



SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2012 TO MARCH 31, 2013





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. Our office continues to enhance the viability, soundness, and effectiveness of the Export-Import Bank of the U.S. (Ex-Im Bank) as an institution and lender of last resort. Specifically, during the reporting period, the Government Accountability Office (GAO) issued a congressionally requested report focusing on Ex-Im Bank's risk management practices (see page 31 in this report for more details). The GAO report complements and supplements the work completed by our office in the last reporting period (see our evaluation of Ex-Im Bank's loss reserve allocation policies and risk mitigation practices issued on September 28, 2012; www.exim.gov/oig/upload/Final-20Report-20Complete-20Portfolio-20Risk-20120928-1.pdf). Ex-Im Bank's significant asset growth in the past several years, the challenging economic environment, changes in the composition of its product portfolio, and Congressional interest led us to address these practices. In summary, both reports reached similar conclusions and identified similar risks.

During this reporting period, our office issued a number of mandatory audits including Ex-Im Bank's Financial Statement audit, the Federal Information Security Management Act audit, and the Improper Payments Elimination and Recovery Act audit. These audits help Ex-Im Bank improve its operational performance and responsibilities under federal law. The Financial Statement audit identified deficiencies totaling approximately \$55 million related to Ex-Im Bank's internal control over financial reporting. Also, we responded to a congressional request to assess whether Ex-Im Bank is doing everything it can to confront the growing threat of climate change.

In addition, our office continued its focus on investigating fraud related to Ex-Im Bank transactions and strengthening its ability to investigate and prosecute export fraud globally. Specifically, on January 25, 2013, Manuel Ernesto Ortiz-Barraza, an independent financial consultant, was extradited to the United States for his alleged role in a scheme to defraud Ex-Im Bank of more than \$2.5 million. This is a major accomplishment for our office since it marks the first extradition of an Ex-Im Bank transaction participant accused of committing fraud against Ex-Im Bank. Moreover, during this reporting period, the OIG further strengthened its investigative capabilities and investigative support by entering into a Memorandum of Understanding with the International Criminal Police Organization (INTERPOL), an inter-governmental organization, facilitating international police cooperation.

Finally, during the reporting period, our office obtained five criminal judgments resulting in 80 months' imprisonment, 180 months' probation, and \$2,379,577 in criminal restitution, forfeiture, and special assessments.

All of these accomplishments would not be possible without the hard work, professionalism, and dedication of our excellent staff.

OSVALDO L. GRATACÓS



Highlights

The **Office of Audits** (OA) completed three audits during the six months ending March 31, 2013:

1 Audit of Export-Import Bank's financial statements for FY 2012

An independent public accountant (IPA), working under the Office of Inspector General (OIG) supervision, conducted an audit of Ex-Im Bank's financial statements for fiscal year 2012. The IPA issued an unqualified opinion on Ex-Im Bank's financial statements. The IPA did not find any reportable noncompliance with laws and regulations and did not identify any deficiencies in internal control considered to be material weaknesses. However, during the audit, the IPA and Ex-Im Bank management noted deficiencies totaling approximately \$55 million related to Ex-Im Bank's internal control over financial reporting. Specifically, the audit found that:

- Updated risk ratings relied on inaccurate information.
- There were inconsistencies in risk ratings between key systems.
- There were inaccurate guarantee repayment schedules.
- Inaccurate information was used for the subsidy calculation.
- There was an incorrect loan accrual status.
- There was an incorrect allowance for loan loss journal entry.
- An incorrect formula was used in the loss given default calculation.
- There was a lack of retention of daily security monitoring reports.

At a glance

- Financial statements
- Improper payments reporting
- Information security
- Climate change
- Investigations

2 Improper Payments Reporting—Ex-Im Bank generally complied with improper payments reporting requirements but should improve its improper payments assessment

In accordance with the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Inspectors General are required to annually review their agency's compliance with improper payments legislation and evaluate agency efforts to assess, report, and reduce improper payments. As a result, we reviewed the Export-Import Bank's improper payments assessment and reporting activities for FY 2011.

We determined that Ex-Im Bank complied with IPIA, as amended by IPERA, in that it reported all required information based on the results of its FY 2011 improper payments assessment. In addition, Ex-Im Bank has established a number of preventive and detective controls and due diligence requirements intended to minimize the possibility of improper payments. However, we identified some concerns which we believe reduce the overall usefulness and reliability of Ex-Im Bank's improper payments assessment.

The audit made five recommendations for corrective action. Management generally concurred with the recommendations, which will be closed upon completion and verification of the proposed actions.

