

Audit of NIST's Assessment of Applicant Eligibility for CHIPS Incentives Funding

REPORT NO. OIG-26-030-A

September 24, 2026

U.S. Department of Commerce
Office of Inspector General
Office of Audit and Evaluation





September 24, 2026

MEMORANDUM FOR: Arvind Raman, Ph.D.
Under Secretary for Standards and Technology and
NIST Director
National Institute of Standards and Technology


FROM: Arthur L. Scott Jr.
Assistant Inspector General for Audit and Evaluation

SUBJECT: *Audit of NIST's Assessment of Applicant Eligibility for CHIPS
Incentives Funding*
Report No. OIG-26-030-A

Attached is the final report on our audit of NIST's assessment of applicant eligibility for incentives funding under the Creating Helpful Incentives to Produce Semiconductors Act of 2022. We will post the report on [our website](#) per the Inspector General Act of 1978, as amended (5 U.S.C. §§ 404, 420).

We appreciate your staff's cooperation and professionalism during this audit.

Attachment





Audit of NIST's Assessment of Applicant Eligibility for CHIPS Incentives Funding

Audit Report OIG-26-030-A

September 24, 2026

- **What We Audited** | Our objective was to determine whether entities receiving financial assistance met the eligibility requirements in the Creating Helpful Incentives to Produce Semiconductors Act of 2022 (CHIPS Act of 2022).
- **Why This Matters** | The CHIPS Act of 2022 appropriated funds to support research and development, innovation, and manufacturing related to semiconductors. It provided \$50 billion to the U.S. Department of Commerce, with \$39 billion dedicated to incentivizing investment in facilities and equipment to develop and manufacture domestic semiconductors. The act also provides up to \$75 billion in loan guarantee agreement authority. The Department's National Institute of Standards and Technology (NIST) established the CHIPS Program Office (CPO) to oversee implementation of the semiconductor incentives program.
- **What We Found** | We found that NIST sufficiently assessed whether applicants met statutory eligibility requirements. All six of the companies we reviewed were eligible to receive financial assistance.
- **Potential Risks** | We made no recommendations, but we identified some potential risks. Nearly all announced funding—over \$36.3 billion of the \$36.4 billion total—was awarded within a 10-week period. Additionally, CPO made exceptions for three companies to use equipment from Chinese suppliers. Finally, four of the six companies submitted letters of support from schools and customers that contained notably similar language. We will continue to monitor these risks in future audits.



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Introduction

The Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act (CHIPS Act) was signed into law in August 2022. The CHIPS Act of 2022 (division A of the CHIPS and Science Act)¹ appropriated funds to support research and development, innovation, and manufacturing related to semiconductors.² This includes investments in manufacturing facilities, workforce development, and collaborations between government agencies and private companies.

The CHIPS Act provided \$50 billion to the U.S. Department of Commerce, with \$39 billion dedicated to incentivizing investment in facilities and equipment to develop and manufacture domestic semiconductors. The act also provides up to \$75 billion in loan guarantee agreement³ authority. The Department's National Institute of Standards and Technology (NIST) established the CHIPS Program Office (CPO) to oversee implementation of the semiconductor incentives program.

To incentivize domestic semiconductor investments, the Department issued the Commercial Fabrication Facilities (CFF) notice of funding opportunity (NOFO) on February 28, 2023, with an application deadline of June 18, 2024. This NOFO invited applications for the construction, expansion, or modernization of commercial facilities for:

- The front- and back-end fabrication of leading-edge, current-generation, and mature-node semiconductors
- Wafer manufacturing
- Materials used to manufacture semiconductors and semiconductor equipment where the capital investment is \$300 million or more

CPO received 92 applications for this NOFO. As of April 30, 2026, CPO has made 19 awards for up to \$30.9 billion in direct funding⁴ and \$5.5 billion in loan guarantee agreements for the CFF NOFO. Eighteen of these awards, totaling \$36.3 billion of the \$36.4 billion in combined direct funding and loan guarantee agreement amounts, were awarded within the

¹ Pub. L No. 117-167, 136 Stat. 1366 (2022).

² The CHIPS Act of 2022 amended Title XCIX of the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021; we refer to these provisions collectively as the CHIPS Act.

