



**EXPORT-IMPORT BANK
of the UNITED STATES**

November 30th, 2012

Mr. Osvaldo L. Gratacós
Inspector General
Office of the Inspector General
Export-Import Bank of the United States
811 Vermont Avenue NW
Washington, DC 20571

Dear Inspector General Gratacós,

Thank you for providing Ex-Im Bank Management with the Office of the Inspector General (OIG)'s Semi-Annual Report to Congress covering the period from April 1st to September 30th, 2012. This letter constitutes Management's response to the Report. Management supports the OIG's work in prosecuting and preventing fraud against Ex-Im Bank. We have carefully reviewed the recent audits of Ex-Im Bank's Purchase Card Program and Short-Term Insurance Program as well as your evaluation of Ex-Im Bank's portfolio risk and loss reserve allocation policies. These exercises were helpful in improving Bank processes and oversight.

This letter focuses on the section entitled "Management Challenges," as we have already responded to the period's audits, evaluations, and inspections in prior correspondence. While we concur with some of the OIG's observations, we disagree with a number of the Report's conclusions. Moreover, we would like to draw your attention to projects currently underway at the Bank that address many of the OIG's concerns.

1. Human capital

The IG noted this concern in the March, 2012 Semi-Annual Report to Congress and Management previously responded to it in detail in the May 17, 2012 Management Response Letter.

We agree with the observation that Ex-Im Bank has achieved significant growth in authorizations and assets over the past five years. Ex-Im Bank's dedicated employees are to be commended for this laudable achievement which allowed the Bank to support an estimated 255,000 U.S. jobs in FY12. We disagree, however, that customer service, oversight, or due diligence have suffered as a result of its asset growth or staffing constraints, and we see no evidence that Ex-Im Bank is at risk of higher default rates:

- **Customer Service:** We note that the OIG's recent Customer Survey found that 88% percent of Ex-Im customers were satisfied with Ex-Im's goods and services.

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- Default rate: According to the Bank's September 30th, 2012 Default Rate Report which was provided to Congress, the Bank's current default rate is 0.287%. In the June 30th Default Rate Report provided to Congress, the Bank's default rate was 0.3%. This is well below the 2% default rate benchmark that Congress established for Ex-Im Bank in the 2012 Reauthorization Act, and is much lower than that of most private financial institutions.

We believe that the Bank does in fact continually reassess the assignment of resources and staffing levels to reflect the growth in authorizations and exposure. However, we do note that the Bank needs to increase staffing levels and in the Bank's FY 13 budget request we have asked for a \$14 million increase in our Administrative budget to enable us to do so. Management is continually monitoring and improving its resource allocations to reflect the Bank's evolving needs, commensurate with available resources and mandates. With the increase in our FY12 budget, the Bank hired 34 new employees to fill key roles and provide requisite in-house expertise to reflect the Bank's changing requirements. These new employees are primarily concentrated in loan origination and underwriting, small business outreach, and risk management.

2. Information Technology (IT) management

The IG noted this concern in the March, 2012 Semi-Annual Report to Congress and Management previously responded to it in detail in the May 17, 2012 Management Response Letter.

Management agrees with the OIG on the importance of updating the Bank's Information Technology. The Bank appreciated and agreed with most of the IG's recommendations in their Audit of Information Technology Support for Export-Import Bank's Mission, as first described in the Bank's Management Response letter dated January 10th, 2011 and further detailed in the Management Update Letter to the OIG of September 18th, 2012.

For the first time in recent history, Congress has given Exim the investment resources necessary to begin modernizing its IT systems. The Bank is about to award contracts to update our financial management system, which will significantly improve the efficiency of the Bank's IT systems. Management expects that work on this contract will begin in the next six months.

The Bank's Total Enterprise Modernization (TEM) initiative has received separate funding and is prioritizing, selecting, and implementing projects to guide the Bank towards becoming a modern and flexible institution that is able to adapt its IT systems and business processes as the environment around it changes. The September 18th, 2012 Management Update Letter also provided a detailed discussion of the progress made towards TEM's objectives. Management expects several initiatives to go into full

production this fiscal year such as the Participant Hub, the automated Working Capital Delegated Authority, and the Smart-Form project and related transaction applications.

3. Strategic and performance planning

The IG noted this concern in the March, 2012 Semi-Annual Report to Congress and Management previously responded to it in the May 17, 2012 Management Response Letter.

Ex-Im Bank developed and filed an Annual Performance Plan and report in April 2012, as noted in our September 28th, 2012 Management Response to the OIG's report on the Performance Metrics for Operational Efficiency. The Bank's General Counsel determined that it is compliant with the Bank's requirements under GPRA. The Bank is currently preparing its FY13 Annual Performance Plan for submission in February, 2013.

4. Risk management

Management welcomes the OIG's focus on risk management and appreciates the helpful input provided in their report on loss reserve policies and risk mitigation practices.

Regularly as part of the annual budgeting and re-estimate process, Ex-Im Bank reviews its reserves to determine if any increases or decreases are necessary as a result of changes in the portfolio that have occurred over the past year. As of September, 2012 the Bank has adopted a new set of credit loss factors, incorporating qualitative loss factors. As the OIG noted in their Transmittal Letter that accompanies the current Semi-Annual Report to Congress, this resulted in an upward revision to loss reserve allocation of approximately \$570 million. The anticipated increase in loss reserves represented 0.5% of the Bank's total portfolio at the end of FY12. Between FY11 and FY12, the Bank's total reserves increased from \$4,069 million to \$4,596 million.

The Bank's new credit loss factors model was thoroughly evaluated by OMB before being approved on a pilot basis in September, 2012.

The model has also been subject to further external evaluation, including:

- In May 2012, Ex-Im Bank contracted KPMG to review, assess, and evaluate the Bank's qualitative factors model and to provide input towards its improvement.
- The OIG's September, 2012 Report on Portfolio Risk and Reserve Allocation Policies provided inputs and recommendations on the construction of the loss model, based on a review of best practices. The Bank's Management Response

Letter, dated September 18th, 2012, noted that the Bank had fully implemented 3 of the OIG's 7 recommendations and has begun implementation on another one.

- The Bank's external auditors, Deloitte & Touche, recently completed the routine audit report of Ex-Im Bank's FY12 Financial Statements. This audit attested to the soundness of the Bank's financial reporting, including the Bank's sound implementation of its loss reserves re-estimate in accordance with Bank's new policy. The auditors delivered an unqualified opinion, as they have for more than 20 years.

Management also notes that the Bank's credit performance track record is exemplary:

- Default rate: According to the Bank's September 30th, 2012 Default Rate Report, the Bank's current default rate is 0.287%. This is well below the 2% default rate benchmark that Congress established for Ex-Im Bank in the 2012 Reauthorization Act, and is much lower than most private financial institutions.
- Budget Cost Levels (BCLs): BCLs are a risk rating the Bank assigns to each of its transactions upon underwriting and updates regularly, based on analysis of the current credit quality of the borrower. The average BCL for all new authorizations fell from 3.77 in FY08 to 3.23 in FY12. The average BCL for the Bank's entire portfolio has fallen from 4.25 to 3.66. A BCL of 4 or lower corresponds to an investment grade credit.

This track record reflects the quality of the Bank's portfolio risk modeling and reserving approach and its broader risk management system. The primary elements of Ex-Im Bank's risk management are underwriting, monitoring, restructuring and recovery. Additionally the Bank's risk management program includes reserving practices, portfolio management, as well as oversight and governance. Management notes that OIG's report of September 28, 2012 reviewed only the last three components and not the entirety of the Bank's risk management system.

The Bank continually reviews and improves its risk management systems. The Bank is currently participating in three reviews related to the evaluation and strengthening of risk management:

- GAO Risk Report: GAO began a comprehensive study of Ex-Im's Risk Management Systems on July, 26 2012. They will submit their report to Congress by March 30th, 2013.
- Audit Committee evaluations: The Bank's Audit Committee has engaged KPMG to conduct two studies: one on risk factors for the Bank and a second on best practices in asset management. Both will be completed in the coming months.

Management appreciated the OIG's Management Letter on Portfolio Risk Mitigation Techniques. The Bank is currently implementing the recommendation that the Bank should conduct comprehensive assessments of agency wide-risk factors and portfolio management techniques, as noted above.

The management letter also recommended that the Bank consider adopting five risk management strategies: Portfolio discipline (portfolio concentration sub-limits), asset sales, reinsurance, credit derivatives, and asset securitization.

Management notes that several of these recommendations—regarding asset sales, credit derivatives and asset securitization—are contrary to verbal instructions the Bank has previously received from OMB. Ex-Im requested OMB approval to develop various hedging strategies, including securitization and currency hedging but did not receive approval. However, Management understands the value these initiatives add to risk management for some other public or private corporations and will take these recommendations to OMB to explore their willingness to consider them in the future similar to how we did in the past.

5. Customer service

The IG noted this concern in the March, 2012 Semi-Annual Report to Congress and Management previously responded to it in the May 17, 2012 Management Response Letter.

Management appreciated the work done by the Office of the Inspector General in FY2012 to initiate a customer survey and welcomes their main findings—that 88% of participants responded that they are satisfied with Ex-Im Bank's products and services and that the Bank's mean promoter score of 47% compares very favorably with a mean score in the private financial sector of 24%.

Ex-Im is technically not subject to the Executive Order # 13571. However, the Bank is committed to monitoring and improving customer service. In August, 2012, we hired a Vice President of Customer Experience who is at work on developing a voice of the customer strategy and other initiatives.

Ex-Im's attention to customer experience and particularly to improving cycle times over last three years has been beneficial. Between FY2009 and FY2012, Ex-Im Bank saw a 20% increase in new authorizations (excluding renewals), while achieving a 50% decrease in the number of days it takes to reach a decision—going from an average of 32 days in FY2009 to an average of 15 days in FY2012. As well, our FY2012 measurements show that the time to process long-term deals has dropped by more than 60%, from an

average of 163 days in FY09 to an average of 60 days in FY2012. In FY2012, 90% of all bank transactions were processed within 30 days and 98% were processed within 100 days.

Management believes that the high level of satisfaction observed in the OIG's Customer Service Survey results in part from this successful response to prior customer concerns.

6. Credit underwriting and due diligence practices

This point appeared in the Inspector General's Semi-Annual Report to Congress in March, 2012. We have addressed this comment in our previous management response dated May 17th 2012.

As required in the Ex-Im Bank Reauthorization Act of 2012, the Bank is reviewing and updating due diligence standards for lenders and participants and Know Your Customer requirements for delegated lenders. This review will be complete by the end of calendar year 2012.

