | GAO-22-104511

DFC did not fully assess and respond to the risks of carrying out the DPA Loan Program along with its primary mission in fiscal year 2020 because it was still developing an agency-wide risk management approach when the program started. DFC took some steps to mitigate risks when designing the DPA program, such as reducing the use of international development mission resources by hiring dedicated staff to manage DPA loans. DFC took further steps in fiscal year 2021 to assess risks the agency faces, including developing an agency-wide Risk and Opportunity Profile. DFC is on track to complete this profile by October 2021. It has also identified the DFC offices that will be responsible for managing each risk, including risks related to the DPA Loan Program.

DFC has developed methodologies to account for most, but not all of the costs to administer the DPA Loan Program eligible for reimbursement by DOD. As of early October 2021, DFC had submitted six partial invoices, totaling about \$1.4 million, for reimbursement. The invoices were partial because DFC lacks methodologies to calculate all categories of reimbursable costs called for by federal cost accounting standards. For example, DFC has a methodology for allocating labor hours, but not for the DPA program's portion of office space and equipment shared with the rest of DFC. In addition to resulting in incomplete invoices, DFC's incomplete cost accounting methodologies mean DFC and DOD cannot be certain of the full costs of establishing and operating the program.

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Abbreviations

BUILD Act	Better Utilization of Investments Leading to Development Act of 2018
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CEO	Chief Executive Officer
COVID-19	Coronavirus Disease 2019
DFC	U.S. International Development Finance Corporation
DCA	Development Credit Authority
DOD	Department of Defense
DPA	Defense Production Act
ERM	enterprise risk management
FCRA	The Federal Credit Reform Act of 1990
HHS	Department of Health and Human Services
MOA	memorandum of agreement
OMB	Office of Management and Budget
OPIC	Overseas Private Investment Corporation
USAID	U.S. Agency for International Development

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November 17, 2021

The Honorable Christopher Coons
Chair
The Honorable Lindsey Graham
Ranking Member
Subcommittee on State, Foreign Operations, and Related Programs
Committee on Appropriations
United States Senate

The Honorable Barbara Lee
Chairwoman
The Honorable Hal Rogers
Ranking Member
Subcommittee on State, Foreign Operations, and Related Programs
Committee on Appropriations
House of Representatives

The U.S. International Development Finance Corporation (DFC), the U.S. government's development finance institution, partners with the private sector to invest in development projects around the world. As of June 2021, DFC was managing about \$31 billion in international development investments worldwide. DFC supports development projects in a variety of areas, including energy, healthcare, and infrastructure by providing equity and debt financing, political risk insurance, or technical assistance.¹ DFC began operations in December 2019, consolidating the functions of the Overseas Private Investment Corporation (OPIC) and the U.S. Agency for International Development's (USAID) Development Credit Authority (DCA).²

¹DFC's authorizing legislation notes DFC's purpose is to mobilize and facilitate the participation of private sector capital and skills in the economic development of less developed countries, and countries in transition from nonmarket to market economies; to complement the development assistance objectives; and to advance the foreign policy interests of the United States.

²The 2018 Better Utilization of Investments Leading to Development (BUILD) Act of 2018 consolidated OPIC's and the DCA's functions into DFC. Pub. L. No. 115-254, Div. F, 132 Stat. 3186, 3485-3519 (Oct. 5, 2018).

In March 2020, just 3 months after DFC began operations, the President declared a national emergency concerning the Coronavirus Disease 2019 (COVID-19). The same month, Congress passed and the President signed into law the CARES Act, which provided over \$2 trillion in emergency assistance and health care response for individuals, families, and businesses affected by COVID-19.³ Of this amount, the CARES Act included \$1 billion for the Department of Defense (DOD) to make purchases to prevent, prepare for, and respond to COVID-19, domestically or internationally, using Defense Production Act (DPA) authority.

In May 2020, the President signed Executive Order 13922 delegating DPA loan-making authority to the Chief Executive Officer (CEO) of DFC for the domestic production of strategic resources needed to respond to the COVID-19 outbreak, and to strengthen any relevant domestic supply chains.⁴ In June 2020, DFC's CEO and DOD's Under Secretary for Acquisition and Sustainment signed a memorandum of agreement (MOA) in which the agencies agreed DFC would originate and underwrite DPA loans and manage the loan portfolio, while DOD would fund the loans and reimburse DFC for all expenses related to these activities. DOD allocated \$100 million of its \$1 billion in DPA-related CARES Act funds to the new DPA Loan Program.⁵

In the House of Representatives Report accompanying its fiscal year 2021 appropriations bill, the House Appropriations Committee's Subcommittee on State, Foreign Operations, and Related Programs

³Coronavirus Aid, Relief, and Economic Security Act, Pub. L. No. 116-136, 134 Stat. 281, Mar. 27, 2020.

⁴See Exec. Order No. 13922 (May 14, 2020). DFC officials told us the executive order, by delegating the authority to the DFC CEO, bypassed the normal management structure established by the BUILD Act whereby the DFC Board of Directors has direct authority over the CEO. According to DFC officials, this delegation means that responsibility for the DPA Loan Program is thus outside of the normal governance structure for the agency. However, for the purposes of this report we refer to DFC as the agency responsible for the program given the DFC CEO and DFC staff's role in implementing the program and DFC's own characterization of its role, as an agency, in the materials it has produced related to the DPA Loan Program. The executive order also requires that the DFC CEO exercise the DPA loan-making authority in consultation with the Secretaries of Defense, Health and Human Services, and Homeland Security, and any other appropriate heads of agencies.

⁵As of May 31, 2021, six COVID-19 relief laws had been enacted to assist the COVID-19 response, but only the CARES Act funds have been allocated to the DFC DPA Loan Program.

expressed concern about DFC's ability to balance its international development mission and new DPA Loan Program responsibilities.⁶ This report included a provision for GAO to assess aspects of DFC's activities conducted under the DPA Loan Program pursuant to the executive order and its continued implementation of its international development mission. The Joint Explanatory Statement accompanying the Consolidated Appropriations Act, 2021, confirmed Congress's interest in this work.

This report examines the extent to which DFC has (1) made loans that contributed to the pandemic response and planned to assess program effectiveness, (2) assessed and responded to the organizational risks of carrying out DPA activities along with its international development responsibilities, and (3) implemented internal controls to ensure full accounting of the DPA Loan Program costs for DOD reimbursement.

To assess the extent to which DFC made loans that contributed to the pandemic response and planned to assess program effectiveness, we reviewed DFC guidance documents for the DPA Loan Program. In addition, we analyzed DFC data on DPA Loan Program applications. We found these data to be sufficiently reliable for the purposes of describing and summarizing loan application data DFC has collected for the DPA Loan Program. We also reviewed DFC documents describing how DFC plans to measure the impact of the loans when assessing a loan application and over the life of the loan. We reviewed documents DFC used to prioritize individual loans based on their potential to contribute to the pandemic response. We also reviewed DOD assessments of the program, including process improvement recommendations. We interviewed DFC and DOD officials about their plans to assess the effectiveness of individual loans and of the program as a whole in responding to the pandemic. We compared DFC and DOD's plans to GAO-identified lessons learned from the initial COVID-19 response to determine the extent to which DFC and DOD had incorporated these lessons into their plans.⁷ In addition, we compared their plans to GAO-

⁶H.R. Rep. No. 116-444 (2020).

⁷GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, [GAO-20-625](#) (Washington, D.C.: Jun. 25, 2020).

identified lessons on the use of data and evidence to improve federal programs.⁸

To examine how DFC assessed and responded to organizational risks, we reviewed DFC documentation about how it assessed organizational risks for the agency as a whole. We also interviewed knowledgeable DFC officials about their plans for assessing risks related to the DPA Loan Program. In addition, we evaluated whether these plans are consistent with Office of Management and Budget (OMB) requirements for agencies regarding Enterprise Risk Management (ERM).⁹ We reviewed DFC documentation and interviewed DFC officials regarding the steps the agency had taken to informally identify and mitigate risks the DPA Loan Program posed to the international development mission.

To assess the extent to which DFC has implemented internal controls to ensure full accounting of its DPA costs for DOD reimbursement, we reviewed DFC's July 2020 budget estimating costs of the DPA Loan Program over a 10-year period, guidance for calculating costs, and six invoices submitted to DOD from the beginning of the program until early October 2021. We also interviewed DFC and DOD officials to determine the steps DFC had taken to track and calculate its costs from administering the DPA Loan Program. We compared DFC's cost accounting practices to federal financial accounting standards and GAO-identified standards for internal controls. See appendix I for more information about our objectives, scope, and methodology.

We conducted this performance audit from September 2020 to November 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁸See GAO, *Using Data and Evidence to Improve Federal Programs*; this compilation of products (or issue area) includes reports such as GAO, *Program Evaluation: Annual Agency-Wide Plans Could Enhance Leadership Support for Program Evaluations*, [GAO-17-743](#) (Washington, D.C.: Sept. 29, 2017).

⁹Office of Management and Budget Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (Washington, D.C.: Jul. 15, 2016).

Background

DFC Mission, Authorities, and Approach

In October 2018, Congress passed the BUILD Act of 2018.¹⁰ The Act created DFC by combining functions from OPIC and USAID's DCA into a single organization.¹¹ Like its predecessor organizations, DFC is a U.S. government agency that promotes development and U.S. foreign policy goals by supporting U.S. investment overseas. To achieve this mission, DFC activities include

1. making direct loans and loan guarantees of up to \$1 billion with terms up to 25 years;
2. issuing political risk insurance with coverage up to \$1 billion against losses due to political risks such as terrorism and currency inconvertibility;
3. financing projects and investment funds with equity as a minority investor; and
4. conducting feasibility studies and technical assistance to support project identification and preparation.

DFC officially began operations in December 2019. In response to BUILD Act guidelines, DFC's inaugural 5-year development strategy identifies three strategic objectives: (1) promote economic growth and stability, particularly in countries struggling with lower incomes, conflict, terrorism, or high migration flows; (2) counter predatory state-directed investment and other malign influence, while preserving country sovereignty and self-

¹⁰Pub. L. No. 115-254, Div. F, Title I, § 1412.

¹¹Between 1971 and 2019, OPIC was the development finance institution for the United States, using financial tools to promote economic growth in developing economies. Specifically, OPIC provided loans, loan guarantees, and political risk insurance. Between 1999 and 2019, DCA provided loan guarantees to provide an incentive to development lending. Typically, DCA would guarantee up to half of each loan in case of default, with private banks lending the remainder.

reliance; and (3) support countries undergoing market transformation and democratic reform.