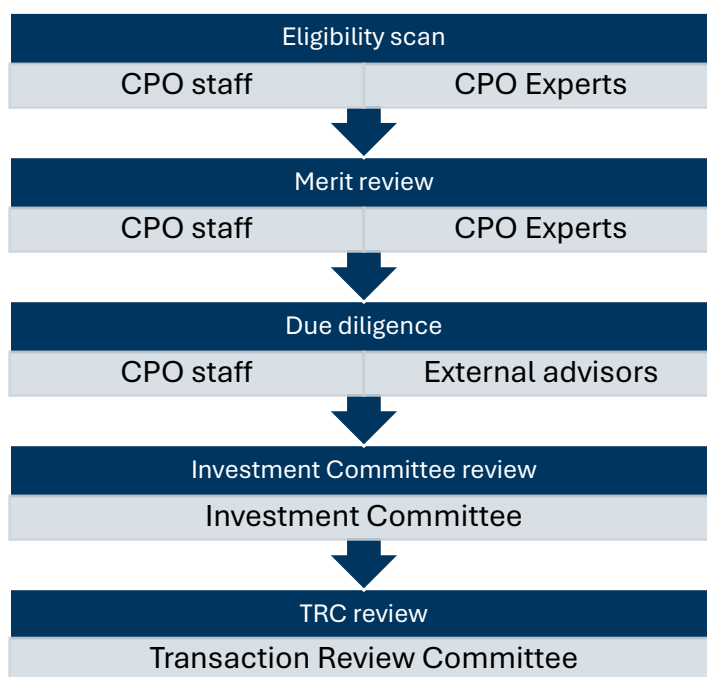
³ Per the CFF NOFO, a loan guarantee is a federal guarantee of third-party loans to the applicant for eligible costs.

⁴ On August 27, 2025, while our audit was in progress, the Intel direct funding agreement was amended to require the full disbursement of \$5.695 billion in funding to Intel because Intel and the Department entered into a warrant and common stock agreement for the government to take an equity stake in Intel. As a result, the Department and Intel have no further obligations under the direct funding agreement.

10-week period of November 7, 2024, to January 16, 2025. We discuss the implications and potential risks of the award timing in the “Other Matters of Interest” section below.

Based on our review, the award review process consists of five phases and involves CPO staff and external advisors. This includes staff from the Investment Office; subject-matter experts; the Investment Committee, which consists of the CPO director, chief investment officer, chief risk officer, and chief strategy officer; and the Transaction Review Committee (TRC), which consists of the Secretary of Commerce, Deputy Secretary of Commerce, Under Secretary of Commerce for Industry and Security, Under Secretary of Commerce for Standards and Technology, and General Counsel. Figure 1 provides an overview of the review process and participants.

Figure 1. Award Review Process and Participants



Source: OIG analysis of award review process

► Eligibility Requirements

In the CFF NOFO, CPO outlined evaluation criteria for the applications, including economic and national security objectives, commercial viability, financial strength, technical feasibility and readiness, workforce development, and broader impacts. In addition to these criteria, each company had to meet the following statutory requirements to be eligible for an award:⁵

⁵ 15 U.S.C. § 4652.

- Having a documented interest in constructing, expanding, or modernizing a facility
- Securing a covered incentive⁶
- Committing to worker and community investment
- Securing commitments from regional schools and training entities to provide workforce training for economically disadvantaged individuals
- Developing an executable plan to sustain the facility without additional federal financial assistance
- Determining the type of semiconductor technology, equipment, materials, or research and development the covered entity⁷ will produce at the facility
- Determining the customers, or categories of customers, to which the covered entity plans to sell the semiconductor technology, equipment, materials, or research and development
- Documenting workforce needs and developing a strategy to meet those needs
- Developing an executable plan to identify and mitigate relevant semiconductor supply chain security risks
- Implementing policies and procedures to combat cloning, counterfeiting, and relabeling of semiconductors with respect to any project for the production, assembly, or packaging of semiconductors
- Not being a foreign entity of concern (this is any foreign entity tied to terrorism, sanctions lists, or activities deemed harmful to U.S. security or foreign policy)⁸

► CHIPS Act OIG Requirements

The CHIPS Act⁹ requires that, no later than 4 years after disbursement of the first financial award, we provide oversight of funds in the following areas:

- Recipients met eligibility requirements.
- Recipients used funds appropriately.

⁶ Applicants must demonstrate that they have an incentive offered by a state or local governmental entity for purposes of constructing or expanding a semiconductor facility.