7. Corporate governance, business processes, and internal control policies and practices.

This point appeared in the Inspector General's Semi-Annual Report to Congress in March, 2012. We have addressed this comment in detail in our previous management response dated May 17th 2012.

Management agrees that it should review and continue to monitor the adequacy of its policies and practices as regards corporate governance, business processes, and internal controls to ensure that policies are clear and formalized and appreciates the OIG's commitment to reviewing and commenting on areas for review and improvement in the course of its activities. Management notes that the Bank's external auditors, Deloitte & Touche, recently completed an audit of the Bank's FY12 Financial Statements attesting to the soundness of the Bank's financial reporting. The auditors delivered an unqualified opinion, as they have for more than 20 years.

Management appreciated the OIG's recent Short-Term Insurance Audit and provided details on how the Bank is implementing several of its recommendations in the Management Response Letter dated September 18th, 2012.

8. Renewable energy products and clean energy export opportunities.

The IG noted this concern in the March, 2012 Semi-Annual Report to Congress and Management previously responded to it in the May 17, 2012 Management Response Letter.

Management has already responded to the recommendations of the July 2010 GAO report on Ex-Im Bank's Environmentally Beneficial Exports. Management continues to refine its business in the renewables and clean energy exports area. On September 28th, 2012 the Bank submitted to Congress a Business Plan which included projections for the Bank's renewable energy exports over the FY12-FY14 period. Ex-Im will track its performance against this plan and continue to evaluate if other resources would be additive to the Bank's work in this sector.

9. Small business participation.

The IG noted this concern in the March, 2012 Semi-Annual Report to Congress and Management previously responded to it in the May 17, 2012 Management Response Letter.

Management agrees with the ongoing importance of performance in this aspect of Ex-Im's business. The Small Business Group has invested considerable effort and resources to build its platform – encompassing several new field offices, changes to products, processes, and deployment of staff. On September 28th, 2012 the Bank submitted to Congress a Business Plan which included projections for the Bank's small business exports over the FY12-FY14 period. Ex-Im will track its performance against this plan and continue to evaluate if other resources would be additive to the Bank's work in this sector.

Thank you once again for the OIG's efforts to improve Ex-Im Bank's policies and procedures and to ensure that Ex-Im funds are not subject to waste, fraud, or abuse. The Bank appreciates your hard work and your input. We look forward to continuing to work closely with the Office of the Inspector General.

Sincerely,



Alice P. Albright, CFA
Chief Operating Officer & Executive Vice President
Export-Import Bank of the United States

cc: Fred P. Hochberg, Chairman and President



SEMIANNUAL REPORT TO CONGRESS

APRIL 1, 2012 TO SEPTEMBER 30, 2012





EXPORT-IMPORT BANK OF THE UNITED STATES (Ex-Im Bank) is the official export credit agency of the United States. Ex-Im Bank supports the financing of U.S. goods and services in international markets, turning export opportunities into actual sales that help U.S. companies of all sizes to create and maintain jobs in the United States.

Ex-Im Bank assumes the credit and country risks that the private sector is unable or unwilling to accept. Ex-Im Bank also helps U.S. exporters remain competitive by countering the export financing provided by foreign governments on behalf of foreign companies. More than 80 percent of Ex-Im Bank's transactions have been made available for the direct benefit of U.S. small businesses in recent years.

More information about Ex-Im Bank is at www.exim.gov.

THE OFFICE OF INSPECTOR GENERAL (OIG), an independent office within Ex-Im Bank, was statutorily created in 2002 and organized in 2007. The mission of Ex-Im Bank OIG is to conduct and supervise audits, investigations, inspections and evaluations related to agency programs and operations; provide leadership and coordination as well as recommend policies that will promote economy, efficiency, and effectiveness in such programs and operations; and prevent and detect fraud, waste, abuse and mismanagement.

The OIG is dedicated to acting as an agent of positive change to help Ex-Im Bank improve its efficiency and effectiveness. It keeps Ex-Im Bank's Chairman and President and Congress fully informed about problems and deficiencies along with any positive developments relating to Ex-Im Bank administration and operations.

More information about the OIG including reports of audits and evaluations is at www.exim.gov/oig.

Information about inspectors general in the U.S. government is at www.ignet.gov.



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From the Inspector General

We are pleased to report our last six months' work, which enhances the viability and soundness of Export-Import Bank (Ex-Im Bank) as an institution and lender of last resort.

Our Office of Inspections and Evaluations completed an evaluation of Ex-Im Bank's **loss reserve allocation** policies and **portfolio risk mitigation** practices. Ex-Im Bank's significant asset growth in the past several years, changes in the composition of its product portfolio, the challenging economy, and Congressional interest led us to start this evaluation. In conducting this report, we benchmarked Ex-Im Bank's policies with private-industry best practices, other federal credit agencies, and U.S. and international regulatory guidance for systemically-important banking institutions. We are pleased to report that Ex-Im Bank has taken steps to address the recommendations issued in the Portfolio Risk and Lost Reserve Allocation Policies report. At the end of the reporting period, Ex-Im Bank had developed qualitative factors approved by the Office of Management and Budget which resulted in a preliminary upward revision to loss reserve allocation of approximately \$570 million. In developing these qualitative factors, Ex-Im Bank hired an outside consultant, and was working on the development of portfolio stress testing techniques. In the next reporting period the OIG will review and verify the steps taken by management.

To help Ex-Im Bank improve its operational performance and meet customer needs, the Office of Inspector General issued the results of a **customer-experience** survey we conducted. The survey targeted more than 1,900 Ex-Im Bank customers and users and found that Ex-Im Bank needs to improve its information technology platform and transaction processing times. These improvements would lead to better customer satisfaction and improved operational performance efficiency.

We issued the results of an audit on Ex-Im Bank's **Short-Term Insurance Program**. The audit found that the program has inadequate written policies and procedures and the existing documentation did not identify all risks, including fraud risk factors, and had not consistently identified procedures to address identified risks. Ex-Im Bank had inconsistently applied Character, Reputation, and Transaction Integrity due diligence processes during the underwriting and approvals of the short-term insurance transactions. Character, Reputation, and Transaction Integrity due diligence identifies potential risks related to the trustworthiness of participants, the possibility of negative publicity from Ex-Im Bank's involvement, and the possibility that the transaction is not legitimate or involves fraud, corruption, or other suspect practices.

These accomplishments are not possible without the hard work, professionalism, and dedication of our excellent staff.

Lastly, I am pleased that Rebecca Sharek joined us as our Assistant Inspector General for Audits. Ms. Sharek has more than 17 years' audit experience including more than 13 years at NASA OIG.

A handwritten signature in blue ink, appearing to read "Osvaldo L. Gratacós", is positioned above the name.

Osvaldo L. Gratacós



Highlights

The Office of Audits completed two audits during the six months ending September 30, 2012:

1 Export-Import Bank's Short-Term Insurance Program

The audit found that (1) Short-Term Insurance Program procedures were not adequately documented or consistently followed; (2) duties were not always segregated appropriately; and (3) system calculations were not always accurate. The auditors made ten recommendations for corrective action. Management concurred with six of the ten recommendations.

2 Export-Import Bank's Purchase Card Program

We examined 845 purchases, totaling \$715,595, made by 13 of Ex-Im Bank's 33 cardholders in fiscal years 2010 and 2011 and determined that Ex-Im Bank lacks sufficient controls over the purchase card program. Although Ex-Im Bank's policies and procedures were designed to detect and prevent unauthorized and potentially fraudulent transactions, and we found no evidence of fraudulent purchases, personnel did not consistently follow procedures. Participants did not always maintain receipts or review and reconcile records in a timely manner. These conditions occurred due to a lack of knowledge, effective training, and good recordkeeping.

Office of Audits has two audits in progress:

1. Federal Information Security Management Act: Fiscal Year 2012
2. Export-Import Bank's Financial Statements for Fiscal Year 2012

The Office of Inspections and Evaluations completed three principal assignments:

1 An evaluation of Ex-Im Bank's portfolio risk and loss reserve allocation policies

Our evaluation found that Ex-Im Bank should strengthen its loss reserve methodology and forecasting model. Although Ex-Im Bank manages its credit risks through loss reserve provisioning based on risk ratings of individual transactions, it lacked a systematic approach to identify, measure, mitigate, and reserve for its portfolio risk (the sum credit risk of all Ex-Im Bank obligations) based on both quantitative and qualitative or "environmental" risk factors. Also, Ex-Im Bank does not perform systematic portfolio stress testing. At the end of the reporting period, Ex-Im Bank has taken steps to address the recommendations issued in the Portfolio Risk and Lost Reserve Allocation Policies report including developing qualitative factors approved by the Office of Management and Budget which resulted in a preliminary upward revision to loss reserve allocation of approximately \$570 million. In developing these qualitative factors, Ex-Im Bank hired an outside consultant, and was working on the development of portfolio stress testing techniques.

2 A management letter outlining credit portfolio risk mitigation options

The Office of Inspector General's Management Letter on portfolio risk mitigation techniques complements the above report on loss reserve allocation policies in two respects. We believe Ex-Im Bank would benefit from a comprehensive assessment of both agency-wide risk factors and portfolio risk mitigation techniques. The assessment would inform the design of a robust risk-management framework that is critical to Ex-Im Bank's long-term ability to manage its growing portfolio.

Some highlights

- Short-Term Insurance Program
- Purchase Card Program
- Portfolio risk and loss reserve allocation policies
- Credit portfolio risk mitigation options
- Customer-experience survey

3 A customer-experience survey and summary report

The survey helps validate the profile of Ex-Im Bank's customer base. Also, it confirms the perceived relevance of Ex-Im Bank, with 88 percent of all respondents stating they are satisfied with Ex-Im Bank's products and services. And the survey helps confirm that improvements in Ex-Im Bank's transaction processing times and information technology platform will increase customer satisfaction more than improvements made in any other areas. These improvements are consistent with Ex-Im Bank's 2010-2015 Strategic Plan.

The Office of Investigations accomplished these actions:

- Seven criminal informations and indictments against subjects of ongoing investigations.
- Two arrest warrants and three arrests based on warrants obtained by Ex-Im Bank OIG Special Agents.
- Three plea agreements entered in court by subjects pursuant to ongoing investigative matters.
- 104 reports of investigative information provided to Ex-Im Bank Office of General Counsel concerning potential funds at risk to support enhanced due diligence efforts in approving, processing, and monitoring export credit loan guarantees and insurance policies.
- Six investigative matters were referred to the Department of Justice for prosecutive decision.