Congress sets DFC's maximum spending levels for administrative and program expenses annually through appropriations laws. In fiscal year 2021, Congress appropriated \$119 million for DFC's administrative expenses and \$450 million for its program expenses.¹² DFC can incur by law up to \$60 billion in maximum contingent liability—the amount DFC would owe if claims were made on all insurance contracts and borrowers defaulted on all loans.¹³

Status of DFC's International Development Portfolio

As of June 2021, DFC was managing about \$31 billion worldwide in active commitments, including investments made by its predecessors and by DFC since it began operations. The agency's new commitments in its first 2 years of operation are similar in total value and number to new investments OPIC made in its final year of operation. Specifically, in fiscal year 2019, OPIC reported investing about \$5.3 billion in more than 90 global development projects.¹⁴ In fiscal year 2020, DFC reported making about \$4.8 billion in new investments in 80 global development projects.¹⁵ In fiscal year 2021, DFC reported that it had committed to 55 projects totaling \$4.1 billion, as of July 13, 2021.¹⁶

¹²Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1182, 1716 (Dec. 27, 2020).

¹³According to DFC's annual management report, DFC's contingent liability at the end of fiscal year 2020 was \$3.6 billion.

¹⁴These data do not include the value of loan guarantees made by DFC's other predecessor, USAID's DCA in 2019. USAID reported that in fiscal year 2019, DCA disbursed about \$127 million in new guaranteed loans.

¹⁵DFC's new investments included direct loans, loan guarantees, limited equity investments, and political risk insurance.

¹⁶OPIC reported having operated at no net cost to the taxpayer from its opening in 1977 to its closing in 2019. Similarly, DFC reported making a positive return on its investments during its first year of operation and identified generating returns for the American taxpayer as one of its key areas of focus.

Overview of the DPA Loan Authority and Its Use in the COVID-19 Response

During the Korean War, Congress enacted the DPA of 1950 to ensure the availability of industrial resources to meet DOD's needs.¹⁷ In 1994, Congress amended the DPA to broaden its definition of "national defense" to include emergency preparedness activities. DPA has three major authorities currently in effect: Titles I, III, and VII.¹⁸ Title III authorizes the President to take various actions, including: (1) providing loans to private businesses to reduce shortfalls of industrial resources, critical technologies, and materials essential for national defense, and (2) making provision for other purchases or developments to create, maintain, protect, expand, or restore domestic industrial base capabilities essential for the national defense. According to DOD officials, DOD has not used the loan-making part of the authority since the 1950s. The President delegated authority for these Title III actions to DFC's CEO in May 2020 through Executive Order 13922, for the domestic production of strategic resources needed to respond to the COVID-19 outbreak, and to strengthen any relevant domestic supply chains.¹⁹ The President stated in the executive order that he was delegating the authority because it is important to use all resources available to the United States, including executive departments and agencies with expertise in loan support for private institutions.

DFC and DOD have established criteria for the types of loans that they may consider, pursuant to the legal requirements of the DPA Title III provisions and Executive Order 13922. The loans have to support projects (1) primarily conducted in the U.S. and Canada; (2) that address current or anticipated industrial shortfalls; (3) for which no private capital exists or only exists on unreasonable terms; and (4) for which a loan is the fastest and most cost-effective method of developing the industrial

¹⁷50 U.S.C. § 4501 et seq., as amended. In 2018, Congress reauthorized the DPA through September 30, 2025 (see 50 U.S.C. § 4564(a)).

¹⁸For more information about agencies' use of Titles I and VII in response to the COVID-19 pandemic, see GAO, *COVID-19: Sustained Federal Action is Crucial as Pandemic Enters Its Second Year*, [GAO-21-387](#) (Washington, D.C.: Mar. 31, 2021).

¹⁹The DFC CEO position was filled from September 2019 through January 20, 2021; an acting CEO has filled the position since then and, as of August 2021, the White House has nominated someone to fill the position.

capability that U.S. industry cannot otherwise be expected to provide within a reasonable period timeframe.

The March 2020 CARES Act provided DOD with \$1 billion for DPA purchases to prevent, prepare for, and respond to the coronavirus, domestically or internationally.²⁰ In response to the executive order delegating DPA Title III loan-making authority to DFC's CEO, DOD allocated \$100 million of this amount to the DPA Loan Program. DOD and DFC plan to use these funds to finance the loan subsidy costs as well as the costs of administering the program.²¹

In 2021, the President and federal agencies began considering new approaches to using the DPA to address the COVID-19 pandemic.²² Specifically, on January 21, 2021, the President issued an executive order for DOD and other agencies to take immediate actions to secure the supplies necessary for responding to the pandemic using the DPA authorities.²³ One of the documents produced in response to this order was the July 2021 National Strategy for a Resilient Public Health Supply

²⁰The CARES Act also provided funds that the Department of Health and Human Services (HHS) designated to buy supplies for the COVID-19 response and Strategic National Stockpile replenishment. As of February 2021, HHS and DOD had used these funds to make about \$2.3 billion of awards for domestic production expansion projects—such as for vaccine supplies—through DPA Title III and similar actions. [GAO-21-387](#). In March 2021, Congress also passed the American Rescue Plan Act of 2021, which appropriated an additional \$10 billion to conduct DPA activities to address emergency medical supplies for COVID-19 response. According to DOD officials, HHS will conduct these activities, which are separate from the DFC DPA loan program. Pub. L. No. 117-2, § 3101. 135 Stat. 4, 53 (Mar. 11, 2021).

²¹The Federal Credit Reform Act of 1990 (FCRA) requires agencies to estimate the cost to the government of extending or guaranteeing credit, referred to as subsidy cost. The \$100 million would be used for subsidy costs, if any, and administrative costs. Pursuant to FCRA, subsidy costs can be reduced to the extent the government charges interest or fees. Where the government's income exceeds estimated cost, the budgetary cost could be negative, referred to as a negative subsidy income. If DFC negotiates terms of the transaction that produce a net estimated return, the government can extend lending for that transaction without drawing down the \$100 million in allocated funds. If the present value of estimated cash outflows exceeds cash inflows, then a positive subsidy cost exists. According to DOD officials, any subsidy income from a DPA loan will go to the U.S. Treasury and cannot be used to offset costs of any other loans. 2 U.S.C. §§ 661 et seq.

²²For additional information on agencies' use of this authority, see GAO, *Defense Production Act: Opportunities Exist to Increase Transparency and Identify Future Actions to Mitigate Medical Supply Chain Issues*, [GAO-21-108](#) (Washington, D.C.: Nov. 19, 2020).

²³See Exec. Order No. 14001 (Jan. 21, 2021).

Chain.²⁴ DOD and the Departments of Health and Human Services (HHS), Homeland Security, and Veterans Affairs wrote the strategy in collaboration with the Departments of Commerce and State and the White House Office of the COVID-19 Response. The strategy's stated aim is to design, build, and sustain a long-term capability in the United States to manufacture supplies for future pandemics and biological threats. The strategy emphasizes the importance of DPA as a tool for addressing pandemic response and preparedness supply chain issues, but did not specifically discuss the DPA Loan Program DFC administers.

On February 24, 2021, the President also issued an executive order for DOD and other agencies to report on a number of topics related to strengthening the resiliency of America's supply chain.²⁵ The resulting June 2021 report recommended that DOD and other agencies use DPA Title III incentives—including grants and loans—to support research and development concepts and emerging technologies, among other things. It also recommended that DFC expand international investments in projects that will increase production capacity for critical products, including critical minerals, to support supply-chain resilience.

DOD is also finalizing a review of the future of DPA loan making in response to a November 2020 request from OMB. According to DOD officials, the review will identify the resources DOD would require to establish a DPA loan-making program within DOD. As of August 2021, DOD officials stated they had drafted the review findings but were waiting for the appointment of a new Under Secretary of Defense for Acquisition and Sustainment before completing the review.²⁶

²⁴DOD, HHS, and the Departments of Homeland Security and Veterans Affairs, *National Strategy for a Resilient Public Health Supply Chain* (Washington, D.C.: Jul. 13, 2021).

²⁵See Exec. Order No. 14017 (Feb. 24, 2021) and White House, DOD, HHS, and the Departments of Commerce, Energy, *Building Resilient Supply Chains, Revitalizing American Manufacturing, and Fostering Broad-Based Growth: 100-Day Reviews under Executive Order 14017* (Washington, D.C.: June 4, 2021). In addition to the June 2021 Resilient Supply Chain report, this order required a report on sectoral supply chain assessments due in February 2022.

²⁶The administration nominated someone for the position in April 2021. However, that person withdrew from the nomination in July, and as of August 2021, the Administration has not identified a new nominee.

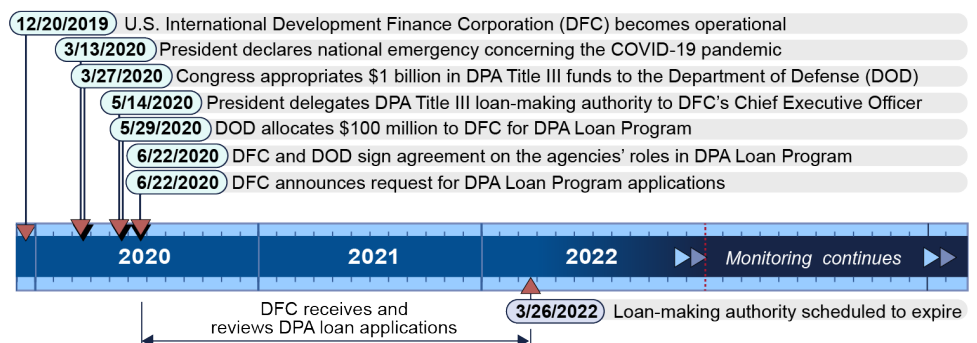
Timeline of DFC and DOD's Efforts to Establish the DPA Loan Program

DFC established and began administering the DPA Loan Program in June 2020, 6 months after it began operations. Executive Order 13922 gave the DFC CEO until March 26, 2022, to originate loans to finance projects to respond to the COVID-19 pandemic and prepare the U.S. for future pandemics.

Following the signing of the MOA with DOD in June 2020, DFC established a U.S. Operations office to administer the program and published a request for DPA loan proposals. The request for proposals stated that eligible projects would help increase the U.S.-based production or distribution of (1) personal protective equipment, (2) medical testing supplies, (3) vaccines, (4) pharmaceuticals, (5) ventilators, or (6) relevant ancillary materials and technologies. DFC's DPA Loan Program allows the loans to last up to 25 years. DFC accepted the first loan applications shortly after issuing the request for proposals.