⁷ A nonprofit entity; a private entity; a consortium of private entities; or a consortium of nonprofit, public, and private entities with a demonstrated ability to substantially finance, construct, expand, or modernize a facility.

⁸ 15 U.S.C. § 4651(8).

⁹ Pub. L No. 117-167, 136 Stat. 1366, 1387-88.

- Recipients fulfilled commitments to worker and community investments.
- Recipients received sufficient guidance about a violation of the required agreement.
- The Secretary provided timely notification to Congress about violations.
- The Secretary sufficiently reviewed entities to ensure they did not engage in any significant material expansion of semiconductor manufacturing capacity in foreign countries of concern.¹⁰

In this report we assess the first requirement: eligibility.

To assess whether recipients met eligibility requirements, we judgmentally selected and reviewed the applications for Taiwan Semiconductor Manufacturing Company (TSMC), Intel Corporation, Micron Technology, Inc., GlobalFoundries Inc., Infinera Corporation, and Corning Inc., which represented six of the 19 agreements. These six agreements total approximately \$22.6 billion in direct funding and \$5 billion in loan guarantee agreements (see table 1), or approximately 76 percent of the total federal investment.

Table 1. Selected Funding Agreements (in Millions)

Company	Direct Funding	Loan Guarantee	Total Federal Investment
TSMC	\$6,565	\$5,000	\$11,565
Intel	\$7,865	\$0	\$7,865
Micron	\$6,440	\$0	\$6,440
GlobalFoundries	\$1,587	\$0	\$1,587
Infinera	\$93	\$0	\$93
Corning	\$32	\$0	\$32
Total	\$22,582	\$5,000	\$27,582

Source: Direct funding agreements and Department press releases

These six agreements represented 13 projects and applications (see appendix 1 for the list of projects).

¹⁰ 15 U.S.C. § 4651 defines a “foreign country of concern” to include any country that the Secretary of Commerce, in consultation with the Secretary of Defense, the Secretary of State, and the Director of National Intelligence, determines to be engaged in conduct that is detrimental to the national security or foreign policy of the United States.

► Objective

Our objective was to determine whether entities receiving financial assistance met the CHIPS Act's eligibility requirements. Appendix 2 details our scope and methodology.



Finding

Summary: We found that the six companies we reviewed were eligible to receive financial assistance. Specifically, NIST sufficiently assessed whether applicants met statutory eligibility requirements. This occurred because CPO implemented a multilayered approach to eligibility reviews. As a result, all the companies we reviewed met eligibility requirements and the controls in place provide reasonable assurance that companies receiving future awards will also meet these requirements.

However, we identified some potential risks. Nearly all announced funding—over \$36.3 billion of the \$36.4 billion total—was awarded within a 10-week period. Additionally, CPO made exceptions for companies to use equipment from Chinese suppliers. Finally, four of the six companies submitted letters of support from schools and customers that contained notably similar language.

➤ Selected Award Recipients Met Eligibility Requirements

We found that all six companies in our sample met the eligibility requirements based on our review of each company’s application and other relevant documentation. We identified that CPO implemented a detailed process to review applications (see figure 1 above). This process included an eligibility scan, merit review, due diligence, Investment Committee review, and the TRC’s review. Although CPO’s primary assessment of applications against the eligibility requirements occurred during the eligibility scan, CPO assessed eligibility in all phases of its application review.

Eligibility Scan

The eligibility scan consisted of an initial scan and a full application eligibility review. CPO staff managed the initial scan, which involved a preliminary evaluation to determine whether the application was substantially complete and contained sufficient information to conduct a full application eligibility review. In addition, CPO Investment Office staff, in conjunction with national and economic security subject-matter experts, assessed the applicant against the following criteria:

- Whether the applicant was a foreign entity of concern

- Whether the applicant was a covered entity¹¹ and had demonstrated an ability to finance, construct, expand, or modernize a facility relating to the production or manufacturing of semiconductors or materials used to manufacture semiconductors
- Whether the proposed project or projects were for the construction, expansion, or modernization of facilities in the United States
- Whether the applicant had been offered a covered incentive by a government entity

After the initial scan, CPO Investment Office staff and experts performed the full application eligibility review to evaluate whether the application was complete and met all 11 statutory eligibility requirements.¹²

To complete the eligibility scan process, CPO documented its determinations on whether applicants met eligibility requirements. For the six companies we reviewed, CPO determined that the applicants satisfied these requirements.