Office of Inspector General management initiatives

The Office of Inspector General (OIG) participated in meetings with the Berne Union, the worldwide organization of export credit, insurance, and investment agencies. These meetings allowed the OIG to discuss areas of interest in the export credit field and to benchmark Ex-Im Bank's practices with other export credit agencies.

Since the majority of OIG investigations and inspections are focused on international transactions, the OIG seeks to partner with international organizations to exchange ideas and information on how to work together in preventing and investigating fraud. The OIG works with these entities to find ways to collaborate in identifying and preventing fraud.

Council of Inspectors General on Integrity and Efficiency

The OIG is participating in the Professional Development Committee of the Council of Inspectors General on Integrity and Efficiency (CIGIE). The committee provides educational opportunities, supports the development of personnel, provides opportunities to improve training and the development of OIG staff, and establishes training to meet continuing-education requirements. The Office of Inspections and Evaluations is participating in the CIGIE Inspection and Evaluation Committee, which leads the development of protocols for reviewing management issues that cut across departments and agencies, promotes the use of advanced program-evaluation techniques, and fosters awareness of evaluation and inspection practices in OIGs.

Review of legislation and regulations

Pursuant to section 4(a)(2) of the Inspector General (IG) Act of 1978, as amended, the OIG reviews proposed and existing legislation and regulations related to Ex-Im Bank's programs and operations.

During this period the U.S. Senate passed S.300 "Government Charge Card Abuse Prevention Act of 2012." The bill includes a requirement for OIGs to report violations of purchase card and convenience check programs to the Office of Management and Budget (OMB), and directs OIGs to conduct "periodic assessments" of the programs. This bill became public law (P.L. 112-194) on October 5. As part of our oversight of Ex-Im Bank programs, the OIG conducted a purchase card program audit for Ex-Im Bank (included in this report).

Also, H.R.3289 "Whistleblower Protection Enhancement Act of 2011" passed the House of Representatives on September 28. Section 120 of this Act will amend the IG Act of 1978, as amended, to include the creation of a Whistleblower Protection Ombudsman within the OIG. This bill has not become public law.



Ex-Im Bank management challenges

Beginning in February 2012, under the Government Performance and Results Act (GPRA) Modernization Act of 2010, Ex-Im Bank must prepare a performance plan to establish performance goals and indicators, describe how the goals will be achieved and measured, and describe major management challenges and plans to address such challenges. The law defines “major management challenges” as “programs or management functions...that have greater vulnerability to waste, fraud, abuse, and mismanagement (such as issues identified by an Inspector General) where failure to perform well could seriously affect the ability of an agency to achieve its mission or goals.”

The OIG has identified several major management challenges. Addressing these challenges would provide Ex-Im Bank with a more efficient capability to meet its mission of creating and maintaining jobs in the U.S. through export financing. We will review and update these challenges semiannually.

1 HUMAN CAPITAL. The OIG has noted Ex-Im Bank’s low number of underwriters, asset managers, and compliance personnel relative to the increasing size of its asset exposure. During the past five years Ex-Im Bank has witnessed significant asset growth to more than \$100 billion as of Fiscal Year (FY) 2012, with more than \$32 billion in authorizations in FY 2011 alone. Ex-Im Bank has achieved this increase with basically the same staffing level for the past decade. This increase in workload undertaken by the same level of staffing might contribute to diminished customer service, oversight, and due diligence. To better serve its customers and provide effective underwriting and oversight, Ex-Im Bank should, given recent increased funding, reassess the assignment of resources, and review and adjust staffing levels and requisite in-house expertise to reflect the record growth in authorizations and asset portfolio management.

2 INFORMATION TECHNOLOGY (IT) MANAGEMENT. Ex-Im Bank uses an ineffective, inefficient, and fragmented IT platform and infrastructure of several systems and databases. These systems and databases do not effectively and accurately interface—compromising data integrity, producing duplicative information, and creating unreliable files. These systems make data mining burdensome and time-consuming. This ineffective IT platform compromises the ability of Ex-Im Bank to provide timely service, effectively manage and track its programs, measure progress, identify transaction patterns, and increase productivity.

During the previous period an outside contractor under the supervision of the OIG issued the results of an audit of the IT function at Ex-Im Bank, confirming our observations (www.exim.gov/oig/documents/IT%20Support%20OIG-AR-12-04%20508.pdf). The audit found that while the business operations at Ex-Im Bank are functioning and transactions are being processed, the IT systems are not supporting these operations efficiently and effectively. Overall, Ex-Im Bank IT systems and databases do not always capture and manage all necessary data for business needs and antiquated IT applications cause workflow inefficiencies. Because not all applications for Ex-Im Bank products are electronically accepted and/or processed in a centralized database, and because Ex-Im Bank’s IT systems are not integrated, key data has to be entered manually into different Ex-Im Bank systems and transaction records hard copied to complete task(s).

While the audit identified 11 recommendations, the overall recommendation is for Ex-Im Bank business operations and IT teams to develop an integrated IT application system to ensure that business is conducted effectively and efficiently. In response, Ex-Im Bank management has kicked off the first in a series of processing-system projects

that start with a detailed review of business requirements and strategic direction with business owners. The plans then establish a business stakeholders steering committee and a pool of business users who will test and review any application development. We look forward to working with management as it implements these recommendations and develops an integrated and effective IT platform.

3 STRATEGIC AND PERFORMANCE PLANNING. Under the GPRA Modernization Act of 2010, Ex-Im Bank is required to produce a strategic plan, an annual performance plan, and an annual performance report by February 2013. Although Ex-Im Bank issued a five-year strategic plan in 2010, it has not developed a comprehensive annual performance plan in accordance with OMB guidance to quantify the effect and success of its program and operations properly. An effective strategic plan describes goals the agency aims to achieve, what actions the agency will take to realize those goals, and how the agency will deal with challenges and risks that may hinder achieving results. An APP offers a framework to measure the costs, benefits, results, and outcomes of its products, programs and initiatives.

4 RISK MANAGEMENT. Almost four years after the beginning of the financial crisis, the world is undergoing the aftershocks. Volatility in global markets is more pronounced and the European Union debt crisis continues to add uncertainty to the market. Given Ex-Im Bank's position as a "lender of last resort," its authorizations have grown in record numbers to support U.S. exports as private lending has contracted or plateaued. Ex-Im Bank's significant asset growth during the past five years, however, presents a continual risk management challenge: How to allocate reserves to cover potential losses in its credit portfolio so that taxpayers are not affected by an unforeseen crisis.

Lessons learned from the crisis include the inadequacy of overreliance on historical, quantitative market data and the need for more robust scenario analysis and stress testing. Different theories have emerged to supplement traditional risk-management models. They encourage supplementing quantitative data with contextual qualitative data and the testing of worst-case scenarios to determine whether institutions have the requisite reserves to withstand exogenous shocks.

Given the importance of risk management for Ex-Im Bank, during this period the Office of Inspections and Evaluations completed an evaluation of Ex-Im Bank's loss reserve policies and risk mitigation practices. (Please refer to the Office of Inspections and Evaluations section on page 23.) The need for a comprehensive review of these policies and practices is driven largely by Ex-Im Bank's significant asset growth, the economy, and changes in the composition of Ex-Im Bank's product portfolio.

5 CUSTOMER SERVICE. Ex-Im Bank has not conducted customer satisfaction surveys on a regular basis. Customer surveys provide valuable insight into customer priorities, perceptions of performance, areas for improvement, and other export credit agencies' (ECA) best practices. For example, some Ex-Im Bank participants have complained about approval times and processes. Reducing the time it takes to approve transactions would allow U.S. exporters to develop better relationships with clients and customers, encourage borrowers and sellers to use Ex-Im Bank, and improve the services Ex-Im Bank provides. President Obama's April 27, 2011, Executive Order (13571) highlighted the importance of federal agency customer service, instructing Federal agencies (including independent agencies) to develop a customer service plan to streamline service delivery and improve customer experience.

Lessons learned from the crisis include the inadequacy of overreliance on historical, quantitative market data and the need for robust scenario analysis and stress testing



To address these issues, during the previous reporting period the Office of Inspections and Evaluations issued an evaluation report on Ex-Im Bank's performance metrics for operational efficiency and worked with Ex-Im Bank management to develop a customer survey. During this period, the OIG contracted a company to conduct a survey of Ex-Im Bank customers and users. (Please see the Office of Inspection and Evaluation section, page 23.) We recommend that Ex-Im Bank routinely conduct and utilize customer surveys to validate customer priorities and bank performance.

6 CREDIT UNDERWRITING AND DUE DILIGENCE PRACTICES. Ex-Im Bank uses a decentralized underwriting process and a risk-based due diligence model. Given the lessons learned from incidences of fraud in the Medium-Term program, the surge in the number of transactions, and insufficient credit information and history from borrowers in some regions, it is vital that Ex-Im Bank enhance credit underwriting and due diligence practices in order to identify and prevent fraud. (Our report, Evaluation Report Relating to Medium-Term Export Credit Program, is at www.exim.gov/oig/loader.cfm?csModule=security/getfile&pageid=13579).

In July 2010, Ex-Im Bank's Board of Directors issued an Individual Delegated Authority (IDA) resolution authorizing certain individual Ex-Im Bank officers to approve loans, guarantees, and insurance up to \$10 million. (Before the IDA, Ex-Im Bank approved these transactions through a credit committee.) The IDA decentralized underwriting and decision-making authority. However, absent strong policies and procedures, decentralized underwriting and due diligence practices may cause inconsistent criteria to be applied in different programs.

Ex-Im Bank needs to develop effective policies, procedures, and compliance practices to ensure the IDA works effectively. These policies should address:

- A Uniform credit and underwriting standards.
- B Frequent use of security interest and sporadic inspections in order to better mitigate risks in programs and regions where defaults and fraud have been high.
- C Use of financial statements in programs in which defaults and fraud are high, in particular, independently audited financial statements in regions where Ex-Im Bank has limited or unfavorable experience.

During this period, the OIG began audits of the Short-Term Insurance Program and the Direct Loan Program to address some of these concerns.

Ex-Im Bank should require lender partners and participants to conduct industry-standard due diligence on government guarantees and insurance transactions. One of the patterns our office has observed is the lack of due diligence efforts by lenders, specifically the ones with a history of defaulted transactions. Even though Ex-Im Bank expects such efforts from participating lenders, due diligence is not required in all lender agreements.

The OIG has anecdotal evidence of institutions' loan officers expressing that the lender would not devote resources on due diligence efforts when there is a government guarantee and that such efforts are not required by Ex-Im Bank. Although the OIG cannot state that this is a behavior demonstrated by all lenders, we can state that this "moral hazard" issue is prevalent in fraud cases involving multiple transactions. Effective implementation of "Know Your Customer" practices by lenders could help minimize or prevent fraudulent activity.