3 FY 2012 Information security program and practices audit

The Federal Information Security Management Act of 2002 (FISMA) requires agencies to develop, document, and implement agency-wide information security programs to protect their information and information systems. FISMA also requires agencies to undergo an annual independent evaluation of their information security programs and practices, as well as an assessment of their compliance with FISMA. To fulfill its FISMA responsibilities, the OIG contracted with an IPA for an independent evaluation of Ex-Im Bank's information security program and practices and its overall compliance with FISMA requirements.

The audit found that, overall, Ex-Im Bank continues to improve and strengthen its information security program and is addressing the challenges in each of the areas that the Office of Management and Budget identified for the FY 2012 FISMA review. However, Ex-Im Bank is not compliant with all FISMA requirements. The audit made three recommendations for corrective action. Management concurred with the recommendations, which will be closed upon completion and verification of the proposed actions.

In addition, OA compiled and evaluated information in response to a request from the Bicameral Task Force on Climate Change to assess whether Ex-Im Bank is doing everything it can to confront the growing threat of climate change. OA determined that, with respect to its business operations, Ex-Im Bank is taking steps to address requirements for improving energy efficiency. However, given the significant increase in Ex-Im Bank's authorizations and the need for international air travel to support Ex-Im Bank's mission of expanding U.S. exports and developing new foreign buyers of U.S. goods and services, management's efforts to reduce greenhouse gases related to air travel and other business-related activities will continue to be a challenge. Also, although Ex-Im Bank's increased support for environmentally-beneficial U.S. exports has shown an overall positive trend, Ex-Im Bank has struggled to balance the need to support American jobs and energy exports, while simultaneously encouraging development of renewable energy facilities, as illustrated by Ex-Im Bank's financing of coal-fired power plants. In sum, OA reported that Ex-Im Bank is striving to meet requirements and address existing GAO recommendations for improving its performance. As a result, the OIG did not make additional recommendations for improving Ex-Im Bank's performance.



At the end of the reporting period, OA had two audits in progress:

- Audit of Export-Import Bank's implementation of content policy
- Audit of Export-Import Bank's direct loan program

The **Office of Inspections and Evaluations** addressed outstanding recommendations from the Portfolio Risk and Loss Reserve Allocation Policies Report dated September 28, 2012 (www.exim.gov/oig/upload/Final-20Report-20Complete-20Portfolio-20Risk-20120928-1.pdf) and commenced two initiatives:

- Evaluation of Ex-Im Bank economic impact procedures
- Transaction inspections

The **Office of Investigations** accomplished the following actions:

- Obtained five criminal judgments resulting in 80 months imprisonment, 180 months' probation, and \$2,379,577 in criminal restitution, forfeiture, and special assessments.
- Obtained four administrative actions¹ including \$1,100,000 in payments to Ex-Im Bank and one voluntary exclusion with 120 months of debarment as a result of referrals of active investigative information to Ex-Im Bank.
- Obtained three plea agreements entered in court by subjects pursuant to ongoing investigative matters.
- Provided 45 reports of investigative information to the 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.
- Referred five investigative matters to the Department of Justice for prosecutive decision.
- Successfully closed 12 investigations after concluding all remaining actions and prosecutive results in those cases and closed further investigative review of over \$91 million in suspected claims which had been under investigation.
- Entered into a Memorandum of Understanding with INTERPOL to help facilitate the collection and use of international criminal intelligence.

¹ Administrative actions are Ex-Im Bank responses to stop transactions, cancel policies, or protect funds at risk based upon investigative findings.



Office of Inspector General management initiatives

International collaboration

The 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 compare Ex-Im Bank's practices with other export credit agencies.

The OIG entered into a Memorandum of Understanding with the International Criminal Police Organization (INTERPOL) facilitating international police cooperation.

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

Council of Inspectors General on Integrity and Efficiency

The OIG participates 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 for training and 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 Act of 1978, as amended, the OIG reviews proposed and existing legislation and regulations related to Ex-Im Bank's programs and operations.

In response to passage of the Whistleblower Protection Enhancement Act of 2012 (signed into law on November 27, 2012), Ex-Im Bank OIG established an ombudsman to educate Ex-Im Bank employees about their rights for protected disclosures. The following announcement is posted on the Ex-Im Bank OIG website. (See www.exim.gov/oig/WHISTLEBLOWER-PROTECTION-OMBUDSMAN.cfm).

Whistleblower Protection Ombudsman

Pursuant to the Whistleblower Protection Enhancement Act of 2012 (WPEA), the Ex-Im Bank OIG has designated a Whistleblower Protection Ombudsman to educate Ex-Im Bank employees about prohibitions on retaliation for protected disclosures, as well as the rights and remedies against retaliation for protected disclosures for those who have made or are contemplating making a protected disclosure.