Merit Review

In the merit review phase, the CPO Investment Office staff worked with CPO experts to evaluate applications against the following six criteria in the NOFO: economic and national security, commercial viability, financial strength, technical feasibility and readiness, workforce development, and broader impacts. While a complete assessment of the merit review was beyond the scope of our audit, we found that CPO verified in its merit review analysis that applicants met statutory eligibility requirements related to the supply chain, workforce, education, finances, technology, and customers. For example, CPO's economic and national security merit review supported that applicants developed a plan to identify and mitigate supply chain security risks. CPO's commercial viability merit review supported that applicants had determined the customers they planned to sell their products and technology to.

Due Diligence

CPO staff and external advisors conducted due diligence by validating material facts in the application that might affect investment success, identifying key risks, and assessing the extent to which the risks can be mitigated. The due diligence process included a review of the following areas: technology and product, construction, financial, legal, national security, environment, workforce, supply chain, and opportunity and inclusion. While a full review of due diligence was outside our scope, we found that CPO verified in its due

¹¹ Applicants must be nonprofit entities; private entities; a consortium of private entities; or a consortium of nonprofit, public, and private entities.

¹² 15 U.S.C. § 4652.

diligence reviews that applicants met eligibility requirements. For example, CPO's financial due diligence review supported that applicants had a workable plan to sustain the facility without additional government funding. CPO's workforce due diligence review supported that applicants made commitments to workforce investment and documenting workforce needs.

Investment Committee Review

According to CPO leadership, the Investment Committee Recommendation memorandum was a central element of the award approval process because it documented applicant eligibility, risks, and award rationale. This memorandum outlined the recommendation from the Investment Committee based on its assessment of the application and the results of the previous review phases. We found that the memorandum also addressed all the eligibility requirements and summarized how each applicant satisfied them.

TRC Review

According to 15 U.S.C. § 4652, the Secretary is required to confirm that each applicant met the eligibility criteria. The Secretary delegated this authority to the TRC. The TRC memorandum, the final step before an award is made, details the TRC's approval of the award terms and confirms that all eligibility criteria were met. For the six companies we reviewed, we found that the TRC confirmed that all eligibility criteria were met.

► Other Matters of Interest: Potential Risks

While a full review of the application process was outside the scope of our audit, we noted some potential risks related to the timing of awards, exceptions made for Chinese suppliers, and letters of support from educational institutions and customers that contained notably similar language. We will continue to monitor these risks in future audits.

CPO Issued Awards Rapidly

As of April 30, 2026, CPO made 19 awards totaling approximately \$30.9 billion in direct funding and up to \$5.5 billion in loan guarantee agreements. Eighteen of these awards—representing 99.7 percent of total funding—were awarded within a 10-week period from November 7, 2024, to January 16, 2025. The rapid pace of awards increases potential risks to the Department. These can include diminished transparency, increased exposure to reputational risk, and the risk of errors due to rushed decision-making and the need for later modifications. These risks underscore the importance of strong internal controls and sustained monitoring as the incentives program continues.

CPO Made an Equipment Exception for Suppliers with Ties to China

The direct funding agreements (DFAs) for three CHIPS incentives award recipients contained exceptions to use equipment from different suppliers that have ties to China, a country that meets the statutory definition of a foreign country of concern. In the DFAs, CPO allowed the use of tools manufactured by Chinese suppliers if security, isolation, and oversight measures were implemented to protect sensitive data.

CPO identified the supply chain security risks associated with equipment from suppliers with ties to China and incorporated mitigation requirements into the DFAs, which met the eligibility requirement. Although CPO provided site visit reports to support its review of these suppliers, the reports did not include an analysis or justification explaining how CPO reached its decision to grant an equipment exception. Since this issue was outside the scope of the eligibility review, we did not conduct an additional assessment. We plan to conduct additional work on these exceptions in a future audit.

It will be important for CPO to actively monitor the equipment's use and ensure that the controls are followed. Failure to secure this portion of the supply chain could create the potential for a foreign country of concern to benefit from CPO investments, access sensitive information, or pose a risk to U.S. national security.