7 CORPORATE GOVERNANCE, BUSINESS PROCESSES, AND INTERNAL CONTROL POLICIES AND

PRACTICES. One of the consistent observations arising out of audits, evaluations, and investigations conducted by the OIG are the weaknesses in governance and internal controls in business operations. Internal policies providing clear guidance to staff and establishing clear roles and authorities are not prevalent at Ex-Im Bank. These areas need to be addressed as part of creating a better corporate governance culture.

Each OIG audit, evaluation, and inspection will review applicable governance and internal controls and make recommendations to strengthen such controls. The audits of the Short-Term Insurance Program showed business processes and governance observation resulting in recommendations such as segregating duties between staff performing the underwriting process and the official authorizing all new policies. (Please see the Office of Audits section, page 17.)

8 RENEWABLE ENERGY PRODUCTS AND CLEAN ENERGY EXPORT OPPORTUNITIES. Ex-Im Bank's charter contains a renewable-energy mandate of ten percent of all authorizations every year. Although its financing for environmentally beneficial exports has increased significantly during the last two years, Ex-Im Bank has not met this mandate, mainly because the renewable energy exports have not reached significant numbers (compared with the size of Ex-Im Bank's portfolio). Nonetheless, Ex-Im Bank has taken a proactive approach in developing renewable energy specific products such as Solar Express, and in reaching out to local wind and solar manufacturers.

In July 2010, the General Accountability Office (GAO) issued a report on Ex-Im Bank's Environmentally Beneficial Exports. It found that although some of the challenges to reach the target may be outside its control, Ex-Im Bank should develop a strategy for meeting the target that is integrated into a broader strategy for Ex-Im Bank. It specifically recommended that Ex-Im Bank improve the tracking, reporting, and planning of its exports strategy to determine the resources required to meet its target. We continue to monitor Ex-Im Bank's progress in this area.

9 SMALL BUSINESS PARTICIPATION. Since the 1980s, Congress and the Executive Branch have prioritized the expansion of exports by small businesses. Since 2002, Ex-Im Bank's charter has imposed a 20 percent small business participation requirement of all aggregate authorizations every fiscal year. Ex-Im Bank has exceeded this mandate in the past years. However, in FYs 2011 and 2012 Ex-Im Bank has not reached the 20 percent target. Although it reached a record of \$6 billion and \$6.1 billion in small business export financing in FYs 2011 and 2012, respectively, these amounts fell short of the required 20 percent of all \$32 billion in financing.

GAO has reported on several aspects of Ex-Im Bank's financing for small business exports. Recently GAO reported on the performance standards that Ex-Im Bank established for assessing its small business financing efforts. GAO found that Ex-Im Bank had developed performance standards in most but not all the areas specified by Congress, ranging from providing excellent customer service to increasing outreach. They also found that some measures for monitoring progress against the standards lacked targets and time frames, and that Ex-Im Bank was just beginning to compile and use the small business information it was collecting to improve operations. We urge management to finalize its small business performance plan and metrics to improve its program operations. We continue to monitor progress.



Office of Audits

The Office of Audits (OA) conducts and oversees independent and objective audits relating to Ex-Im Bank programs to improve operations. All OIG audits are performed in accordance with government auditing standards promulgated by the Comptroller General. OA refers irregularities and other suspicious conduct to the Office of Investigations for investigative consideration.

OA completed two audits during the six months ending September 30, 2012:

- 1 Export-Import Bank's Short-Term Insurance Program
- 2 Export-Import Bank's Purchase Card Program

OA had two audits in process:

- 1 Federal Information Security Management Act: FY 2012 Audit
- 2 Audit of Export-Import Bank's Financial Statements for FY 2012

Ex-Im Bank's short-term insurance authorizations have increased due to the financial crisis. In four years the hike was more than 106 percent, from \$3.3 billion to \$6.8 billion

Reports

Audit of Export-Import Bank's Short-Term Insurance Program (OIG-AR-12-05, September 28, 2012) www.exim.gov/oig/documents/Official%20Final%20Report%20-%20Audit%20of%20ST%20Ins%20Program%20120928.pdf

Ex-Im Bank offers export-credit insurance to help U.S. exporters sell their goods overseas by protecting them against the risk of foreign-buyer or other foreign-debtor default for political or commercial reasons. This allows U.S. exporters to extend competitive credit terms to their international customers with reduced risk. Short-term insurance program policies are issued for one year. They cover commercial and political risks; insure open-account or letter-of-credit sales for a variety of consumer goods, non-durables, spare parts, and bulk agriculture products; and apply to shipments to one or multiple buyers. Ex-Im Bank has two divisions that conduct the short-term insurance program: the Trade Finance Division and the Trade Credit Insurance Division.

Ex-Im Bank's short-term insurance authorizations have significantly increased in recent years due to the financial crisis. Between FYs 2007 and 2011, authorizations increased more than 106 percent, from \$3.3 billion in FY 2007 to \$6.8 billion in FY 2011. The volume of short-term insurance claims has also increased. Claims rose 42 percent, from 200 claims in FY 2010 to 284 claims in FY 2011.¹

An independent public accountant (IPA) under a contract issued by the OIG completed an audit of Ex-Im Bank's short-term insurance program. The objective was to determine if the program had effective policies and procedures to manage credit risk and losses and to identify and respond to fraud risk during FYs 2010 and 2011. The audit found that, although procedures exist they are not adequately documented or consistently followed, duties were not always segregated appropriately, and system calculations were not always accurate. The audit identified these areas for improvement:

- **INADEQUATE WRITTEN POLICIES AND PROCEDURES.** The strength of existing credit risk management procedures is a direct result of the long tenure and institutional knowledge of short-term insurance program employees. However, the short-term insurance program had not adequately documented its policies and

¹ The increase in claims during FY 2011 was isolated to Tax Credit Insurance Division's portfolio and was a result of several frauds that involved multiple exporters. These frauds represented about 100 claims.



procedures. Existing documentation was not comprehensive or complete and in some instances was outdated. Program documentation did not identify all risks, including fraud risk factors, and had not consistently identified procedures to address identified risks.

• **INCONSISTENT CHARACTER, REPUTATION, AND TRANSACTION INTEGRITY (CRTI) DUE DILIGENCE.**

The purpose of CRTI due diligence is to identify potential risks related to the trustworthiness of transaction participants, the possibility of negative publicity from Ex-Im Bank's involvement with the transaction, and the possibility that the transaction is not legitimate or involves fraud, corruption, or other suspect practices. However, short-term insurance program personnel do not always perform proper CRTI due diligence.

• **INCONSISTENT ADHERENCE TO PROCEDURES.** Ex-Im Bank personnel inconsistently apply procedures that ensure compliance with program requirements and proper credit risk management.

• **LACK OF SEGREGATION OF DUTIES.** Ex-Im Bank does not segregate duties for underwriting and authorizing new short-term insurance program policies, new Special Buyer Credit Limits, enhanced assignments, or renewals of high-dollar or high-risk policies. While commercial banks may not always segregate these duties either, all Ex-Im Bank transactions are backed by the full faith and credit of the U.S. government, and Ex-Im Bank has a duty to safeguard taxpayer resources under its stewardship.

• **INACCURATE CALCULATION OF EXPORTER SCORE.** Ex-Im *Online* calculations of the exporter score, which assist in determining the risk of an exporter for a multi-buyer policy, are not always accurate.

To address these issues, the IPA recommended that Ex-Im Bank:

- Document and implement comprehensive policies and procedures for the short-term insurance program. This includes implementing enhanced procedures for applications that have elevated business risk or fraud risk.
- Require that officials authorizing insurance policies verify that CRTI due diligence was performed and documented prior to approving the policy.
- Develop and implement a monitoring process for periodically reviewing a sample of credit decisions and ensure that the due diligence performed complied with the program's policies and procedures.
- Develop and implement a due diligence procedure checklist that is completed by the official authorizing the short-term insurance policy prior to approval.
- Require a separation of duties between staff performing the underwriting process and the official authorizing all new policies, new Special Buyer Credit Limits of more than \$5,000, all enhanced assignments, all renewals of more than \$1 million, and all high-risk policy renewals.
- Implement controls to ensure that exporter score calculations used during underwriting are reliable.

Management concurred with the recommendations regarding written policies and procedures, CRTI due diligence, and inaccurate calculation of exporter scores and is in the process of implementing corrective actions. Management partially concurred or nonconcurred with the recommendations regarding adherence to procedures and segregation of duties. We believe management's comments and/or proposed actions to these recommendations

are unresponsive and do not adequately address the concerns that prompted the recommendations. We reaffirm the basis for both the findings and recommendations and have referred the matter to the Export-Import Bank Audit FollowUp Official for resolution.

Audit of Export-Import Bank's Purchase Card Program (OIG-AR-12-06, September 26, 2012)
www.exim.gov/oig/documents/Final-Audit-Report-of-Ex-Im-Bank-Purchase-Card-Program-09-26-12.pdf

Traditionally, purchase cards are at high risk for misuse, fraud, waste, and abuse. In FYs 2010 and 2011, Ex-Im Bank's 33 cardholders spent \$2.1 million on purchase card transactions. Without sufficient internal controls over its purchase card program, Ex-Im Bank may not be able to prevent or promptly detect fraudulent purchases or other improper use of the cards.

We examined 845 purchases, totaling \$715,595, made by 13 of Ex-Im Bank's 33 cardholders in fiscal years 2010 and 2011, and we determined that Ex-Im Bank lacks sufficient controls over its purchase card program. Although Ex-Im Bank's policies and procedures were generally designed to detect and prevent unauthorized and potentially fraudulent transactions, and we found no evidence of fraudulent purchases, Ex-Im Bank personnel did not consistently follow the procedures. Of the 845 purchases reviewed:

- 741 (88 percent) did not have documented prior approval as required by Ex-Im Bank and OMB policy.
- 117 (14 percent) were made using multiple transactions, thereby circumventing single purchase limits.
- 6 (1 percent) involved questionable use of convenience checks that incurred unnecessary fees.

Additionally, purchase card program participants did not always maintain receipts or review and reconcile records in a timely manner.

These conditions occurred due to a lack of knowledge, effective training, and good recordkeeping. For example, prior to our audit none of Ex-Im Bank's cardholders had a current Delegation of Procurement Authority that informed them of Ex-Im Bank policy and government-wide regulations, authorized them to use a purchase card within boundaries, and documented their purchase limits. In addition, although 30 of Ex-Im Bank's 33 cardholders completed the required General Services Administration training, we could verify only that half the approving officials had completed such training. Also, Ex-Im Bank does not offer required agency-specific training.