According to DFC and DOD officials, as of October 2021, with the authority set to expire in March 2022, the agencies are in the process of determining when to stop accepting new applications for the DPA Loan Program. See figure 1 below for a timeline of key milestones in DFC's and DOD's establishment of the DPA Loan Program.

Figure 1: DFC's Defense Production Act (DPA) Loan Program Timeline



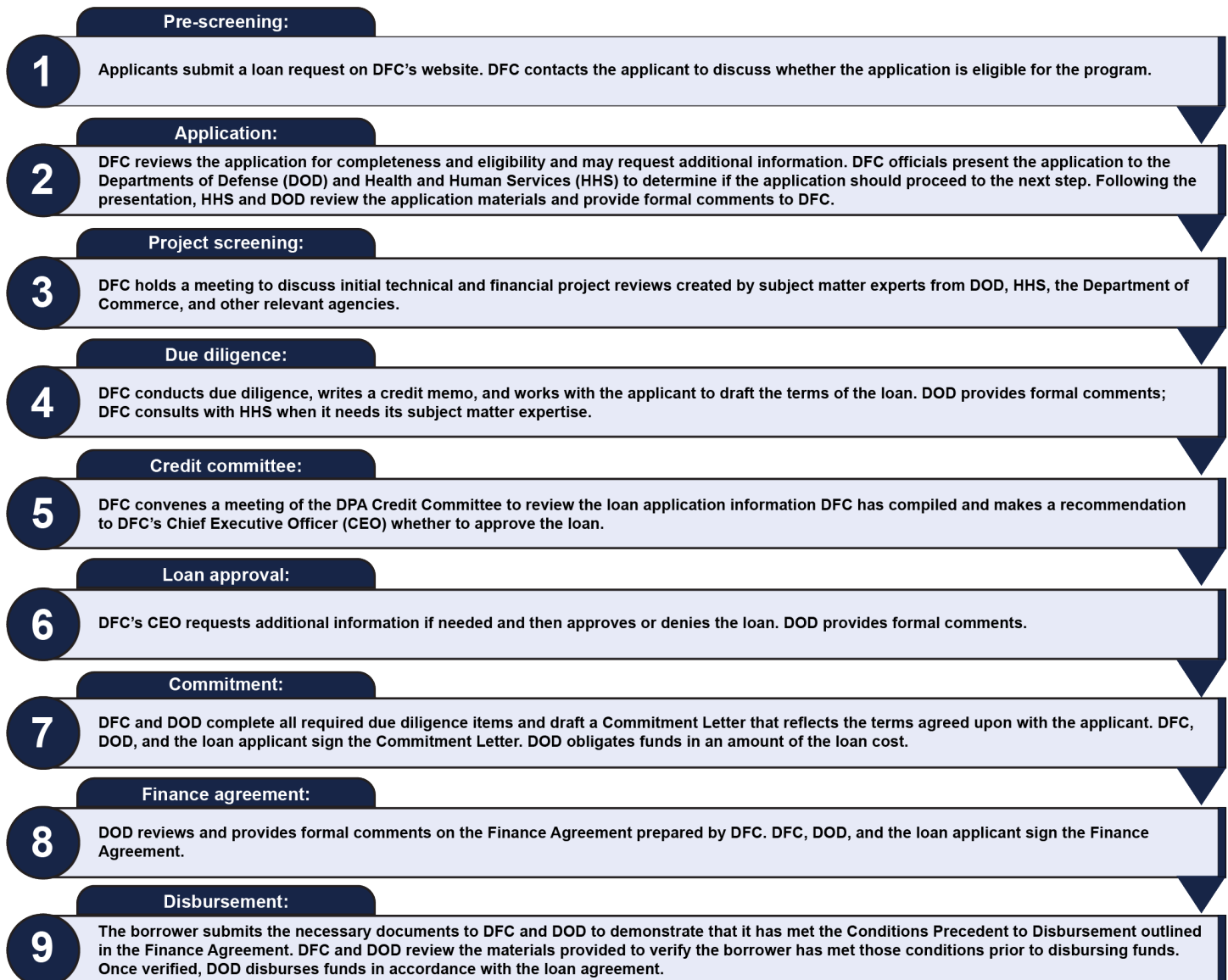
Source: GAO analysis of public, DFC, and DOD information. | GAO-22-104511

Note: According to DFC and DOD officials, as of October 2021 the agencies are in the process of determining when to stop accepting new applications for the DPA Loan Program.

Procedures for Approving DPA Program Loans

As agreed upon in the agencies' MOA, DFC, in coordination with DOD, designed a process (see fig. 2) for reviewing DPA loan applications based on its experience with international development loan making.

Figure 2: Process for Reviewing Defense Production Act Loan Applications



Source: GAO analysis of U.S. International Development Finance Corporation (DFC) information. | GAO-22-104511

Note: According to DFC and DOD officials, the two agencies discuss DPA Loan Program activity weekly, in addition to the formal process outlined in the figure. Following step nine, the loan is monitored. As of mid-October 2021, officials told us DFC and DOD were in the process of deciding which agency should conduct loan monitoring.

From pre-screening until the signing of a finance agreement (steps 1 through 8), DFC collects information about the loan applicant's proposed project and conducts various levels of due diligence on the applicant. In most steps of the process, DFC receives formal comments from other agencies, specifically, DOD and HHS.²⁷ For example, DOD provides an action memo, a formal letter determining the project's eligibility, at step 4. In addition, DFC and DOD officials told us that when reviewing loan application details involving subjects beyond their expertise, such as for medical-related projects, they consult these agency partners.

DFC and DOD Did Not Complete Any Loans in the First Year of the DPA Program and Lack Plans to Evaluate the Program's Effectiveness

²⁷When the DPA loan program began, DFC officials told us that the White House Office of Trade and Manufacturing Policy also provided formal and informal comments at some steps in the process. However, DFC officials said this office was no longer involved after January 2021.

DFC and DOD Did Not Complete Any Loans in the First Year of the 2-Year Program, but DFC Continues to Receive and Review Applications

DFC and DOD had not completed any DPA program loans as of mid-October 2021, meaning that no loans completed the final loan review of step 9 (see fig. 2) leading to disbursement.²⁸ The agencies signed one loan finance agreement (see step 8 in fig. 2), but no other loans have reached this stage. Prior to August 2021, three other loan applications had made it to step 6 in the process. DFC officials, however, told us these three loans were no longer active because either the proposed projects did not meet the new administration policies focused on prioritizing medical needs or the borrowers had decided to restructure their companies.

As of August 2021, DFC officials said the DPA Loan Program was in the process of reviewing seven additional loans for about \$954 million and hoped to move these to the Credit Committee phase (step 5) of the review process by November 2021. DOD officials told us that since it can take a long time to move loans from step 5 to the final step, DOD and DFC are conducting a legal review to determine how to handle projects that are partway through the DPA Loan Program review when the program's authority expires.

The loan that is the furthest along in the review process (step 8) relates to the COVID-19 pandemic response and preparedness, according to DFC and DOD officials. It is a loan to ApiJect Systems for the construction of a new manufacturing facility in North Carolina. The agencies and ApiJect signed the loan finance agreement (step 8) on May 14, 2021. DFC first publicly announced this \$590 million project in November 2020, when it received approval from DFC's CEO (step 6). The plan outlined in the loan announcement is for the facility to manufacture prefilled injectors, initially

²⁸For the purposes of this report, we use complete to mean the loan has completed all nine steps of the DPA loan application review process, concluding with the disbursement of funds to the borrower.

for administering COVID-19 vaccines and eventually for other vaccines and injectable pharmaceuticals.²⁹

After the loan's approval by the DFC CEO, DFC and DOD had to complete additional steps before they could complete the loan. According to DFC officials, DFC had to complete more advanced levels of due diligence review for the loan to comply with loan approval conditions. DFC officials said they customarily complete such reviews after loan approval, leading up to the completion of the finance agreement step in the process. DFC officials said these reviews and interagency coordination involved in drafting the finance agreement accounted for the time between the November 2020 loan approval and the signed finance agreement in May 2021.³⁰

In addition, according to the finance agreement the project must meet certain conditions precedent before DFC and DOD can complete the loan and DOD can disburse the funds. In the case of the ApiJect loan, as of October 2021, DFC officials said they were still working with ApiJect for the company to meet the conditions precedent outlined in the finance agreement. For example, DFC officials said that ApiJect has encountered delays securing the necessary property rights for the project site, one of several conditions that the finance agreement required. Until DFC verifies ApiJect has completed this and other conditions outlined in the finance agreement, such as submitting various administrative, financial, and legal documents, DFC cannot approve the first loan disbursement. DFC officials said large project transactions such as this one commonly encounter similar issues. As a result, DFC is working with ApiJect to determine when, and if, they can complete the final stage of the loan review process for the project (step 9). DFC officials also noted DFC and DOD will not approve any disbursements to ApiJect if the company fails to fulfill the terms of the finance agreement.

²⁹ApiJect has previously received federal funding from DOD and HHS for a smaller-scale production facility of the same nature in South Carolina. As of November 19, 2020, ApiJect press materials indicated the company planned to produce prefilled injectors at the South Carolina site. As of August 2021, DOD officials said the company was still waiting for the U.S. Food and Drug Administration to approve the injectors for distribution in the United States.

³⁰According to DFC officials, DFC revised the loan review process in February 2021, after DFC's CEO approved the ApiJect loan in November 2020. DFC officials said this change is intended to shorten the length of time between loan approval (step 6) and disbursement (step 9) for future loans. See page 16 for additional information.

DFC plans to continue processing loans through the end of the program in March 2022 and is still receiving and reviewing applications as of October 2021, according to DFC officials. According to DFC data as of June 30, 2021, the agency had received 178 applications for DPA loans. See table 1 for details on the loan applications DFC received through the third quarter of fiscal year 2021.

Table 1: Number and Requested Dollar Amount of Loan Applications Received by DFC's Defense Production Act Loan Program, as of June 30, 2021, by Fiscal Year and Quarter

Category	Fiscal year and quarter	Number of applications received	Sum of loan amounts requested (Dollars in billions)
2020	Third and fourth quarters ^a	71	10
2021	First quarter	61	12
2021	Second quarter	29	4
2021	Third quarter	17	1
n/a	Total	178	27

Source: GAO analysis of U.S. International Development Finance Corporation (DFC) data. | GAO-22-104511

Note: in the third quarter of fiscal year 2021, the administration narrowed the focus of the program to prioritize medical projects, which, according to DFC officials, may account for the decrease in applications received that quarter.