Some Letters of Support Contained Similar Language

One of the eligibility requirements was that applicants had to secure commitments from educational institutions to provide workforce training. In our review of three CHIPS incentive award applications, we found that the letters of support from the educational institutions used similar language. For example, one application contained five letters from local school districts with the same language about collaborating to create awareness and interest in potential careers and available jobs. Each school district provided a list of areas where it would collaborate, and all the lists included plant tours, employee guest speakers, and participation in school events. Four of the five school districts also mentioned participation in a specific company program designed for eighth-grade girls.

Another eligibility requirement was that applicants had to determine the customers, or categories of customers, to which they plan to sell the semiconductor technology, equipment, materials, or research and development. We found that some of the letters from customers included the same or similar language. For example, two of the seven letters for one applicant included similar language about the company's history, how essential the projects are to national security, its partnerships with community colleges, and the importance of compound semiconductors and circuits.

The use of similar language may indicate that educational institutions and companies are not as committed to the project as they stated, which increases the risks that educational and customer commitments are not fulfilled. It will be important for CPO to actively monitor these commitments to ensure that they are met.



Summary of NIST's Response and OIG's Comments

NIST reviewed a draft version of this report and responded to the potential risks we highlighted. In its response, NIST offered additional context for those risks. NIST also provided technical comments on the draft report. We considered these comments and revised the report where appropriate. NIST's complete response is included in this report as appendix 3.

Below are NIST's responses to the potential risks we highlighted, along with our comments.

➤ **Award Timing**

CPO disagreed that the issuance of 18 awards within 10 weeks reduces transparency and increases reputational risk. CPO said that the negotiation for these awards began, on average, about 1 year prior to the award being issued. CPO said that finishing several negotiations at the same time does not mean the decisions were rushed; rather, it reflects a structured, disciplined process that allowed it to manage multiple awards simultaneously with proper controls.

The scope of this audit was on the eligibility of applicants; therefore, we did not complete a full review of each phase of the application process. Since we did not complete a detailed review of the application process, we highlighted the timing of awards as a risk that we will continue to monitor.

➤ **Equipment Exceptions**

CPO said that the report omitted context and presented a misleading picture. According to CPO, its subject-matter experts have extensive knowledge of foreign adversary techniques and completed in-depth site visits as part of their due diligence. CPO stated that the analysis and justification informed by this work was documented in the Investment Committee Recommendation memorandums.

We did not find extensive analysis from CPO subject-matter experts in our review of the Investment Committee Recommendation memorandums. When providing clarification on its response to the draft report, CPO stated that this analysis exists within deliberative materials that were not made available to us during the audit due to their sensitivity. As a result, we did not independently verify the underlying analysis supporting CPO's equipment exceptions and have highlighted this as a risk that we will continue to monitor.

➤ **Similar Language in Documentation**

CPO said that similar wording is consistent with the fact that many school districts operate within shared regional and national outreach frameworks. According to CPO, using common descriptions of standard programs reflects consistency, not lack of engagement. CPO also emphasized that actual commitments are enforced through award terms and conditions, not the phrasing of the original letters, and agrees that continued monitoring of these commitments is appropriate and will be carried out through existing oversight mechanisms.

We agree with CPO that continued monitoring of these commitments is important. We plan to conduct a future audit of workforce and community investments, as required by the CHIPS Act.



Appendix 1. Project Locations and Scope for Sampled Companies

Table 2. Project Locations and Scope

Company	Project Funds (in millions)	Location	Technology	Project Scope
TSMC	\$6,565	Phoenix, AZ	Leading-Edge Logic	Construction of three fabrication facilities (fabs) for advanced chip design for machine learning and artificial intelligence
Intel	\$3,940	Chandler, AZ	Leading-Edge Logic	Construction of two new fabs and modernization of one existing fab to increase manufacturing capacity of leading-edge chips
Intel	\$1,860	Hillsboro, OR	Leading-Edge Logic	Construction of a new fab and modernization of existing fab to develop and produce advanced and future leading-edge chips
Intel	\$1,500	New Albany, OH	Leading-Edge Logic	Construction of two new fabs to produce current and future leading-edge chips
Intel	\$500	Rio Rancho, NM	Advanced Packaging	Modernization of four existing fabs to create advanced packaging space
Micron	\$3,465	Clay, NY	Leading-Edge Memory	Construction of two high-volume fabs focused on dynamic random-access memory production
Micron	\$2,700	Boise, ID	Leading-Edge Memory	Construction of two high-volume fabs focused on dynamic random-access memory production