We also noted that Ex-Im Bank had not established clear procedures for ensuring electronic and information technology purchases are compliant with Section 508 of the Rehabilitation Act.

Ex-Im Bank's purchase card program coordinator has initiated efforts to improve controls over the program. However, additional improvements and management attention are needed to further strengthen Ex-Im Bank's purchase card program.

To improve controls over the program we recommended that Ex-Im Bank ensure all participants complete required training and obtain current delegation memos as soon as practicable, develop internal training emphasizing controls over the weaknesses we observed, revise its purchase card policy to describe clearly the restrictions on the use of convenience checks, and perform a comprehensive annual review of the program. Management concurred with our recommendations and is in the process of implementing corrective actions.



Ongoing audits

Audit of Export-Import Bank's Compliance with the Federal Information Security Management Act for FY 2012

The Federal Information Security Management Act requires the OIG or its designee to conduct annual evaluations of Ex-Im Bank's information security program and report the results to the Office of Management and Budget. The OIG contracted with an independent public accountant (IPA) to conduct the audit, which will include an assessment of Ex-Im Bank's efforts to address previously reported weaknesses.

Audit work began in June 2012. The OIG anticipates the IPA will respond to the OMB reporting requirements in November 2012 and issue an audit report in December 2012.

Audit of Export-Import Bank's Financial Statements for FY 2012

The Chief Financial Officers Act of 1990 requires the OIG or an independent external auditor chosen by the OIG to audit Ex-Im Bank's financial statements annually. An IPA working under OIG oversight is auditing Ex-Im Bank's FY 2012 financial statements. The IPA is focusing on:

- Ex-Im Bank's processes for allowing for losses and subsidy re-estimate.
- Existing and new fraud cases in FY 2012 (if any).
- Compliance with legislation reauthorizing Ex-Im Bank.

The audit will also include an assessment of Ex-Im Bank's efforts to address previously reported weaknesses.

Audit work commenced in July 2012. The OIG anticipates the IPA will issue its opinion on the FY 2012 financial statements in November 2012.



Office of Inspections and Evaluations

The Office of Inspections and Evaluations (OIE) conducts objective and independent inspections and evaluations of transactions, programs, and operations. The OIE reviews and evaluates projects, transactions, policies and procedures, and develops recommendations for improving performance. Also, OIE refers irregularities and other suspicious conduct to the Office of Investigations for consideration.

During the last semiannual period, OIE completed three principal assignments:

- 1 Evaluation of Ex-Im Bank's portfolio risk and loss reserve allocation policies.
- 2 Management letter outlining credit portfolio risk mitigation options.
- 3 Customer experience survey and summary report.

Our report on Ex-Im Bank's portfolio risk and loss reserve allocation policies cited several deficiencies in Ex-Im Bank's portfolio risk management policies and procedures. The OIE made seven recommendations to improve Ex-Im Bank's risk management practices and to bring Ex-Im Bank in line with best practices.

Additionally, our management letter outlines credit portfolio management best practices and discusses several portfolio risk mitigation techniques used by other ECAs. Our letter builds on OIE's prior discussions with financial institutions including other federal agencies, ECAs and multilateral institutions.

OIE's second evaluation addresses customer satisfaction and complements our earlier report Performance Metrics for Operational Efficiency. The OIE designed the survey and engaged an independent contractor to administer the survey and analyze the results. The survey's objective was to identify customers' perceptions of Ex-Im Bank's services and service delivery, satisfaction drivers, and potential service improvements. Results of the survey were reported to Ex-Im Bank management during this period.

Finally, the OIE Assistant Inspector General participated in a roundtable discussion on portfolio risk mitigation practices for ECAs. The roundtable was sponsored by the International Association of Credit Portfolio Managers.

Reports

Report on Portfolio Risk and Loss Reserve Allocation Policies (OIG-INS-12-02, September 27, 2012)
<http://exim.gov/oig/documents/Final%20Report%20Complete%20Portfolio%20Risk%20120928.pdf>

As an ECA, Ex-Im Bank faces a spectrum of risks including credit, portfolio concentration, foreign currency, interest rate, and operational risk. During the past five years, Ex-Im Bank has experienced significant portfolio growth, emerging risk trends, and changes in the composition of its portfolio against the backdrop of a challenging economic environment.

During the reporting period, the OIG evaluated Ex-Im Bank's loss reserve allocation and portfolio risk mitigation policies. Our objective was to determine whether Ex-Im Bank's loss reserve allocation and portfolio risk mitigation policies were sufficient to support its long-term growth objectives while providing an adequate cushion for future credit losses.



Our evaluation found that Ex-Im Bank should strengthen its loss reserve methodology and forecasting model as well as its overall risk management governance framework.

First, we found that although Ex-Im Bank actively manages its credit risks through loss reserve provisioning based on risk ratings of individual transactions, it lacks a systematic approach to identify, measure, mitigate, and reserve for its portfolio risk (the sum credit risk of all Ex-Im Bank obligations) based on both quantitative and qualitative or “environmental” risk factors. Traditionally, Ex-Im Bank’s loss reserve methodology has been based on quantitative factors (historical data) and has excluded qualitative or “environmental” risk factors to account for portfolio risk, such as the significant levels of concentrations in its portfolio (single obligor and industry concentrations), and changes in the composition of the portfolio. As a result, Ex-Im Bank’s loss reserve methodology may have resulted in the systematic under-reserving and under-pricing of the portfolio risk.

Second, although Ex-Im Bank has made substantial progress in refining its loss reserve forecasting model, including hiring an outside consultant, Ex-Im Bank has not independently validated the model and, due to deficiencies in Ex-Im Bank’s data reporting systems, the model has not included critical data about the performance of restructured and potentially impaired assets. As a result, the reliability of model’s forecasting ability may have been potentially reduced.

Third, we found that Ex-Im Bank does not perform systematic portfolio stress testing or establish portfolio concentration sub-limits. Consequently, Ex-Im Bank may not be able to determine how its portfolio would react to different market conditions, determine whether loss reserves are adequate under such scenarios, or effectively manage concentration risk.

We benchmarked Ex-Im Bank’s policies with private-industry best practices, other federal credit agencies, and U.S. and international regulatory guidance for systemically-important banking institutions. We offered these recommendations:

1. [Ex-Im Bank should develop a systematic approach to identify, measure, price, and reserve for its portfolio risk.](#)

- **Management Response:**

Ex-Im Bank agreed with the recommendation. Upon the conclusion of the FY 2011 audit, Ex-Im Bank evaluated the incorporation of qualitative factors to the components of the overall credit loss factors. Starting in December, 2011, Ex-Im Bank implemented a systematic approach on the development of Ex-Im’s annual credit loss factors. These credit loss factors incorporate qualitative factors which include measuring and reserving for portfolio risk. It is currently under review by Ex-Im Bank’s outside auditors and the OMB. As of September 18, 2012, Ex-Im Bank has not received OMB approval on these revised credit loss factors. Upon approval, Ex-Im Bank expects to implement these new credit loss factors in September 2012 as part of the annual re-estimate process.

2. [Ex-Im Bank lacks formal policies and procedures for its loss reserve forecasting model which clearly define roles and responsibilities and provide for independent validation of the model’s integrity.](#)

- **Management Response:**

Ex-Im Bank agreed with the recommendation. Upon the conclusion of the FY 2011 audit, Ex-Im began the process of designing and implementing a formal governance framework on Ex-Im Bank’s financial models.

As part of this process, in May 2012, Ex-Im Bank contracted with KPMG to review, assess, and evaluate Ex-Im Bank's qualitative factors developed this year. KPMG served as external subject matter experts providing review, analysis, and feedback. Consistent with the KPMG review, Ex-Im Bank will incorporate external validation of future financial models. It is also important to note that the overall model is currently under evaluation and review by both Ex-Im Bank's outside auditors as well as the Office of Management and Budget. This review occurs on an annual basis. Ex Im Bank, as part of its efforts to continuously improve, will build and strengthen the formal governance framework related to the financial models.

3. Ex-Im Bank does not conduct portfolio stress testing in a systematic manner to assess potential exposures under challenging economic conditions.

• Management Response:

Ex-Im Bank agreed with the recommendation. In the past, Ex-Im Bank has conducted ad-hoc stress tests. Ex-Im Bank is in the process of setting up a systematic approach to stress testing to be managed from our Portfolio Reporting and Analysis section within the Office of the Chief Financial Officer. Ex-Im Bank is currently developing this systematic approach which will be completed in early FY 2013. Under this approach, the first stress test will focus on the aircraft portfolio. Ex-Im Bank plans to do both a "top down" stress test and a "bottom up" stress test. This approach is consistent with the International Association of Credit Portfolio Managers report entitled "Sound Practices in Credit Portfolio Management". This stress test will be conducted in FY 2013.

4. Ex-Im Bank does not self-impose portfolio concentration sub-limits either by industry, geography, or asset class as internal guidance to inform management on risk and determine exposure fees in new transactions.

• Management Response:

Ex-Im Bank disagreed with this recommendation to implement soft portfolio concentration sub-limits. While Ex-Im Bank understands that the private sector typically employs portfolio limits in its risk management function, doing so is inconsistent with the demand-driven nature of Ex-Im's mandate and business. Ex Im Bank's long time policy has been to meet demand as long as it meets the requirement of a reasonable assurance of repayment. Any limits would impede Ex-Im Bank's ability to meet demand as well as adversely impact Ex Im's competitiveness compared to other officially supported Export Credit Agencies. Ex Im believes that the implementation of portfolio concentration limits whether soft or hard would result in Ex-Im Bank picking "winners and losers". Ex-Im Bank does not believe that this role is mandated by our governance structure (i.e. Authorization) which was approved by the Congress and signed by the President.

It is also important to note that the September 2012 implementation of the qualitative factors will assist Ex-Im Bank in identifying and managing the concentration issues noted in this recommendation.



5. Ex-Im Bank should create the position of Chief Risk Officer to oversee the design and implementation of an agency-wide risk management function.

- Management Response:

Management disagreed with this recommendation. Ex-Im's current risk management architecture encompasses the functions noted above - but includes an important separation of duties between policy-setting and credit risk monitoring post closure. The broad functional divisions are as follows: the Credit Risk Management Division, under the leadership of an SVP, Ken Tinsley, is responsible for setting the broad credit policies for Ex-Im Bank as well as leading the ICRAS sovereign risk rating process and the engineering division. This division also reviews certain higher-risk transactions. Once a credit has been approved, responsibility for monitoring credit quality and repayment performance shifts to the OCFO, under the leadership of Ex-Im Bank's CFO, David Sena. The OCFO monitors changes in credit quality and determines adequate reserve levels.