^aWe do not report data for these two quarters separately because DFC data do not distinguish between applications received in the third and fourth quarters of fiscal year 2020.

In addition, in June 2021, DFC officials told us that DFC and its federal partners continue to conduct outreach to encourage companies to submit applications for the program. However, the administration and the agencies involved in the DPA Loan Program are in the process of deciding when to stop these outreach efforts in advance of the program's end in March 2022. According to DFC officials, DFC's outreach activities include presentations to industry groups and trade associations, working with state-level economic development offices, and participating in events organized by the Small Business Administration.

DOD has made similar efforts related to its areas of expertise, according to DFC and DOD officials. For example, DOD officials reported that they shared information about the program with companies involved in some of DOD's existing industry outreach, including sending a link to the

application when companies expressed interest.³¹ DFC officials told us that the outreach with other federal agencies has been helpful in identifying companies for the program, and the outreach with state agencies has led to a number of referrals of companies to the program.

DFC Has Required More Time Than Anticipated to Complete DPA Loans, but DFC and DOD Have Prioritized Reviewing Medical Applications and Revised the Review Process

DFC Has Revised Its Projected Timeframes for Closing DPA Loans

The process of reviewing applications and concluding finance agreements with companies has taken longer than DFC anticipated. As a result, DFC has revised its projected timeframes for closing loans to be about three times as long as it initially estimated. For example, in a presentation DFC gave to industry groups in fall 2020 to encourage companies to apply for the DPA loans, the agency estimated that it would take 3 to 4 months to complete a loan application from date of receipt to closing.³² By contrast, in updated marketing materials from January 2021, DFC advertised that the loan review process would take 6 to 12 months.

³¹Specifically, DOD officials said they shared this information with the Joint Industrial Base Working Group and the Defense Industrial Base Council. The council is an executive-level forum, composed of senior military leaders, established to ensure industrial base readiness and resilience. DOD's Office of Industrial Policy and the Defense Contract Management Agency chair the council's Joint Industrial Base Working Group, which oversees the flow of information from subject matter experts concerning critical industry sectors such as aviation and electronics.

³²DFC officials told us they informed industry groups that this timeline would be possible only if the companies provided complete information at each step.

Then in April 2021, DFC officials told us the process would take 9 to 15 months.

DFC and DOD officials identified several factors contributing to the longer than anticipated timeframes for closing loans. DFC officials acknowledged they were aware of a number of these factors at the outset of the DPA Loan Program, but did not fully account for them when developing their original projections. According to DFC officials, key factors that DFC did not fully account for at the outset of the program included:

- **Interagency review.** According to DFC officials, the application process involves significant interagency review at several stages (see fig. 2), and partner agencies required more time to provide their input and clearance than DFC officials originally expected. The DPA loan process also requires specific interagency deliverables to advance applications to the next stage of the process. For example, DFC is required to review and incorporate into the loan file a DOD-issued memo that states the initial technical and legal findings on the loan's eligibility.
- **Financing new projects.** DFC officials said DPA loans generally finance new projects, such as constructing a new facility, which require in-depth financial and technical reviews involving multiple agencies. Given these types of projects, DFC officials said they did not account for the time needed to conduct due diligence to establish a reasonable assurance of repayment of the loan.
- **Regulatory process.** DFC officials said projects funded by DPA loans generally involve regulatory process documents, such as environmental assessments for construction and approvals for medical products, that DFC and its agency partners must review, as part of the due diligence process.
- **Hiring staff for the new office.** The DPA Loan Program was a new operation, for which DFC had to hire staff and establish procedures. DFC officials told us that they faced challenges finding qualified applicants to hire for the program. DFC's initial plans were to hire 13 staff to support this program and, as of August 2021, seven of these positions remained vacant, according to DFC officials. While DFC officials said the agency no longer intended to fill all those positions, they did identify two positions—an economist and accountant—they were still seeking to fill in order to support the DPA Loan Program.
- **Volume of loan applications.** DFC received more loan applications in the early months of the program than anticipated. Specifically, DFC officials expected to receive about 100 applications over the 2 years

of the program, but had already received 178 applications by June 2021, 1 year after DFC announced the program was ready to receive applications.

DFC and DOD Have Prioritized Medical Applications and Revised Processes

DFC and DOD have taken two key steps to improve the efficiency of the DPA loan process. First, according to DFC officials, DFC and DOD agreed to focus on, and have been using, a list of approximately 10 priority projects since the first quarter of calendar year 2021. DFC officials intend for this list to reflect the projects that DFC and DOD will review for a period of 90 days before moving on to review other applications received. The list does not include loans that DFC's CEO already approved to move to the finance agreement step (step 8), such as ApiJect, but focuses on projects in the early stages of the loan review process that DFC believes have the greatest potential to advance to the Credit Committee. DFC officials told us that to respond to the COVID-19 pandemic, DFC and DOD would only include applications on the priority list if the project relates to a medical need, and is likely to be financially sustainable.

DFC officials also told us they initially began using the list as a way to manage interagency workflow, but shortly afterwards, in April 2021, the administration announced a policy prioritizing COVID-19 and medical related loan applications.³³ The policy stated that with only a little more than a year left before the program expired, the Administration needed to prioritize projects under consideration to ensure DFC was appropriately meeting the intent of the executive order while advancing administration priorities. According to DFC officials, DFC and DOD then communicated this change to the companies whose applications they would no longer consider.³⁴ Due to these prioritization efforts, between April and August 2021, DFC narrowed its focus from 45 projects totaling about \$8.8 billion

³³OMB, *Prioritization Policy For Executive Order 13922, "Delegating Authority Under the Defense Production Act of 1950 to the Chief Executive Officer of the United States International Development Finance Corporation To Respond to the COVID-19 Outbreak* (Washington, D.C.: Apr. 22, 2021).

³⁴For example, DFC had previously been reviewing loan applications for non-medical, defense-related projects from companies negatively affected by the COVID-19 pandemic.

to 8 projects totaling about \$1.5 billion for medical-related projects (including ApiJect).

Second, DFC and DOD have jointly undertaken an ongoing effort to review and revise the DPA loan process, according to officials. For example, the agencies carried out a detailed review of the loan process to identify significant gaps in the process or opportunities to improve efficiency. From this review, the two agencies determined they needed to complete more of the due diligence review of loan applications before the Credit Committee meets to reduce delays caused by having to request more information before the committee can make its decision.³⁵ To address this concern, DFC and DOD officials told us they revised the process in February 2021 to provide companies a list of the required due diligence information earlier—after prescreening rather than after screening. Additional process revisions included the introduction of templates DFC created to improve information-sharing among DFC, DOD, HHS, and other agencies involved in reviewing applications. According to DFC officials, while process revisions like this add some time, these templates should help the agencies in their efforts to determine whether applications are suitable for financing during the pre-screening and screening stages. DFC identified other improvements for the loan review process as well. For example, DFC determined it needed to better track the information DOD and HHS required for their reviews of loan applications. To do so, DFC created a spreadsheet to track the status of reports needed before an application can proceed to the next step in the review process.

DFC and DOD Are Developing Procedures to Assess the Effect of Individual DPA Loans, but Have No Plans to Evaluate the Overall Effectiveness of the Program

DFC and DOD have some procedures to assess the likely effect of individual DPA loans as they review applications, and are developing other tools for assessing effects over the life of the loans as part of loan monitoring. They lack plans, however, for evaluating how effectively the program as a whole is achieving its goals of increasing U.S. capability to manufacture supplies to respond to COVID-19 and future pandemics.

³⁵DOD officials emphasized that they did not have concerns about the quality of DFC's due diligence reviews, but only wanted to change the timing of them to improve the overall efficiency of the loan review process.

During the application review process, DFC works with interagency partners to assess the likely effect of loans. Specifically, DFC seeks subject-matter expertise of its partners at DOD, HHS, and other federal agencies. These agencies document their review of applications in action memos, including descriptions of their assessment of how the applications may contribute to program goals. For example, the memos can contain information about the agency's strategic assessment of the project's potential benefits; identification of statutory, policy, or technical risks; and a recommendation for action. The action memos form part of the application package the program's Credit Committee considers during the loan review process. DFC will generally not advance a DPA loan application beyond the due diligence stage (step 4) unless DOD issues an action memo attesting to the application's compliance with statutory and policy requirements.³⁶

DFC also had plans to use a tool to formalize these reviews, and to assess effects of projects over the life of the loans, but DFC does not have staff qualified to use the tool. DFC has developed a tool called the DPA Quotient, which it designed to use metrics to assess the projects proposed in loan applications for their potential contributions toward program goals.³⁷ For example, the DPA Quotient estimates the number of jobs the project would create and the number of COVID-19 patients it would support during the course of the pandemic. DFC officials said their goal is to use the tool eventually during the loan review process to help evaluate loan applications, but to date they have not done so. They also hope to use it during the monitoring phase to assess the extent to which funded projects contribute to program goals over the life of the loans. However, according to DFC officials, the economist who developed the DPA quotient is no longer with DFC and they must hire a new economist to implement the tool. DFC officials said DFC is seeking to hire an economist, but as of August 2021, the position remains unfilled.

³⁶However, for a time-sensitive need to move a project forward to the DPA credit committee, DFC may do so prior to receiving an action memo.

³⁷DFC based the DPA Quotient on the Impact Quotient tool it uses to assess loan applications as part of its international development mission. DFC announced the introduction of the Impact Quotient in June 2020. According to DFC, this responded to a requirement in the BUILD Act for DFC to create a modern tool for development impact measurement.

DFC and DOD do not have plans to evaluate the overall effectiveness of the DPA Loan Program in achieving its objectives.³⁸ DFC and DOD officials told us that they considered the loan program to be urgent, and prioritized developing procedures for reviewing and processing loan applications over program evaluation. DOD officials also told us that they are collecting lessons learned on an ongoing basis, but did not identify any documented evaluation plan.

Our past work found it is important for agencies to ensure they are employing program resources effectively to achieve intended results by using data and evidence to understand and improve program performance, even in the midst of national emergencies. For example, in a previous report, we identified key lessons learned from the early COVID-19 and past emergency responses, including the importance of using adequate data and establishing transparency and accountability mechanisms.³⁹ In particular, we found that data collection and analysis efforts during a pandemic could inform decision-making and future preparedness. We also found that program evaluations using performance data and other evidence could provide agencies important insights into progress towards goals.⁴⁰ In this case, DFC could improve the DPA Loan Program by establishing an evaluation plan in consultation with DOD that would allow them to assess the extent to which the program has achieved its intended objectives.