Employees can contact the Whistleblower Protection Ombudsman:

Legal Counsel to the Inspector General
811 Vermont Avenue, N.W.
Room 138
Washington, DC 20571
(202) 565-3908
oig.info@exim.gov

Please note that the Whistleblower Protection Ombudsman is not permitted to act as a legal representative, agent, or advocate for employees or former employees.

Ex-Im Bank employees may also file complaints or get more information about WPEA through the U.S. Office of Special Counsel. Under WPEA, the Office of Special Counsel has sole authority to investigate and prosecute complaints of reprisal against whistleblowing employees (as well as other prohibited personnel practices). The U.S. Office of Special Counsel website is www.osc.gov.



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.

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 \$35 billion in authorizations in FY 2012 alone. To better serve its customers and provide effective underwriting and oversight, Ex-Im Bank should 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.

INFORMATION TECHNOLOGY (IT) MANAGEMENT. Ex-Im Bank uses an ineffective, inefficient, and fragmented IT platform and infrastructure in 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.

Ex-Im Bank is currently working on designing and developing a new comprehensive IT infrastructure to improve its operations.

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 (APP), and an annual performance report by February 2013. Although Ex-Im Bank issued a five-year strategic plan in 2010, in our opinion, it has not developed a comprehensive

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.

Ex-Im Bank management challenges

APP in accordance with Office of Management and Budget 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.

RISK MANAGEMENT. 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 most recent financial 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.

Reports by our office and the GAO have looked into Ex-Im Bank’s loss reserve and risk management policies, and risk mitigation practices. 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. Ex-Im Bank has started including qualitative data in its analysis, but more progress is still needed.

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’ 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.



During the previous reporting period, the OIG issued a report with the results of a survey of Ex-Im Bank customers and users. (OIG-INS-12-03, dated September 28, 2012; www.exim.gov/oig/upload/Official-Final-Customer-Survey-Report-120928-20Summary-1.pdf).

We recommend that Ex-Im Bank routinely conduct and utilize customer surveys to validate customer priorities and bank performance.

CREDIT UNDERWRITING AND DUE DILIGENCE PRACTICES. Ex-Im Bank uses a decentralized under-writing 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 continue to improve its 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=13549).

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. Prior to this delegated authority, 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:

- Uniform credit and underwriting standards.
- 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.
- 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.

The lack of due diligence efforts by lenders, specifically lenders with a history of defaulted transactions in certain products, is a pattern the OIG has observed. Even though Ex-Im Bank expects such efforts from participating lenders, due diligence is not required in all lender agreements.

The topics

- Human capital
- IT management
- Strategic and performance planning
- Risk management
- Customer service
- Credit underwriting and due diligence practices
- Corporate governance
- Energy
- Small business

Ex-Im Bank management challenges

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 Ex-Im Bank does not require such efforts. Although the OIG cannot state that all lenders demonstrate this behavior, we can state that this "moral hazard" issue is prevalent in fraud cases involving multiple transactions. Ex-Im Bank should collaborate with lender-partners and participants to encourage industry-standard due diligence on government guarantees and insurance transactions. Effective implementation of "Know Your Customer" practices by lenders could help minimize or prevent fraudulent activity.

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 weaknesses in governance and internal controls for 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, including following up on Ex-Im Bank's adoption of a new Loan and Guarantee Manual.

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. Ex-Im Bank has not met this mandate and recorded a significant drop in authorizations between 2011 and 2012. 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, GAO issued a report on Ex-Im Bank's environmentally beneficial exports (Reaching New Targets for Environmentally Beneficial Exports Presents Major Challenges for Bank, GAO-10-310T; July 14, 2010). 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.

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 did not reach 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 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.²

We continue to monitor progress.

² Performance Standards for Small Business Assistance are in Place, but Ex-Im is in the Early Stages of Measuring Their Effectiveness (GAO-08-915, July 17, 2008) and Export-Import Bank has met Target for Small Business Financing Share (GAO-08-419T, Jan 17, 2008)



Office of Audits

Summary

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

OA completed three audits during the six months ended March 31, 2013:

- Audit of Export-Import Bank's Financial Statements for FY 2012
- Improper Payments Reporting—Ex-Im Bank generally complied with Improper Payments Reporting requirements but should improve its improper payments assessment
- FY 2012 Information Security Program and Practices audit

In addition, OA compiled and evaluated information in response to a request from the Bicameral Task Force on Climate Change.