The CFO and the SVP of Credit Risk Management serve as Co-Chairs of Ex Im's Credit Policy Committee. This Committee sets broad Credit Policy, underwriting standards, reviews changes in ICRAS ratings and the Country Limitation Schedule, and studies "lessons learned" from Ex-Im Bank's monitoring division such that they can inform credit policy.

6. Ex-Im Bank's Board of Directors should amend its by-laws to include the oversight of an agency-wide risk management function covering the full range of credit, operational, and other risks.

- Management Response:

Management disagreed with this recommendation. The role of the Board of Directors of Ex-Im Bank is set forth in the Charter and does not include the recommended oversight function. By way of the Charter, the President of Ex-Im Bank has broad operational authority for the management of Ex-Im, including oversight of all of Ex-Im Bank's risk management functions - credit, operational, and other risks. The by-laws of Ex-Im Bank established an Audit Committee responsible for certain activities relating, among other things, to Ex-Im Bank's financial statements and independent accountants. In this capacity, the Audit Committee may undertake certain projects regarding risk management and communicate the findings therefrom to the Chairman and President of Ex-Im Bank. By way of background, the sections of the by-laws relating to the Audit Committee were adopted prior to the appointment of an Inspector General for Ex-Im Bank and, as a result, no longer accurately reflect the duties which the Audit Committee should have. Having consulted earlier this year with Management, the Audit Committee nonetheless elected to keep the current by-laws as they are.

7. Ex-Im Bank should review current risk metrics and reporting procedures with a view to enhance transparency and to better inform key stakeholders.

- Management Response:

Ex-Im Bank does review current risk metrics and reporting procedures. Ex-Im Bank policy is to be transparent and open regarding our many procedures and policies. Ex-Im Bank will continue, in the future, to review current risk metrics and reporting procedures. For example, Ex-Im Bank develops and publishes an annual report which is reviewed and audited by Ex-Im Bank's external auditors. This annual report highlights many of Ex-Im Bank's current risk metrics and reporting procedures. Addi-

tionally, Ex-Im Bank, through the Audit Committee, will identify portfolio management best practices. This review, conducted by subject matter experts, is starting in September 2012. Consistent with the Re-Authorization Act of 2012, Ex-Im Bank has also developed a comprehensive default report which will be reported quarterly to key stakeholders. The first report is, as of September 18th 2012, currently under review awaiting clearance by the Office of Management and Budget. Ex-Im Bank expects to submit this report to key stakeholders later this month. These examples and other reviews are used as the basis for Ex-Im Bank's underlying philosophy to continuously seek ways to improve upon policies and procedures as well as to maintain transparency and better inform key stakeholders. Ex-Im Bank will continue these efforts now and in the future.

Management letter on portfolio risk mitigation techniques

<http://exim.gov/oig/documents/Portfolio%20Risk%20Mgmt%20Ltr%20to%20CFO%20120928.pdf>

The OIG's Management Letter on portfolio risk mitigation techniques complements the above OIG report on loss reserve allocation policies in two respects.

First, we summarize our discussions with a broad group of financial institutions on portfolio risk mitigation best practices. Second, we provide an overview of the risk management techniques used by these institutions to mitigate inherent risks.

We believe Ex-Im Bank would benefit from a comprehensive assessment of both agency-wide risk factors and portfolio risk mitigation techniques. This assessment should be conducted in consultation with OMB. The results of this assessment would inform the design of a robust risk management framework that is critical to Ex-Im Bank's long-term ability to manage its growing portfolio. This initiative is timely given the reauthorization of Ex-Im's Charter in May 2012 and the attendant increase in Ex-Im Bank's exposure cap to \$140 billion by 2014. Finally, our review of risk management best practices confirms the need for Ex-Im Bank management to address systematically the diverse mix of qualitative and quantitative risk factors that confront Ex-Im Bank's portfolio as it fulfills its strategic mission.

Ex-Im Bank customer survey evaluation (OIG-INS-12-03 September 27, 2012)

www.exim.gov/oig/upload/Official-Final-Customer-Survey-Report-120928-20Summary-1.pdf

In June 2012, more than 1,900 Ex-Im Bank customers were invited to respond to a 20-question online customer experience survey. Five hundred completed the survey, for a response rate of 26 percent. Questions covered product and service usage, satisfaction with service delivery, perception of transaction response time, improvement ideas, and company demographics. The survey asked respondents "How likely are you to recommend Ex-Im Bank's programs to a colleague or fellow exporter?" in order to calculate a Net Promoter Score® (NPS) and queried respondents who had worked with other ECAs to compare their experiences.

The OIG designed the survey and hired an independent contractor to administer the survey and analyze the results. The survey's objectives include: (1) to identify customers' perceptions of Ex-Im Bank's services and service delivery, (2) to determine customer priorities and primary drivers of customer satisfaction, and (3) to identify potential service improvements where Ex-Im Bank should concentrate efforts in order to improve customer satisfaction. The survey and evaluation complement our earlier report on performance metrics for operational efficiency.



The survey provided valuable feedback. First, it helped validate the profile of Ex-Im Bank’s customer base. Customers responding to the survey primarily worked for companies with less than 100 employees (77 percent) that mainly use short-term export credit insurance (85 percent) and are in manufacturing and sales of capital/non-capital equipment (72 percent). Second, it confirmed the perceived relevance of Ex-Im Bank to its customers, with 88 percent of all respondents stating they are “satisfied” with Ex-Im Bank’s products and services giving this area a 5.9 out of 7.0 average satisfaction rating. Third, the survey generated the measure of customer satisfaction known as NPS. Ex-Im Bank’s score of 47 percent compares favorably with the mean NPS of the financial services industry of 24 percent. Finally, the survey helped determine that improvements in Ex-Im Bank’s transaction processing times and IT platform will increase customer satisfaction more than improvements made in any other areas. These improvements are consistent with Ex-Im Bank’s 2010-2015 Strategic Plan.

During the reporting period, Ex-Im Bank hired a Senior Vice-President for Customer Satisfaction to focus on Ex-Im Bank’s customer experience and to address some of the matters identified by Ex-Im Bank’s customers in our report.



Office of Investigations

The Office of Investigations (OI) conducts and coordinates investigations relating to alleged or suspected violations of laws, rules, or regulations occurring in Ex-Im Bank programs and operations. The subjects of OI investigations can be program participants, contractors, Ex-Im Bank management or employees. OI Special Agents are Federal Criminal Investigators (job series 1811). Investigations that uncover violations of Federal law, rules, or regulations may result in criminal or civil prosecution, and administrative sanctions.

During this period OI achieved several milestones toward meeting objectives of investigating and preventing trade finance and export credit fraud, including:

- Five criminal judgments resulting in 51 months' imprisonment, 228 months' probation, and \$1,856,515 in criminal restitution, forfeiture, and special assessments.
- Nine administrative actions² stemming from referrals of active investigative information resulting in \$3,279,919 in payments to Ex-Im Bank, including one voluntary exclusion resulting in 120 months' debarment.
- Seven criminal informations and indictments against subjects of ongoing investigations.
- Two arrest warrants and three arrests based on warrants obtained by Ex-Im OIG Special Agents.
- Three plea agreements entered in court by subjects pursuant to ongoing investigative matters.
- 104 reports of investigative information provided to Ex-Im Bank Office of General Counsel concerning potential funds at risk to support enhanced due diligence efforts in approving, processing, and monitoring export credit loan guarantees and insurance policies.
- Six investigative matters referred to the Department of Justice for prosecutive decision.

Investigations this period

The OI evaluates all reports of possible fraud or illegality affecting Ex-Im Bank programs and activities.

Those reports are received from Ex-Im Bank employees, Ex-Im Bank Office of General Counsel, participants in Ex-Im Bank transactions, other government agencies, and Ex-Im Bank OIG Hotline. Evaluations that identify reasonable indications of possible fraud or illegality result in an investigation.

Activity	Investigations	Claims*	Claim amounts
Open as of April 1, 2012	38	516	\$338,553,176
Opened	8	20	\$16,215,934
Closed	(7)	(34)	(\$15,256,479)
Open as of September 30, 2012	39	502	\$339,512,631

* The number and amount of claims paid subject to investigation. Not all investigations involve claims paid by Ex-Im Bank. Not all claims opened or closed in the period are related to cases opened or closed in the period but may be related to other active investigations. Referral of a claim to the OIG for investigation does not establish the existence of fraud and not all claims included in a case are necessarily fraudulent until proven so by evidence. The number of claims may vary as facts and findings develop.

² Administrative actions are responses by Ex-Im Bank to stop transactions, cancel policies, or protect funds at risk based upon investigative findings.



Investigative results

The OI obtained these actions this period:

Description	OIG	Joint activities*	Total
Matters referred to the Department of Justice	4	2	6
Arrest warrants obtained	1	1	2
Arrests	1	2	3
Criminal indictments, informations, complaints	3	4	7
Pleas entered	0	3	3
Criminal judgments	2	3	5
Prison time (months)	12	39	51
Probation (months)	72	156	228
Court-ordered fines, restitution, and forfeiture	\$148,322	\$1,708,193	\$1,856,515
Administrative actions**	0	9	9
Administrative cost savings and repayments	\$0	\$3,279,919	\$3,279,919

* Investigations with other law enforcement agencies.

** Responses by Ex-Im Bank to stop transactions, cancel policies, or protect funds based upon investigative findings.

Investigations

Export credit insurance program

One of Ex-Im Bank’s key programs — the export credit insurance program — has been particularly susceptible to fraud schemes by foreign borrowers, U.S. exporters, and other transaction participants. This program accounts for several investigations underway. Criminal activity exploits processes in order to induce Ex-Im Bank to approve insurance coverage.

The export credit insurance program offers protection in the form of several different insurance policy types to U.S. exporters and their lenders against non-payment by foreign buyers due to commercial and political risks. Export credit insurance allows exporters to increase export sales by limiting international repayment risk, offering credit to international buyers, and enabling exporters to get access to working capital funds. One fraudulent scheme involves the falsification of shipping records to convince Ex-Im Bank that the described goods have been shipped when they have not.

Successful investigative efforts within this program include:

Miami resident sentenced for conspiracy to defraud Export-Import Bank

Miami resident Guillermo Sanchez, 55, was sentenced on July 12, 2012, to 200 hours of community service, and 48 months of supervised release for his role in a scheme to defraud Ex-Im Bank of \$854,000. Sanchez previously had pleaded guilty on April 29, 2010 in U.S. District Court in Washington, D.C., to one count of conspiracy to defraud Ex-Im Bank and one count of mail fraud in connection with ten loans guaranteed by Ex-Im Bank.