Company	Project Funds (in millions)	Location	Technology	Project Scope
Micron	\$275	Manassas, VA	Current-Generation, Mature-Node	Expansion and modernization of an existing fab that produces legacy dynamic random-access memory
Global Foundries	\$1,462	Malta, NY	Current-Generation, Mature-Node, Advanced Packaging	Construction of a fab and expansion of an existing fab to provide advanced packaging and capacity expansion for the automotive industry
Global Foundries	\$125	Burlington, VT	Mature-Node	Modernization of an existing fab for critical technologies like electric vehicles, satellite communications, and phones
Infinera	\$40	San Jose, CA	Wafer Manufacturing, Semiconductor Materials & Equipment	Construction of a new fab to produce photonic integrated circuit technology
Infinera	\$53	Bethlehem, PA	Advanced Packaging	Construction of a new advanced test and packaging facility to support critical back-end assembly and test processes
Corning	\$32	Canton, NY	Materials	Expansion and modernization of an existing fab to increase the production of materials for the components of semiconductor equipment

Source: Applications and DFAs

Appendix 2. Scope and Methodology

Our objective was to determine whether entities receiving financial assistance met eligibility requirements as required by the CHIPS Act. To address our objective, we judgmentally selected and reviewed 6 of the 19 awards (TSMC, Intel, Micron, GlobalFoundries, Infinera, and Corning) made under the CFF NOFO from September 2024 to January 2025. In selecting the companies, we considered award size, technology type, whether the company received disbursements, timing of the award, and other factors.

To assess whether eligibility requirements were met, we reviewed:

- CHIPS Act of 2022 (division A of the CHIPS and Science Act), Public Law No. 117-167 (2022)
- National Defense Authorization Act, Public Law No. 116-283 (2021)
- 15 U.S.C. § 4651
- 15 U.S.C. § 4652
- 10 U.S.C. § 4872
- CPO's standard operating procedures and CFF NOFO
- Companies' applications
- Eligibility scan spreadsheets, merit review rubrics, and due diligence findings
- Investment Committee Recommendation memorandums
- TRC memorandums
- DFAs
- Congressional notifications¹³

We also interviewed CPO leadership.

From January 1, 2025, to February 26, 2026, CPO lost about 64 percent of its staff. As a result, we were unable to interview some staff involved in the eligibility determination process.

Since we judgmentally selected six companies for this audit, the results and overall conclusions are limited to the companies we tested and should not be projected to the population of companies that received CHIPS semiconductor incentive awards.

¹³ A notification is provided to Congress at least 15 days before CPO issues an award.

We assessed the internal controls that were significant to our objective by reviewing CPO's standard operating procedures and control activities relevant to determining applicant eligibility. We did not identify weaknesses in internal controls in this report.

We relied on computer-processed data to determine our audit sample. We assessed the reliability of the data by comparing the company name, project name, and award amount in the DFA for the six judgmentally selected companies to the same information in NIST's Grants Management Information System. We found the data to be sufficiently reliable to support our finding and conclusion.

We conducted our audit from February 2025 through July 2026 under the authority of the Inspector General Act of 1978, as amended (5 U.S.C. §§ 401-24), and Department Organization Order 10-13, as amended October 21, 2020.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our finding and conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.



Appendix 3. NIST's Response

NIST's response to our draft report begins on the next page.

To: Arthur L. Scott Jr., Assistant Inspector General for Audit and Evaluation,
Office of Inspector General, U.S. Department of Commerce

From: Bill Frauenhofer, Executive Director for Semiconductor
Innovation and Investment, U.S. Department of Commerce 

Date: August 10, 2026

Subject: Draft Report: *Audit of NIST's Assessment of Applicant Eligibility for
CHIPS Incentives Funding*

Thank you for the opportunity to respond to the OIG draft report entitled *Audit of NIST's Assessment of Applicant Eligibility for CHIPS Incentives Funding*.

The CHIPS Program Office (CPO) notes that the draft report found that each of the selected recipients met all applicable eligibility criteria and that OIG is not issuing recommendations. We offer additional context on the internal controls already in place on three potential risks identified in the "Other Matters of Interest" section of the draft report.