Without an evaluation of the DPA Loan Program's effectiveness, DFC will not understand how the program supported pandemic response and supply chain policy. An evaluation will also enable DFC to provide key performance information to decision-makers engaged in these areas. In particular, DFC could evaluate program operations to make them more responsive to future emergencies such as by identifying further process improvements and clarifying overall timelines. Finally, an evaluation could

³⁸According to Executive Order 13922, DFC received its expanded authority for the program to create, maintain, protect, expand, and restore the domestic industrial base capabilities, including supply chains within the United States and its territories, needed to respond to the COVID-19 outbreak. See Exec. Order No. 13922 (May 14, 2020).

³⁹[GAO-20-625](#).

⁴⁰See GAO, *Using Data and Evidence to Improve Federal Programs*; this compilation of products (or issue area) includes reports such as [GAO-17-743](#). [GAO-17-743](#) notes, for example, that OMB has encouraged agencies to use program evaluations and other forms of evidence to learn what does and does not work, and how to improve results. Our findings in that report also showed the majority of agency managers who reported having evaluations also reported that they contributed to improving program performance.

increase congressional and public confidence that the projected outcomes are worth the costs and financial risks involved.

DFC Did Not Fully Assess the Risks That DPA Activities Pose to Its International Development Mission, but Assessed Risk in Fiscal Year 2021

DFC Did Not Fully Assess the Risks of the DPA Program to Its Primary Mission in Fiscal Year 2020 Because It Was Still Developing a Risk Management Approach

DFC did not formally assess the risks to its international development mission from the DPA Loan Program because DFC's efforts to establish an ERM approach were in the early stages when the President signed Executive Order 13922 and DFC initiated work on the DPA Loan Program. However, DFC officials said they designed the DPA Loan Program to mitigate risks posed to DFC's international development mission.

ERM helps agencies balance all the risks involved in achieving their missions. OMB Circular No. A-123 provides agencies with the requirements for ERM implementation.⁴¹ Specifically, it requires agencies to identify, assess, respond, and report on risks. In addition, the circular states that risk management practices must be forward-looking and designed to help leaders make better decisions, alleviate threats, and

⁴¹Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (Washington, D.C.: July 15, 2016).

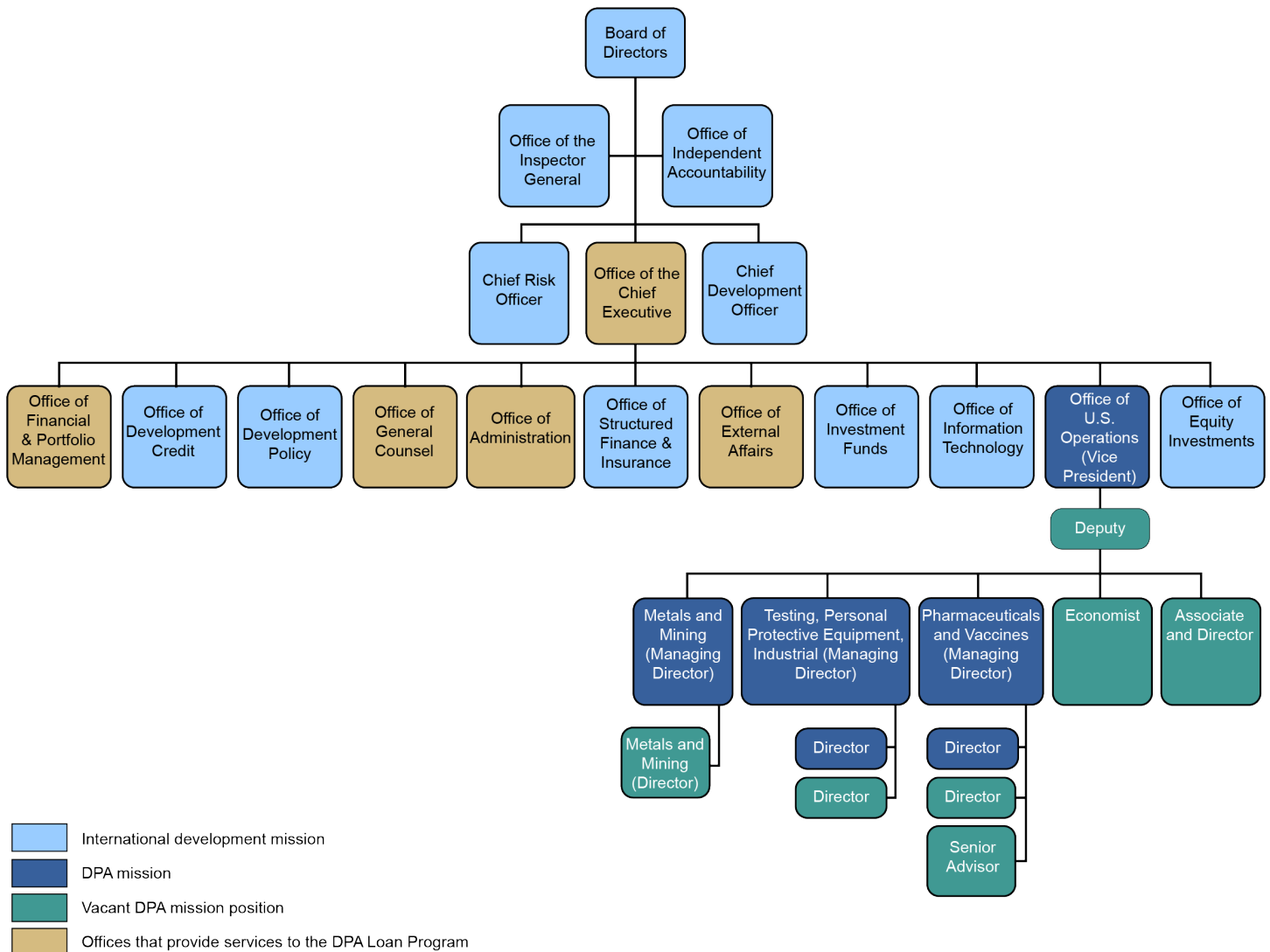
identify previously unknown opportunities to improve the efficiency and effectiveness of government operations. Developing an ERM is a multi-year process and agencies are to report on their ERM approaches, as well as on internal control effectiveness, each year. The BUILD Act required DFC to appoint a Chief Risk Officer to develop, implement, and manage a comprehensive process for identifying, assessing, monitoring, and limiting risks to DFC, including the overall portfolio diversification of the DFC, in coordination with DFC's audit committee.⁴² DFC appointed its first Chief Risk Officer in April 2020.

DFC did not assess the risks the DPA Loan Program posed to its international development program as part of its ERM efforts in fiscal year 2020. According to DFC officials, DFC made this decision because it was in the first year of an ongoing process to develop its ERM approach when the DPA Loan Program became operational in June 2020.⁴³ DFC officials also noted that even if the agency had considered the DPA Loan Program as part of its ERM efforts in fiscal year 2020, this might not have resulted in a detailed assessment of the program's risks. However, agency officials described some steps they took to identify and respond to some risks they thought the DPA Loan Program might pose to the international development program. For example, DFC officials said they took steps to mitigate risks by creating a separate office, the U.S. Operations Office, to lead the DPA Loan Program. DFC officials explained that congressional stakeholders had been concerned that implementing the DPA Loan Program might come at the expense of the agency's international development efforts. Officials said they established this separate office, with dedicated DPA Loan Program staff, to manage this risk. See figure 3 below for the organizational structure showing DFC offices working full-time or providing staff part-time for the DPA Loan Program. In addition, DFC officials noted they sought to mitigate risks by modeling the DPA Loan Program's procedures on those used in the international development mission and by using existing agency tools for assessing loan applications.

⁴²22 U.S.C. § 9613(f).

⁴³In December 2020, DFC reported on its first ERM assessment in its fiscal year 2020 annual management report, in response to the OMB Circular No. A-123 requirement for an annual report.

Figure 3: U.S. International Development Finance Corporation (DFC) Organizational Chart, August 2021



Source: GAO analysis of U.S. International Development Finance Corporation (DFC) information. | GAO-22-104511

Notes: DFC had about 365 staff as of December 2020. As of August 2021, the U.S. Operations Office, which manages the Defense Production Act (DPA) Loan Program, had six staff and seven unfilled positions according to DFC officials. For the purposes of focusing on the DPA Loan Program, this figure shows the subdivisions of the Office of U.S. Operations. Not shown are the 16 subdivisions of the four offices of Financial and Portfolio Management, Development Policy, Administration, and External Affairs.

Though DFC has taken steps to identify and mitigate some risks, it did not fully consider the risks that it faced, including a number of key risks described in OMB Circular No. A-123. For example, DFC officials said

that they planned early on to use DFC's international lending experience by borrowing processes for the DPA Loan Program. However, DFC did not fully account for the differences in the size, market dynamics, and other characteristics of DPA loans compared with international loans. As a result, DFC did not assess various risks it potentially faced in implementing the DPA Loan Program, including operational, reporting, or reputational risks.

- **General operational risk.** DFC did not assess operational risk, which is the risk associated with effective and efficient use of the agency's resources in administrative and major program operations, including financial and fraud objectives. For example, DFC did not fully consider the potential operational risks posed by applying its existing international development procedures and tools to the DPA Loan Program. The loan-review process that the DPA Loan Program borrowed from the core mission did not provide sufficient time for extensive interagency review. That extensive review contributed to timeframes for closing loans being longer than DFC had initially anticipated and communicated to stakeholders and loan applicants.
- **Operational risk related to fraud.** DFC did not assess fraud risks specific to the DPA Loan Program, another operational risk.⁴⁴ Instead, DFC reported assessing certain agency-wide fraud risks in 2020 as part of its annual management reporting requirements.⁴⁵ However, due to their differing characteristics from international development loans and generally larger amounts, DPA loan applications have the possibility of unique fraud risks that DFC did not fully consider as part

⁴⁴According to DFC's 2020 annual management report, because the agency was focused on establishing itself, it conducted a limited internal control review of various activities designed to enhance and strengthen DFC's ability to identify and respond to risk, including fraud risk profiles. DFC did not identify any material weaknesses. According to DFC officials, the agency's 2020 fraud risk profiles involved a comprehensive assessment of fraud risk to internal control over financial reporting. This assessment identified the following key areas of risk for the agency: property, human resources, and acquisitions. DFC officials said DFC is monitoring these risks through its risk register process. However, DFC officials told us that 10 years have passed since DFC's predecessor, OPIC, conducted an assessment of its internal control design and operation. DFC plans to conduct the first baseline assessment of these three risks, as well as fraud, for inclusion in its 2021 annual management report.