According to court documents and testimony at the plea hearing, from May 2006 through August 2007 Sanchez acted as a purported exporter of construction equipment to South America in ten loan transactions. The loans were obtained from a Florida bank and insured by Ex-Im Bank. Sanchez admitted that he and a co-conspirator prepared and submitted to the Florida bank and Ex-Im Bank loan documents—including commercial invoices, packing lists and bills of lading—falsely reflecting that Sanchez purchased and shipped \$854,000 worth of generators manufactured in the United States to South American customers.

According to court documents and testimony, Sanchez's company, ACE Products, received \$853,642 in loan proceeds based on the false representations and Sanchez retained a portion of the money for his personal benefit and use. Around August 2007, defaults on the loan transactions caused Ex-Im Bank to pay the Florida bank's claim for outstanding principal and accrued interest of approximately \$854,000. This case was investigated by Ex-Im Bank OIG.

Former Miami office manager sentenced for defrauding Ex-Im Bank

Norma I. Borgono, 57, a Miami resident and former officer manager of Texon, Inc., an exporting company in Miami, was sentenced on May 10, 2012 to 12-months home incarceration. In addition, Borgono was ordered to pay \$5,000 in restitution, \$1,997 in forfeiture, and serve 60 months of supervised release. The Honorable U.S. District Judge Ricardo M. Urbina, District of Columbia, sentenced Borgono for her role in defrauding Ex-Im Bank. Borgono had previously pled guilty on December 12, 2011 to criminal charges of conspiracy to commit mail fraud.

According to court records, Borgono, a naturalized U.S. citizen born in Peru, worked as the officer manager of Texon, Inc., owned by Guillermo Mondino. Texon exported construction equipment to buyers in foreign countries. Judge Urbina sentenced Mondino to 46 months in prison on November 1, 2011 (the press release on Mondino's sentencing is online at <http://exim.gov/oig/documents/Mondino%20Sentencing%20111101.pdf>). Mondino admitted that he assisted numerous foreign buyers to obtain fraudulent loans that were insured by Ex-Im Bank.

Borgono assisted Mondino to prepare false loan documents for transmittal to banks associated with Ex-Im insured loans. From 2003 through 2009 Mondino and Borgono, through Texon, assisted foreign buyers to create fraudulent loan applications, financial statements, purchase orders, invoices and bills of lading to represent falsely to lending banks and Ex-Im Bank the purchase and export of U.S. goods to buyers in South and Central America. After receiving more than \$24 million in Ex-Im Bank insured loan proceeds, Mondino diverted \$6.4 million of the proceeds to the foreign buyers. According to court records, all of the loans involving Texon were fraudulent. As a result of the fraud, the loans went into default, causing Ex-Im Bank to pay \$14.1 million in claims to the lending banks.

This case was investigated by Ex-Im Bank OIG agents and U.S. Postal Inspectors in Miami, Fla. The Financial Crimes Enforcement Network (FinCEN) also provided assistance.

Texan sentenced to prison for scheme to defraud Export-Import Bank

Hector Cuevas of Fabens, Texas, was sentenced June 5, 2012 to 15 months in prison for his role in a scheme to defraud Ex-Im Bank of more than \$690,624.

The headlines

- Miamian sentenced for conspiracy
- Former office manager sentenced
- Texan sentenced to prison
- Former M&T employee sentenced
- Three charged in schemes
- Subjects plead guilty in Texas
- New Hampshire man sentenced
- Agents make arrest in fraud



Cuevas, 42, was also sentenced by Judge Kathleen Cardone in U.S. District Court in El Paso to three years of supervised release and was ordered to pay \$553,148 in restitution and \$690,624 in forfeiture. Cuevas pleaded guilty on Oct. 13, 2011 to conspiracy to commit wire fraud, wire fraud, and money-laundering conspiracy. Cuevas admitted he participated in a scheme to defraud Ex-Im Bank of more than \$690,000.

According to court documents, Cuevas was the owner of CT Implement, Inc., a farm-equipment sales company in Fabens that purported to be in the business of exporting U.S. agricultural equipment to Mexico. During his plea hearing Cuevas admitted he helped others prepare and submit false applications, financial records, and export documents to two lending banks to assist co-conspirators in Mexico in obtaining two Ex-Im Bank insured loans purportedly for the purchase of equipment from Cuevas' company. Once the loans were approved, Cuevas said he acted as a money launderer by illegally transferring Ex-Im Bank insured proceeds to both borrowers and others in Mexico. Both loans defaulted and caused Ex-Im Bank to pay \$583,430 in claims to the lending banks.

The case was investigated by Ex-Im Bank OIG and Immigrations and Customs Enforcement — Homeland Security Investigations in El Paso. FinCEN also provided assistance and financial analysis.

Former M & T Bank employee sentenced for stealing more than \$223,000

Rosamaria T. Somarriba, 67, Baltimore, was sentenced May 31, 2012 to 12 months' home confinement, 60 months' supervised release, and ordered to pay \$233,462 in forfeiture and the same amount in restitution in connection with a scheme to defraud her employer's bank customer and Ex-Im Bank.

Somarriba previously pleaded guilty January 30, 2012 in U.S. District Court, District of Maryland, Baltimore. According to her plea agreement Somarriba was employed within the International Trade Finance Division of M&T Bank in Baltimore. Somarriba began working at the bank in 1985 and at the time of her termination in early 2011 had attained the position of assistant vice president, relationship liaison. Somarriba was able to get access to customer accounts and transfer funds between them. Ex-Im Bank provided loan guarantees and insurance coverage to M&T Bank.

In March 2011, after Somarriba had been terminated by M&T Bank for reasons unrelated to this case, the bank uncovered suspicious activity within the account of one of its bank customers, Company A. Company A had defaulted on its Ex-Im Bank-guaranteed loan in October 2007. As a result M&T Bank had filed a claim with Ex-Im Bank, which agreed to cover Company A's owed payments and to pay M&T Bank according to the original terms of Company A's loan. However, the payments Ex-Im Bank had paid M&T Bank on behalf of Company A exceeded the amounts required to continue funding the loan, and excess funds accumulated within Company A's account.

Between July 2006 and May 2010, Somarriba, who knew about the accumulation of these excess funds, made at least four unauthorized transfers out of Company A's account, representing at least \$169,582 originally belonging to Ex-Im Bank, into another customer's account held by Company B. Somarriba then made more than 30 unauthorized debits from Company B's account amounting to at least \$211,072 for her benefit. Somarriba stole at least \$169,582 in Ex-Im Bank funds and at least \$41,490 in Company B's funds.

Additionally, Somarriba withdrew \$12,390 from Company B's account to satisfy family debts owed to the Internal Revenue Service. From at least as early as 2006 through at least February 2011, Somarriba defrauded Ex-Im Bank and Company B of at least a total of \$223,462. This case was part of an ongoing investigation by Ex-Im Bank OIG and President Barack Obama's Financial Fraud Enforcement Task Force.

Three charged in schemes to defraud Ex-Im Bank

Three suspects were charged by criminal Information in two separate investigations in Florida and Colorado. Two of the defendants were charged in Florida for their role in a conspiracy to commit wire fraud in schemes to defraud Ex-Im Bank related to fraudulent exports to South America. In another investigation, a subject was charged in Colorado with conspiracy to commit wire fraud related to fraudulent exports into Mexico. The defendants await judicial actions in federal court, and these investigations concerning \$15.7 million in claims against Ex-Im Bank continue.

Subjects plead guilty in Texas Ex-Im Bank fraud cases

Three defendants involved in two ongoing investigations in Texas are facing various judicial actions for their roles to defraud Ex-Im Bank. In one investigation a subject was arrested by U.S. Customs and Border Protection agents, based on an arrest warrant obtained by Ex-Im Bank OIG agents, as he entered the United States from Mexico. He was charged and subsequently pleaded guilty and awaits sentencing.

In another case, Ex-Im Bank OIG agents arrested a subject as he surrendered at the Texas border pursuant to a 2010 indictment and arrest warrant sought by Ex-Im Bank OIG agents. The defendant was a fugitive previously sought by agents for his role in a scheme to defraud Ex-Im Bank. In the same case, another defendant was charged by criminal Information and pleaded guilty in federal court for his role in the fraud. These actions show efforts to address fraudulent export-credit insurance schemes in Mexico and Ex-Im Bank OIG's law enforcement efforts with other agencies. All defendants are awaiting judicial action in federal court and the investigations concerning \$2.8 million in claims against Ex-Im Bank continue.

Export-Import Bank program integrity

The Office of Investigations conducts investigations into violations of federal laws affecting the integrity of Ex-Im Bank's programs and the general public's trust and reliance on those programs and representations. These investigations involve allegations such as the misuse of official government seals and letterhead, forgeries of bank officials' signatures, false Letters of Interest, or other misrepresentations or misconduct in which criminals falsely purport to victims that they have the authority, approval, or support of Ex-Im Bank.

Successful investigative efforts within this area during the period include:

Man sentenced for defrauding international customers of New Hampshire business

Paul Wilson, 41, formerly of Dover, New Hampshire, was sentenced August 21, 2012, in United States District Court for the District of New Hampshire to 12 months and one day in prison and two years' supervised release for defrauding several international customers of his former employer, Goss International Americas Corporation.

Wilson was the international trade finance manager for Goss, which manufactures commercial printing presses. His job included securing financing for foreign purchasers of Goss's products and working with Ex-Im Bank to obtain guarantees or credit insurance for loans extended to Goss' foreign customers.



From about 2004 through about 2008, Wilson defrauded several Goss customers of \$148,000. He assisted in forming a shell company called Zephyr Financial, LLC. Zephyr Financial, LLC, sent invoices for loan underwriting and structuring services that were either never rendered or that Wilson performed as part of his job at Goss to several of Goss' commercial customers in Mexico and Brazil. These invoices totaled tens of thousands of dollars in bogus charges. The victim companies wired payments for the fraudulent invoices to a bank account controlled by Wilson.

On June 8, 2011, a federal grand jury indicted Wilson for wire fraud in connection with this scheme and he pled guilty to three counts of wire fraud on January 30, 2012. This case was investigated by Ex-Im Bank OIG.