Potential Risk 1: Timing of Awards

The draft report states that eighteen of nineteen awards, representing 99.7 percent of the total funding that had been awarded as of April 2026, were issued within a ten-week period from November 7, 2024, to January 16, 2025, and that this pace increases risk related to transparency, reputational exposure, and rushed decision making. CPO disagrees that the timing of the issuance of these awards, by itself, indicates that they were negotiated with haste and thus present an elevated risk to the Department.

Application, review, and negotiation of these awards began, on average, almost a year before CPO issued these awards. CPO negotiated these awards in parallel, following the eligibility scan, merit review, due diligence, Investment Committee review, and Transaction Committee review process that the OIG report appropriately recognizes as being deliberate and comprehensive. That the review of the applications and negotiations of awards culminated at roughly the same time does not mean that they were negotiated at rapid rate. Rather, it demonstrates that CPO followed a deliberate, disciplined process, with appropriate internal controls, to simultaneously review and negotiate awards with numerous applicants.

Potential Risk 2: Equipment Exception for Suppliers with Ties to China

The draft report notes that the direct funding agreements for certain recipients permitted the use of equipment from suppliers with ties to China under specific conditions and states that the site visit reports supporting these determinations did not include a documented analysis or justification of that approach. The draft report, however, omits important context regarding these equipment restrictions and, consequently, presents a misleading picture.

All CHIPS awards impose the strict condition on recipients that no award funds may be provided to a Foreign Entity of Concern (FEOC). A violation of this requirement would result in potential termination of the award. CHIPS funds typically represent only a small fraction of the overall cost of the project, and a recipient may choose to spend non-CHIPS funds on goods and services that would not be eligible expenses under the CHIPS Act, including equipment manufactured by entities with ties to China. Through terms in the award contracts, CPO has sought to close that gap.

CPO agrees that equipment manufactured by entities with ties to China poses a potential national security risk. That is why, in addition to prohibiting the use of CHIPS funds for the purchase of such equipment, CPO imposed overarching restrictions on a recipient's ability to use such equipment – even if no CHIPS funds were involved in the acquisition of that equipment.

At the same time, CPO recognizes that semiconductor manufacturing has relied upon a globally integrated supply chain and that certain equipment which is critical to existing manufacturing processes have ties to China. The primary objective of the CHIPS Act is to bring back domestic manufacturing of semiconductors, and a blanket prohibition on the use of equipment with ties to Chinese manufacturers would result in critical manufacturers refusing to accept CHIPS funds and declining to build capacity in the United States.

Mindful of this challenge, CPO subject matter experts with extensive knowledge of foreign adversary techniques conducted due diligence, including in-depth site visits, of recipients' use and integration of equipment into their manufacturing process. These subject matter experts developed nuanced, risk-based contractual restrictions that imposed conditions to mitigate potential access or influence by foreign adversaries, such as equipment isolation, restricted and monitored communications, and required supervision of non-citizen supplier personnel. This layered approach to security reflects best practices, while at the same time allows recipients to become operational on the timelines that are critical to bringing semiconductor manufacturing back to the United States. The analysis and justification for these supplementary restrictions were extensively discussed by CPO subject matter experts and CPO leadership and are documented in the Investment Committee Recommendation report that was approved by the Transaction Review Committee and provided to the OIG.

CPO has monitored and will continue to monitor recipients' compliance with the terms of their direct funding agreements, including provisions regarding prohibited equipment or the specific conditions required as part of granting limited exemptions to prohibited equipment.

Potential Risk 3: Boilerplate Language in Supporting Documentation

The draft report notes that there is similar language across letters of support submitted as part of some applications and states that this similarity may indicate that the educational institutions and companies that submitted them are less committed to the underlying project than stated. CPO disagrees that similarity in language is a reliable indicator of the strength of an institution's or company's commitment, or of the risk that the commitment will not be fulfilled.

Shared language among school district letters is consistent with the fact that many districts already operate under common regional and national STEM outreach frameworks. Districts describing standard offerings and participation in established outreach programs in similar terms reflect programmatic consistency, not diminished engagement.

Fulfillment of commitments is governed by binding award terms and conditions rather than by the language of the original letters of support. CPO agrees that continued monitoring of these specific commitments is valuable and will continue to track recipient performance against them through its existing mechanisms.

If you have any questions, please contact MaryAnn Mausser, Department OIG Audit Liaison, at (202) 482-8120 or mmausser@doc.gov.

REPORT

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