⁴⁵DFC officials said DFC took some steps to mitigate fraud in the DPA Loan Program. For example, they said DFC uses standard government practices for identifying fraud, such as a know-your-customer approach. Such an approach aims to help financial institutions like DFC to understand the kind of transactions in which a particular customer is likely to engage, to identify unusual or suspicious transactions, and to report such transactions as required by the Bank Secrecy Act.

of its agency-wide fraud risk assessment. Any fraud in the program could thus affect the agency's capacity to carry out its overall mission by raising questions about its ability to evaluate loan applications and potential partners effectively.

- **Reporting risk.** DFC did not assess reporting risk, which is the risk associated with the accuracy and timeliness of agency information reported—internally to support decision-making and performance evaluation and externally to meet standards, regulations, and stakeholder expectations. For example, DFC did not consider the risks related to its public communications about potential DPA loans. In the case of the ApiJect loan, DFC publicly announced the loan when its CEO approved the loan. However, such approval is only the sixth step in a nine-step loan process (see fig. 2). Though the announcement included the caveat that closing the loan required the completion of finance agreements, it did not make clear that the due diligence process could take many months. After publicly announcing the loan, DFC took 6 months to sign a finance agreement, and several months after that DFC and DOD were still working with the applicant to complete the final step of the loan review process. DFC officials said this timeline was consistent with the one for international loans. However, the announcement led to confusion about the status of the loan in media reports and among members of Congress who contacted DFC's Inspector General to clarify whether DFC had completed the loan. By not clearly communicating public information about the details of the DPA Loan Program, DFC risks damaging its credibility as a loan-making agency and hindering its ability to carry out its international development mission.
- **Reputational risk.** DFC did not assess the reputational risk associated with loan making under the DPA Loan Program. Though DFC separated the DPA Loan Program from its international development mission, it cannot separate the agency from negative or incorrect news about the program. For example, DFC suspended its work on a loan with Kodak shortly after announcing the potential deal due to a number of risks related to the loan and congressional and media inquiries about insider trading. This situation posed potential

reputational risks for DFC.⁴⁶ While the DPA loans are part of an emergency program, DFC relies on private, domestic companies to support its everyday international development work. If DFC suffers damage to its credibility due to the DPA Loan Program, domestic investors could decline future international development investment opportunities.⁴⁷

DFC Completed a Draft of Its Required Risk Assessment and Plans to Finalize it in Fiscal Year 2022

DFC developed a plan to identify and assess all risks to the agency, including those posed by the DPA Loan Program, in its ERM review for fiscal year 2021. Specifically, DFC assessed the program as part of the development of the first risk profile for the agency. The risk profile is an ERM tool to identify the spectrum of an organization's external and internal risks and to assess their effects on each other. The risk profile also serves to inform an agency's plan for achieving its mission. OMB Circular No. A-123 requires agencies to develop a risk profile annually and to identify appropriate options for addressing any significant risks identified in the profile. DFC did not complete a risk profile in fiscal year 2020. However, DFC developed one in fiscal year 2021 and plans to finalize it in early fiscal year 2022.

In January 2021, DFC conducted the first maturity model assessment of its ERM approach in order to identify areas that were working well, and areas that needed additional attention in order to integrate ERM principles

⁴⁶In July 28, 2020, DFC announced its consideration of a loan to Kodak to support the launch of Kodak Pharmaceuticals, a new unit that would produce critical pharmaceutical components. DFC made this announcement when it signed a Letter of Interest. The Letter of Interest is a non-binding agreement and only the third step in the nine-step loan review process. DFC suspended its credit underwriting process indefinitely on the loan on August 7, 2020, once the reported allegations of improper conduct appeared.

⁴⁷The DFC Inspector General wrote a letter in response to Senator Elizabeth Warren's request to investigate DFC's decision to issue a Letter of Interest and award a loan to Kodak. In the response, the Inspector General said the investigation found no evidence of misconduct on the part of DFC Officials. See DFC Office of the Inspector General, *Letter to Senator Warren*, (Washington, D.C.: Dec 2, 2020).

and approaches throughout the agency.⁴⁸ DFC's assessment acknowledged that OMB Circular No. A-123 requires agencies to improve their ERM approach continuously to identify new, emerging, or changing risks. The Chief Risk Officer outlined some broad areas of focus as DFC continues to develop its approach to risk. These areas include connecting the agency's ERM to strategic planning and resource allocation and integrating risk management into everyday decision-making.

DFC developed a plan in May 2021 to identify and assess agency-wide risks in order to develop its risk profile by the end of fiscal year 2021.⁴⁹ Through this process, DFC developed a draft Risk and Opportunity Profile in September 2021 and it plans to finalize the profile in early fiscal year 2022.⁵⁰ To develop the risk profile, DFC's Chief Risk Officer identified risks by gathering relevant information, conducting interviews with leadership, and creating a draft list of risks known as a risk register. This list was then refined resulting in a list of 18 risks and opportunities. The risks posed by the DPA Loan Program to the international development mission were included as part of a broader risk in the draft list of 18 risks and opportunities.

Once DFC identified the 18 risks and opportunities, it assessed them by developing criteria to measure each one and prioritizing them through consultations with key stakeholders. As a result of this process, DFC identified seven risks and two opportunities for inclusion in its fiscal year 2021 draft Risk and Opportunity Profile. The DPA Loan Program risks were ultimately not in the final fiscal year 2021 risk and opportunity profile

⁴⁸A maturity model has five levels from an ad hoc ERM structure to an optimized ERM structure. Agencies can use this model to determine actions needed to integrate ERM continuously into their governance structures. As an agency matures through this process, it will be able to move toward being able to react to risks as they arise as well as predicting future risks and developing strategies to avoid those risks. DFC reported using an OMB-sponsored maturity model that will be included in a revised version of the *Playbook: Enterprise Risk Management for the U.S. Federal Government*, published by the Chief Financial Officers Council and Performance Improvement Council. The current edition is from 2016.

⁴⁹In addition to developing a risk profile, DFC officials stated that they plan to assess the DPA Loan Program's risks by assessing the internal controls for the program in fiscal year 2021. Specifically, they stated that DFC has begun assessing its internal control design and operating effectiveness, including controls for fraud.

⁵⁰DFC calls its risk profile a risk and opportunity profile in recognition of the fact that, while Circular A-123 states the primary purposes of a risk profile is to provide thoughtful analysis of risks and options for addressing significant risks to achieving an agency's mission, the profile must also identify opportunities to better achieve the agencies objectives.

list of nine items. However, DFC assigned offices to monitor each of the 18 risks and opportunities identified in the earlier list, which included the DPA Loan Program risks. These offices will report their observations to management at least once a year. In October 2021, DFC plans to share the results of this process with the DFC Board Risk Committee. Following discussion with the Risk Committee, DFC will consider its fiscal year 2021 Risk and Opportunity Profile complete.

DFC Has Not Developed Accounting Methodologies to Track All the Eligible Costs of the DPA Loan Program or Submitted Timely and Complete Invoices

DFC Has Not Developed Accounting Methodologies to Track All DPA Loan Program Costs Eligible for DOD Reimbursement

DFC has developed methodologies to account for most, but not all of the costs to administer the DPA Loan Program eligible for reimbursement by DOD. Federal financial accounting standards call for agencies to assign costs to program activities through methodologies that directly or

indirectly link costs to the activities.⁵¹ Because DFC has not developed methodologies for all eligible costs, it has been unable to submit complete and timely invoices to DOD for their reimbursement.

In July 2020, DFC developed a 10-year, approximately \$20 million budget that had categories for estimated costs of the DPA Loan Program eligible for reimbursement in accordance with its MOA with DOD.⁵² In October 2020, DFC and DOD officials agreed on the budget for DFC's administrative expenses for the 2 years of the DFC DPA Loan Program and subsequent loan monitoring, which will come out of the \$100 million in appropriations DOD allocated for the DPA Loan Program. The budget includes categories for both direct and indirect costs to administer the DPA Loan Program. According to DFC officials, direct costs are those directly linked to the program, such as payroll for DFC staff that work full-time on the DPA Loan Program and costs for information technology systems and program support. Indirect costs are those for services and facilities that the DPA Loan Program shares with DFC's international development mission, such as operating costs for office space, facilities, equipment, and utilities.

While the MOA between DFC and DOD and the budget define broad categories of eligible costs, they do not provide details on the specific costs included under each category or guidance for how to calculate those costs. The nine of 12 cost categories for which DFC has developed accounting methodologies include such ones as full-time and part-time labor costs, loan-subsidy model development, and information technology services and equipment. For example, DFC officials told us they calculate labor costs for full-time DFC staff processing DPA loans based on the number of staff in the U.S. operations office, which manages the loan program. DFC also developed a methodology to calculate costs for its staff working part-time on the DPA Loan Program. International development staff in DFC who work part-time on DPA loan activities track their time spent on those activities and then record it in a centralized spreadsheet. Payroll staff then multiply the number of hours by hourly

⁵¹The Federal Accounting Standards Advisory Board, *Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts, Managerial Cost Accounting Standards Number 10*. (Washington, D.C.: Jun. 30, 2020).

⁵²DFC subsequently revised the initial list of categories of eligible costs that it had included in the July 2020 DPA Loan Program budget, adding additional categories for information technology-related costs and removing a category for timekeeping.

rates for salary and benefits for each international development staff member that submitted hours spent on the DPA Loan Program.

In addition, DFC developed a methodology to calculate costs for creating its model to assess DPA loan subsidies, as well as costs for information technology services for the DPA Loan Program. For example, DFC officials told us that they have reimbursable agreements for the vendors that provide information technology services to the loan program. Officials also told us that they have travel authorizations and vouchers for travel expenses associated with the program.

However, DFC has not developed methodologies to calculate three of its 12 eligible cost categories (see table 2). Specifically, it lacks methodologies to calculate operating costs for the DPA Loan Program. Generally, operating costs include expenses for office space, facilities, equipment, and utilities. DFC has not defined which specific costs it would include in the operating cost category or how to calculate them. DFC has also not developed a methodology for some of its other costs. These include costs for information technology licenses, equipment, and program support for new full-time DPA staff and for recurring information technology services.