OIG agents arrest subject in program integrity fraud

In a related matter, Ex-Im Bank OIG agents arrested a subject in Massachusetts for his role in allegedly defrauding several foreign buyers of Ex-Im Bank products. The subject was previously indicted in federal court for conspiracy to commit wire fraud, and a warrant was subsequently issued for his arrest. This investigation highlights efforts to protect the integrity of Ex-Im Bank programs and alleged victims who believed they were doing business with Ex-Im Bank. The defendant faces judicial action in federal court and the investigation continues.

Other investigative results

Special Agents work with Ex-Im Bank to help protect funds

To the extent permissible and within the confines and limitations of an investigation, OI Special Agents work collaboratively to share investigative intelligence with the Office of General Counsel, Credit and Risk Management Division, and Asset Management Division of Ex-Im Bank to help identify potential and suspected fraudulent activity within Bank transactions and to protect Bank funds.

During this period OI communicated with Ex-Im Bank management to enhance the monitoring of several transactions and due diligence reviews of proposed transactions based on investigative leads. We shared law-enforcement intelligence with Ex-Im Bank on matters concerning suspected criminal activity by participants involved in active policies or transactions under review. For example, OI coordination with the Department of Justice (DOJ) and Ex-Im Bank helped facilitate nine administrative actions resulting in the direct repayment and collection of outstanding debt by responsible parties in amounts totaling \$3,279,919.

In another example OI investigative results were presented to the Office of General Counsel, which pursued suspension and debarment efforts against one individual. As a result, the party voluntarily excluded himself from participating in Ex-Im Bank transactions and was debarred for ten years. The party agreed and has repaid Ex-Im Bank \$1.4 million of outstanding debt. In another case, a defendant—through coordination with DOJ and Ex-Im Bank—has repaid Ex-Im Bank \$1,250,000 that was owed as a result of defaults and claims paid resulting from fraudulent activity.

OI made 104 referrals of investigative information to Ex-Im Bank Office of General Counsel concerning potential fraud and funds at risk for enhanced due diligence by Ex-Im Bank.

These efforts are part of the OI objective to protect funds at risk concurrent in monitoring, oversight, and collection efforts involving transactions in which fraud is uncovered.

Investigative capabilities strengthened by Memorandum of Understanding and other law enforcement partnerships

OI further strengthened its investigative capabilities and investigative support by entering into a Memorandum of Understanding (MOU) with the Financial Crimes Enforcement Network. The MOU allows for operational and field support during investigations nationwide through access to financial intelligence related to criminal-trade finance fraud investigations. The MOU will help OIG utilize available information and evidence.

Also, OI met with the European Commission AntiFraud Office (OLAF) to discuss international support on Ex-Im Bank OIG investigations and matters of interest. OLAF investigates fraud against the EU budget, corruption, and misconduct within European institutions, and develops anti-fraud policy for the European Commission. Efforts were made to identify common fraud risk scenarios and discuss joint partnerships in structured projects in Africa, Eastern Europe, or other areas where European Union funding and Ex-Im Bank financing may intersect or flow to common subjects. Information was shared concerning ways to enhance business intelligence and to determine if common entities or suspected parties exist by and between OLAF and Ex-Im Bank. Such efforts help strengthen joint capabilities and investigations.

Outreach

OIG educates about identifying and reporting fraud, waste and abuse

As part of the OIG's mission to prevent and detect fraudulent activity, efforts have been made to meet with and educate stakeholders and other law enforcement partners about the risks and fraud scenarios common in trade finance and export credit fraud cases.

On June 19, 2012, an OI representative lectured at the Inspector General Academy's Transition Training Program in Leesburg, Va. The program is designed for law enforcement agents entering the Inspector General community. The attendees were 60 law enforcement professionals, and information was provided concerning international trade finance fraud and the role and responsibility of Ex-Im Bank OIG.

On May 7, 2012, an OI representative spoke at the Washington, D.C., chapter of the Certified Fraud Examiners, to discuss Ex-Im Bank OIG and international trade finance fraud investigations. The participants included members of the banking community, federal and local law enforcement, and experts in financial fraud investigation and the protection of institution and bank funds. This presentation offered common fraud scenarios and efforts by the OIG and law enforcement agencies to protect Ex-Im Bank.

The OIG published and produced a brochure focused on international trade finance fraud entitled Red Flags on Export-Import Bank Guaranteed Loans and Insurance Transactions. The brochure is a guide for Ex-Im Bank staff and others involved in international trade finance and exports. The brochure identifies common fraud scenarios and encourages those who suspect fraudulent activity in Ex-Im Bank transactions to report such matters to the OIG.



Hotline

Ex-Im Bank OIG maintains a hotline to receive reports of fraud, waste, and abuse in Ex-Im Bank programs and operations. Hotline reports are evaluated by our investigative team and might result in the initiation of an investigation, audit, referral to other law enforcement authorities, or referral to management for administrative action.

The OIG received seven hotline reports. Four were referred for investigation, one was referred to OIG counsel for review, and two were resolved and closed by the hotline.

Hotline reports may be made by these methods:

PHONE 1-888-OIG-EXIM (1-888-644-3946)

EMAIL IGhotline@exim.gov

MAIL OR DELIVERY SERVICE

Ex-Im Bank OIG Hotline,
Office of Inspector General
811 Vermont Ave. NW
Washington, D.C. 20571

The OIG will not disclose the identity of a person making a report through the hotline without their consent unless the IG determines such disclosure is unavoidable during the course of an investigation.



Appendix A

Recommendations from prior reporting periods

This table shows that 33 of 35 recommendations from four audit, inspection, and evaluation reports remain open. Sixteen are from two reports issued during the last period. The oldest is from FY 2010.

Report date	Title	Recommendations			Latest target closure date
		Total	Open	Closed	
Last period					
Audits					
OIG-AR-12-04 1/24/12	Audit of Information Technology Support for Export-Import Bank's Mission	11	11	0	1/31/13
Inspections and evaluations					
OIG-INS-12-01 3/27/12	Report on Performance Metrics for Operational Efficiency and Customer Service, Phase 1	8	8	0	9/30/13
Prior periods					
Audits					
OIG-AR-11-04 7/8/11	Working Capital Guarantee Delegated Authority Program	3	1	2	10/1/12
Inspections and evaluations					
OIG-EV-10-03 9/17/10	Evaluation Report Relating to Economic Impact Procedures	16	16	0	None provided
Total		35	33	2	



Appendix B

Peer review reporting

This appendix complies with Section 5(a)(14)-(16) of the IG Act of 1978, as amended.

Of the audit function

Under government standards, OIG audit functions must have an external peer review at least every three years.

The next peer review of OIG audit functions will be in 2014.

Of the investigation function

As of July 2011, Ex-Im Bank OIG derives its law enforcement authority from Section 6(e) of the IG Act of 1978, as amended. As such, the OIG is required to undergo an external peer review process of our investigative function every three years. The peer review is scheduled for summer 2014.

Of other OIGs

The Ex-Im Bank OIG did not conduct a peer review of any other OIG during this reporting period. It has scheduled a peer review of the audit function of the Consumer Product Safety Commission OIG for fall 2013. Also scheduled is a peer review of the investigation function of the Office of Personnel Management OIG for the end of 2012.



Appendix C

Abbreviations and acronyms

APP	Annual Performance Plan
CFE	Certified Fraud Examiners
CRO	Chief Risk Officer
CIGIE	Council of Inspectors General on Integrity and Efficiency
CRTI	Character, Reputation, and Transaction Integrity
DOJ	U.S. Department of Justice
ECA	Export Credit Agency
EX-IM BANK	Export-Import Bank of the United States
EU	European Union
FinCEN	Financial Crimes Enforcement Network
FY	Fiscal Year
GAO	U.S. Government Accountability Office
GPRA	Government Performance and Results Act of 1993 and GPRA Modernization Act of 2010
IDA	Individual Delegated Authority
IG	Inspector General
IPA	Independent Public Accountant
IT	Information Technology
MOU	Memorandum of Understanding
NASA	National Aeronautics and Space Administration
NPS	Net Promoter Score
OA	Office of Audits, Office of Inspector General, Export-Import Bank
OI	Office of Investigations, Office of Inspector General, Export-Import Bank
OIE	Office of Inspections and Evaluations, Office of Inspector General, Export-Import Bank
OIG	Office of Inspector General
OLAF	European Commission Anti-Fraud Office
OMB	Office of Management and Budget, The White House



Appendix D

Inspector General Act reporting requirements

Inspector General Act citation	Requirement definition	Page
Section 4(a)(2)	Review of Legislation and Regulations	9
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	11–15
Section 5(a)(2)	Recommendations for Corrective Actions	18–21 24–29
Section 5(a)(3)	Prior Significant Audit Recommendations Yet to Be Implemented	39
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	33
Sections 5(a)(5) and 6(b)(2)	Summary of Refusals to Provide Information	None
Section 5(a)(6)	Audit Products Issued Including Total Dollar Values of Questioned Costs, Unsupported Costs, and Recommendations that Funds Be Put to Better use	None
Section 5(a)(7)	Summary of Particularly Significant Reports	18–29
Section 5(a)(8)	Total Number of Reports and Total Dollar Value for Audits with Questioned Costs	None
Section 5(a)(9)	Total Number of Reports and Total Dollar Value for Audits with Recommendations that Funds Be Put to Better Use	None
Section 5(a)(10)	Summary of Prior Audit Products for which No Management Decision Has Been Made	41
Section 5(a)(11)	Description and Explanation of Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions with which the Inspector General Disagreed	None
Section 5(a)(13)	Reporting in Accordance with Section 5(b) of the Federal Financial Management Improvement Act of 1996 Remediation Plan	None
Sections 5(a)(14), (15) and (16)	Peer Reviews Conducted and Outstanding Recommendations	43

How to report fraud, waste and abuse

The Inspector General Act of 1978 states that the Inspector General (IG) may receive and investigate complaints or information concerning the possible existence of an activity constituting a violation of law, rules, or regulations, or mismanagement, gross waste of funds, abuse of authority or a substantial and specific danger to the public health and safety. Whether reporting allegations via telephone, mail, or in person, the OIG will not disclose the identity of persons making a report without their consent unless the IG determines such disclosure is unavoidable during the course of the investigation.

You may submit your complaint or information by these methods:

In person

Office of Inspector General
Export-Import Bank of the U.S.
811 Vermont Avenue, NW
Washington, D.C. 20571

Telephone

1- 888-OIG-EXIM
(1-888-644-3946)

Mail

Ex-Im Hotline
Office of Inspector General
Export-Import Bank of the U.S.
811 Vermont Avenue, NW
Washington, D.C. 20571

E-mail

IGHotline@exim.gov



OFFICE OF INSPECTOR GENERAL
Export-Import Bank of the United States
811 Vermont Avenue, NW
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Telephone 202.565.3908
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