Table 2: Cost Categories, Methodologies, and Status of Methodology Development for DFC's Defense Production Act (DPA) Loan Program

Type of cost	Cost category description	Methodology	Methodology developed
Direct	Payroll for full-time DPA staff	Calculation based on staff payroll salary and benefits	Yes
Direct	Payroll for part-time DFC staff supporting DPA Loan Program	Calculation based on staff hours and assigned hourly rates for individual salary and benefits ^a	Yes
Direct	Project management including financial and systems integration	Contract and related invoices	Yes
Direct	Loan application form and website modification	Contract and related invoices	Yes
Direct	Software development for DPA and DFC system integration	Contract and related invoices	Yes
Direct	Loan subsidy model development and execution	Contract and related invoices	Yes
Direct	Software security	Contract and related invoices	Yes
Direct	DPA risk management score card development and execution	Contract and related invoices	Yes
Direct	Travel for DPA staff	Travel authorizations and vouchers	Yes
Direct	Information technology licenses, equipment, and program support for new full-time DPA staff	To be determined	No
Indirect	DFC operating costs to support DPA Loan Program	To be determined	No
Indirect	Information technology recurring costs	To be determined	No

Source: GAO analysis of U.S. International Development Finance Corporation (DFC) documentation. | GAO-22-104511

^aDFC staff uses a centralized spreadsheet to track staff hours to support DPA Loan Program-related activities.

DFC officials told us they plan to complete a methodology to calculate operating and other costs for the DPA Loan Program once they hire a cost accountant. The accountant, officials told us, would help ensure that the methodology for each of the three cost categories is sound and consistent with applicable guidance. DFC officials told us in January 2021 that they planned to hire this accountant. DFC posted an announcement for the position in June 2021, but as of August 2021, the position remains unfilled.

DFC Has Not Submitted Timely and Complete Invoices to DOD for Reimbursement of DPA Loan Program Costs

DFC has not submitted timely and complete invoices to DOD for reimbursement of the eligible costs associated with the loan program, in part because it has not developed methodologies for all its eligible costs. The MOA between DFC and DOD calls for DFC to submit monthly invoices no later than 15 days after the end of a given month.

As of early October 2021, DFC had submitted only six partial invoices to DOD for reimbursement, for a total of \$1,388,445 (see table 3).⁵³

Table 3: DFC Invoices for Defense Production Act (DPA) Loan Program Costs Submitted to the Department of Defense (DOD) for Reimbursement, as of October 2021

Date DFC submitted invoice	Cost description	Period in which costs were incurred	Amounts submitted to DOD for reimbursement (in Dollars)
March 2021	DPA Loan Program dedicated full-time staff payroll	July 2020-January 2021	351,050
April 2021	DPA Loan Program dedicated full-time staff payroll	January-March 2021	521,862
	Other costs, such as for information technology services and DFC international development staff working part-time on the program	September 2020-March 2021	
May 2021	DPA Loan Program dedicated full-time staff payroll and loan-subsidy model development and execution	March-April 2021	106,189
June 2021	DFC international development staff working part-time on the program	December 2020-May 2021	119,942
	DPA Loan Program dedicated full-time staff payroll	April-May 2021	
	Other costs associated with DPA activities, such as for loan-subsidy model development and execution	May 2021	
July 2021	DPA Loan Program dedicated full-time staff payroll	May-June 2021	123,437
	Other costs associated with DPA activities, such as for information technology services and loan-subsidy model development and execution	June 2021	

⁵³These invoices covered the following five cost categories and amounts: (1) labor costs for DPA Loan Program dedicated full-time staff payroll for \$1,095,766; (2) information technology license, equipment, and program support costs dedicated to the DPA Loan Program for \$217,238; (3) DPA loan-subsidy model development and execution costs for \$26,129; (4) travel for DPA Loan Program staff costs for \$8,321; and (5) labor costs for DFC international development staff payroll to support DPA loans for \$40,990.

Date DFC submitted invoice	Cost description	Period in which costs were incurred	Amounts submitted to DOD for reimbursement (in Dollars)
August 2021	DFC international development staff working part-time on the program	June-July 2021	165,965
	DPA Loan Program dedicated full-time staff payroll	June-July 2021	
	Other costs associated with DPA activities, such as for loan-subsidy model development and execution	July 2021	
September 2021	No invoices submitted this month	Not applicable	Not applicable
Total			1,388,445^a

Source: GAO analysis of U.S. International Development Finance Corporation (DFC) documentation. | GAO-22-104511

Note: We have rounded amounts to the nearest dollar.

^aAs of early October 2021, amounts submitted for reimbursement to DOD have been 22 percent of the DPA Loan Program budget developed in July 2020 that had estimated costs through fiscal year 2021. DOD has reimbursed DFC for costs in all six invoices.

The six invoices submitted to DOD represent about 22 percent of the DPA Loan Program budget of estimated costs through fiscal year 2021. DFC officials stated that DPA Loan Program costs have been significantly lower than the \$6,236,826 DOD obligated for DFC's administrative expenses for fiscal years 2020 and 2021.⁵⁴ According to DFC officials, the agency overestimated some costs, largely expecting that they would hire more full-time employees to process the DPA loans than they actually did.

DFC officials also acknowledged that all six of their invoices reflected an incomplete accounting of the total costs of administering the program up to that date since they cover costs only for which DFC has cost methodologies. Officials said they would invoice the operating and some other costs for reimbursement at a future date because they were still developing a methodology to calculate these costs and wanted to account for them accurately.

Even in those cases for which it had a methodology for calculating costs, DFC submitted invoices months after actually incurring the costs. For example, DFC submitted the first invoice in March 2021 for costs that covered staff working full-time on the DPA Loan Program from July 2020

⁵⁴DOD obligated an amount from the CARES Act DPA Purchases appropriation to cover expected DPA loan program costs through fiscal year 2021. As of October 2021, DOD had \$4,848,381 available for DFC out of the \$6,236,826 DOD obligated for the program. This amount is after DFC invoiced DOD for \$1,388,445 to cover DPA Loan Program costs.

through January 2021. After submitting the first invoice in March 2021, DFC officials told us that they planned to continue submitting monthly invoices, although such invoices would not include all costs until they finalized the methodology for calculating operating and other costs. Subsequently, DFC submitted invoices in April, May, June, July, and August 2021, but did not submit an invoice in September 2021. DOD and DFC officials told us that since DOD has obligated funds from the CARES Act DPA Purchases appropriation for DPA Loan Program costs, DFC can submit invoices for reimbursement until it expends those funds.⁵⁵

Until DFC develops a methodology to calculate its operating and other costs for the DPA Loan Program, the agency will be unable to ensure they will submit timely and complete invoices to DOD for reimbursement of all eligible costs. Without such a methodology, DFC and DOD will also not know the full costs of establishing and operating the program. That information could help inform future decisions about whether the DPA Loan Program is a cost-effective method to address future national emergencies. Thus, it is important that DFC develop an accounting methodology that provides details about and a calculation method for its operating and other costs to administer the DPA Loan Program.

Conclusions

The President delegated authorities to the DFC CEO to make DPA loans in consultation with DOD and other agencies for the domestic production of strategic resources to respond to the COVID-19 outbreak, and to strengthen domestic supply chains. DFC had not made any loans as of mid-October 2021, with the loan authority set to expire in March 2022. As a new agency focused on international development finance, DFC did not have all the necessary processes in place to operate the DPA Loan Program. It also did not have an accurate estimate for how long it would take to complete DPA loans. DFC worked with DOD to revise these processes and improve the efficiency of the loan program. However, as the federal government makes decisions about how to continue investing in pandemic-related supply chains and to respond to future emergencies, it is important for DFC to have information about the effectiveness of its DPA Loan Program. DFC and DOD will need a plan to evaluate the

⁵⁵The CARES Act DPA Purchases appropriation makes these funds available until expended.

program's overall effectiveness, taking into account lessons learned from its operation so far.

In addition, DFC has yet to develop accounting methodologies for all the DPA Loan Program costs eligible for reimbursement by DOD. These methodologies have not all been developed or implemented after over a year of loan program operations. DFC cannot submit timely and complete invoices to DOD for reimbursement and have confidence it has accounted for all DPA Loan Program costs until it completes development of all its cost accounting methodologies.

Recommendations for Executive Action

We are making two recommendations to the CEO of DFC.

The CEO of DFC, in consultation with the Under Secretary of Defense for Acquisition and Sustainment, should develop a plan to evaluate the overall effectiveness of the DPA Loan Program in achieving the program's goals, taking into account lessons learned from its operation so far. (Recommendation 1)

The CEO of DFC should develop cost accounting methodologies for those operating and other costs to administer the DPA Loan Program that the agency has not yet established and include details of these costs and how they are calculated. (Recommendation 2)

Agency Comments and Our Response

We provided a draft of this report to DFC and DOD for review and comment. In written comments, reprinted in appendix II, DFC concurred with one of our recommendations and did not concur with the other. DFC and DOD separately provided technical comments, which we incorporated as appropriate.

DFC concurred with our recommendation that the CEO of DFC develop cost accounting methodologies for those costs to administer the DPA Loan Program that the agency has not yet established and include details of these costs and how they are calculated (Recommendation 2). DFC noted that it is already taking steps to develop these methodologies and plans to have them completed before it submits its final invoice to DOD.

DFC did not concur with our recommendation that the CEO of DFC, in consultation with the Under Secretary of Defense for Acquisition and Sustainment, should develop a plan to evaluate the overall effectiveness of the DPA Loan Program in achieving the program's goals, taking into account lessons learned from its operation so far (Recommendation 1). DFC agreed that the DPA Loan Program's effectiveness should be evaluated but contends that the evaluation should be done by DOD and HHS as the agencies with budgetary and programmatic authority.

We continue to believe our recommendation is valid and that it is appropriately directed to DFC's CEO, in consultation with the Under Secretary of Defense for Acquisition and Sustainment. Executive Order 13922 specifically delegated the legal authority for making DPA loans under the program to DFC's CEO given DFC's expertise in loan support for private institutions. DFC has also been the lead agency responsible for designing and implementing the key features of the program. Finally, key public materials related to the program have identified DFC as the lead agency. Given DFC's expertise in loan making more broadly and its role leading the administration of the DPA Loan Program, it is best-positioned to lead the effort to evaluate the effectiveness of the DPA Loan Program and identify relevant lessons learned from its operation so far. DFC's letter notes that it is already providing feedback and lessons learned to its interagency partners and it can build on these efforts in developing its plans for evaluating the program. Further, we agree with DFC's observation in its letter that DOD plays a key role in the DPA Loan Program, including providing its budget authority and providing approval for proposed loans at key points in the process. It is for that reason that we directed DFC's CEO to consult with the Under Secretary of Defense for Acquisition and Sustainment in implementing the recommendation. We also recognize that other agencies, such as HHS, may be able to provide valuable input and we would welcome DFC's efforts to coordinate with these agencies, as it sees fit, as part of its efforts.

We are sending copies of this report to appropriate congressional committees; the CEO of DFC; the Secretary of Defense; and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-2964 or KenneyC@gao.gov. Contact points for our

Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made contributions to this report are listed in appendix III.

A handwritten signature in black ink that reads "Chelsa Kenney". The script is cursive and fluid, with the first name "Chelsa" and last name "Kenney" clearly distinguishable.

Chelsa Kenney
Director, International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

House of Representatives Report 116-444 provided for GAO to review the U.S. International Development Finance Corporation's (DFC) activities under the Defense Production Act (DPA). This report examines the extent to which the DFC has (1) made loans that contributed to the pandemic response and planned to assess program effectiveness, (2) assessed and responded to the organizational risks of carrying out DPA activities along with its international development responsibilities, and (3) implemented internal controls to ensure full accounting of its DPA Loan Program costs for Department of Defense (DOD) reimbursement.

To assess the extent to which DFC made loans that contributed to the pandemic response and planned to assess program effectiveness, we reviewed legal and guidance documents for the DPA Loan Program. These documents include Title III of the DPA, Executive Order 13922, the Memorandum of Agreement (MOA) between DFC and DOD, and the loan-review process guide agreed upon by both agencies.¹ In addition, we reviewed documentation related to the loan that has made it furthest along in the loan review process, analyzed DFC data on DPA Loan Program applications, and interviewed DFC and DOD officials about their process for reviewing and approving DPA loans. To assess the reliability of the data for DPA Loan Program applications, we performed electronic testing of the data and asked data reliability questions. We found these data to be sufficiently reliable for our purposes of describing and summarizing loan application data DFC was collecting for the DPA Loan Program. We also reviewed DOD assessments of the program, including process improvement recommendations, and documentation of DFC and DOD's policy to prioritize individual loans based on their potential to contribute to the pandemic response.

In addition, we reviewed DFC documents, particularly the draft DPA Quotient tool, describing how DFC plans to measure the impact of the loans when assessing a loan application and over the life of the loan. We

¹50 U.S.C. § 4531 et seq; Exec. Order No. 13922 (May 14, 2020). Department of Defense and U.S. International Development Finance Corporation, *Memorandum of Agreement Between the U.S. International Development Finance Corporation and the U.S. Department of Defense* (Washington, D.C.: June 22, 2020).

also interviewed DFC officials and DOD officials about the agencies' plans to assess the effectiveness of individual loans and of the program as a whole in responding to the pandemic. Finally, we compared DFC's and DOD's plans to GAO-identified lessons learned from the initial pandemic response and previous emergencies to determine the extent to which DFC and DOD had incorporated lessons-learned into their plans.² In addition, we compared their plans to GAO-identified lessons on the use of data and evidence to improve federal programs.³

To examine how DFC assessed and responded to organizational risks, we reviewed DFC documentation about how it assessed organizational risks, including fraud, for the agency as a whole. In addition, we interviewed knowledgeable DFC officials about their plans for assessing risks related to the DPA Loan Program and evaluated whether these plans are consistent with relevant Office of Management and Budget (OMB) requirements for agencies regarding Enterprise Risk Management (ERM), such as the requirement to annually create a risk profile and assess internal controls.⁴ We reviewed DFC documentation of processes and steps the agency took to develop its risk profile in addition to DFC's baseline assessment of its ERM approach. We also reviewed guidance

²GAO, *Covid-19: Opportunities to Improve Federal Response and Recovery Efforts*, [GAO-20-625](#) (Washington, D.C.: Jun. 25, 2020).

³See GAO, *Using Data and Evidence to Improve Federal Programs*; this compilation of products (or issue area) includes reports such as GAO, *Program Evaluation: Annual Agency-Wide Plans Could Enhance Leadership Support for Program Evaluations*, [GAO-17-743](#) (Washington, D.C.: Sept. 29, 2017).

⁴Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (Washington, D.C.: Jul. 15, 2016). Circular. No. A-123 refers to GAO, *Standards for Internal Controls in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sep. 10, 2014). Specifically, we considered the following internal controls principles when reviewing DFC's ERM approach: (1) component A2 on risk assessment; (2) principles 7 and 9 on management's responsibility to identify, analyze, and respond to risks and respond to significant changes; and (3) component C on fraud risk. We had also planned to compare DFC's ERM approach to GAO's ERM report, *Enterprise Risk Management: Selected Agencies' Experiences Illustrate Good Practices in Managing Risk*, [GAO-17-63](#). However, since DFC was still in the early stages of developing its ERM and therefore it was too soon to compare it to best practices, we instead examined the extent to which DFC's ERM met the criteria in the circular.

identifying best practices and key concepts for agencies to consider when establishing a comprehensive and effective ERM approach.⁵

We also reviewed DFC documentation and interviewed DFC officials regarding the steps the agency had taken to informally identify and mitigate risks the DPA Loan Program posed to the international development mission. Finally, we reviewed DFC's workforce planning documents and interviewed DFC officials concerning the allocation of resources for the DPA Loan Program.

To assess the extent to which DFC has implemented internal controls to ensure full accounting of its DPA costs for DOD reimbursement, we reviewed the MOA between DFC and DOD that broadly states all administrative costs to implement the DPA Loan Program that are eligible for reimbursement. We also reviewed DFC's July 2020 budget for the DPA Loan Program that estimated program costs over a 10-year period, including specific categories of direct and indirect costs eligible for reimbursement. We reviewed DFC's internal policies and procedures for tracking costs, such as direct and indirect labor costs and vendor costs, as well as DFC's guidance for calculating those costs. We interviewed DFC and DOD officials regarding their policies and procedures in developing and implementing DFC's cost accounting system for DPA Loan Program costs, including cost accounting methodologies and how DFC calculates those costs for each category. We then assessed DFC's cost accounting methodologies against relevant federal financial accounting standards and internal control standards.⁶

In addition, we reviewed aggregate data on costs for DFC's DPA Loan Program to assess whether the data contained the information DFC required under its cost accounting methodology and policies and procedures. We also reviewed all the reimbursement invoices DFC submitted to DOD between the DPA Loan Program's inception in June 2020 and early October 2021. DFC submitted six invoices during this

⁵United States Chief Financial Officers Council and Performance Improvement Council, *Playbook: Enterprise Risk Management for the U.S. Federal Government* (Washington, D.C.: Jul. 29, 2016).

⁶The Federal Accounting Standards Advisory Board, *Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts* (Washington, D.C.: Jun. 30, 2020). See [GAO-14-704G](#) for the two principles we considered in reviewing DFC's cost accounting methodologies: (1) principle 10.01, management should design control activities to achieve objectives and respond to risks; and (2) principle 12.01, management should implement control activities through policies.

period for costs incurred since June 2020. Finally, we interviewed DFC and DOD officials on matters related to the submitted invoices.

We conducted this performance audit from September 2020 to November 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comments from the U.S. International Development Finance Corporation

**Appendix II: Comments from the U.S.
International Development Finance
Corporation**



October 27, 2021

Chelsa Kenney
Director, International Affairs and Trade
U.S. Government Accountability Office
Washington, DC 20584

Dear Ms. Kenney:

Thank you for providing the U.S. International Development Finance Corporation ("DFC") with the Government Accountability Office ("GAO") Report entitled: Actions Needed to Improve Management of Defense Production Act Loan Program (GAO-22-104511). DFC appreciates the work of GAO on this audit given the unique complexities the U.S. government has managed in mobilizing its resources for this program.

In response to the global COVID-19 pandemic, the President issued Executive Order 13922, delegating to DFC's Chief Executive Officer (CEO) certain functions under the Defense Production Act ("DPA") to assist in the administration's priority of building greater domestic capabilities to respond to the pandemic. This role for the agency was unprecedented in two respects. First, this represented the first time that DFC (or its predecessor agencies) was called to supply its expertise to a domestic concern. Second, the Executive Order delegated these responsibilities directly and specifically to the agency's CEO and not to DFC as an agency.

Under the previous administration, DFC was tasked with mobilizing its institutional knowledge and expertise into building a loan program, whereby DFC would provide specific credit-related services related to project screening, origination, and monitoring to Department of Defense (DoD) and Department of Health and Human Services (HHS).

DFC's highly specific and narrow role in the DPA program, relative to its interagency partners, cannot be emphasized enough. While this report is correct in conveying that the DFC's CEO has authority over some key operational, administrative and program decision making functions, it must be noted that the most key programmatic authorities, including (i) budget authority over transactions and administrative costs and (ii) approval on project eligibility and technical requirements, reside with the interagency partners for this program: DoD and HHS.

DFC does not concur with Recommendation 1. DFC agrees with GAO's sentiment that the effectiveness of this program should be evaluated as the government considers future usage of DPA authorities, and to that extent DFC continues to provide feedback and lessons learned to its interagency partners. DFC does not concur, however, with GAO's conclusion in Recommendation 1 that an evaluation of program effectiveness should focus on DFC as a service provider to its interagency partners. Rather, DFC contends that a thorough and timely evaluation should be driven by the agencies with budget and programmatic authority, which are more appropriately positioned to make such an evaluation.

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**Appendix II: Comments from the U.S.
International Development Finance
Corporation**



DFC concurs with Recommendation 2 that DFC develop cost accounting methodologies for those operating and other costs to administer the DPA Loan Program. DFC has already begun the implementation of corrective actions which it anticipates will be fully operational prior to such time as DFC submits its final billing to DoD.

Sincerely,

Dev Jagadesan
Digitally signed by
Dev Jagadesan
Date: 2021.10.28
10:30:41 -04'00'

Dev Jagadesan
Acting Chief Executive Officer

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Accessible Text for Appendix II: Comments from the U.S. International Development Finance Corporation

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Washington, DC 20584

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Sincerely,

Dev Jagadesan
Acting Chief Executive Officer

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Chelsa Kenney, (202) 512-2964 or kenneyc@gao.gov

Staff Acknowledgments

In addition to the individual named above, Ryan Vaughan (Assistant Director), Katherine Forsyth (Analyst-in-Charge), Maureen Luna-Long, Dan Dye, Rachel Whitaker, Ashley Alley, Justin Fisher, Christopher Keblitis, Aldo Salerno, and Roger Stoltz made key contributions to this report. Cheryl Andrew, Deirdre Brown, Miriam Carroll-Fenton, Daniel Glickstein, Julia Jebo Grant, William Hadley, Tom McCabe, Jodie Sandel, and Emily Weisenberger provided additional assistance.

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