At the end of the reporting period, OA had two audits in progress:

- Audit of Export-Import Bank's implementation of content policy
- Audit of Export-Import Bank's Direct Loan Program

Reports

Audit of Export-Import Bank's Financial Statements for FY 2012 (OIG-AR-13-01, November 15, 2012)
www.exim.gov/oig/upload/OIG-AR-13-01-Report.pdf

An IPA, working under OIG supervision, conducted an audit of Ex-Im Bank's financial statements for fiscal year 2012. The IPA issued an unqualified opinion on Ex-Im Bank's financial statements. The IPA management did not find any reportable noncompliance with laws and regulations and did not identify any deficiencies in internal control considered to be material weaknesses. However, during the audit, the IPA and Ex-Im Bank noted deficiencies related to Ex-Im Bank's internal control over financial reporting totaling approximately \$55 million. The deficiencies and recommendations to address them are as follows:

UPDATED RISK RATINGS RELIED ON INACCURATE INFORMATION. The IPA noted multiple instances where personnel from the Transportation Portfolio Monitoring Division relied upon inaccurate information to establish risk ratings during the annual risk rating update process. Some of the inaccuracies included:



- Incorrect foreign currency translation rates were used to convert financial statements to U.S. dollars.
- Incorrect average collateral values were used in the collateral analysis to support risk rating upgrades.
- Risk rating factors for the country risk in the Asset Management System did not agree to Ex-Im Bank's Budget Cost Level Schedule.

Inaccurate information could result in incorrect risk ratings being applied to credits, which may cause the year-end allowance and subsidy to be misstated. However, the inaccuracies identified did not change the approved risk ratings at year-end and therefore did not result in a misstatement in the financial statements.

The IPA recommended that management enhance the process for reviewing information relied upon by the Transportation Portfolio Monitoring Division when updating risk ratings. Management agreed with the recommendation.

INCONSISTENCY IN RISK RATINGS BETWEEN KEY SYSTEMS. After all risk ratings are finalized at the end of each August, the interaction between the Loans and Guarantees Accounting system and the Asset Management System is closed to prevent further changes to the risk ratings. The risk ratings reflected in both systems should agree at the end of the fiscal year. However, the IPA identified one incident where the risk rating in the Loans and Guarantees Accounting system did not correspond to the approved risk rating in the Asset Management System at September 30, 2012. The change in the risk rating was due to a typographical error, occurred after August 31, 2012, and did not affect the subsidy re-estimate, which was performed based on the correct risk rating as of August 31, 2012.

The IPA recommended that Ex-Im Bank monitoring groups review all changes made in the Loans and Guarantees Accounting system after August 31st by the Office of the Controller to ensure that changes to risk ratings are appropriate. Further, the IPA recommended that communications from the monitoring groups to the Office of the Controller include specific instructions if changes to risk ratings are required after August 31st. Management agreed with the recommendations.

INACCURATE GUARANTEE REPAYMENT SCHEDULES. Repayment schedules are set up in the Loans and Guarantees Accounting system according to the executed guarantee agreements and any amendments to the agreements. The IPA identified two guarantees that had incorrect repayment information in the Loans and Guarantees Accounting system.

The challenges

- Accuracy in risk ratings
- Consistency in ratings systems
- Guaranteed repayment schedules
- Subsidy calculation
- Loan accrual status
- Loan loss journal entry
- Loss Given Default calculation
- Security monitoring reports

After a transaction is approved or amended, financial analysts are required to review the information entered into the system, including the repayment schedule, to ensure accuracy. Due to many changes in procedures and personnel during FY 2011 and FY 2012, review of the information in the system against the executed agreements was ineffective. As a result, the outstanding guarantees balance was overstated by approximately \$100,000 at September 30, 2012.

The IPA recommended that the financial analysts review and compare information for all transactions in the Loans and Guarantees Accounting system against the final approved executed agreements and any amendments. Management agreed with the recommendation.

INACCURATE INFORMATION USED FOR SUBSIDY CALCULATION. The IPA noted certain instances where management used incorrect information related to commitment fees in the subsidy calculation. Additionally, the IPA noted other instances where the preliminary information used for the subsidy calculation was not updated as per the final executed agreement.

As a result, negative subsidy or program revenue for transactions authorized during the fiscal year ended September 30, 2012 was understated by approximately \$4.6 million. The understated amount was corrected through the subsidy re-estimate performed at September 30, 2012.

The IPA recommended that Ex-Im Bank add a second level of review on the subsidy calculation prior to releasing the approved or amended transactions into the Loans and Guarantees Accounting system. Management agreed with the recommendation.

INCORRECT LOAN ACCRUAL STATUS. During a system migration in previous years, the status of a rescheduled loan that was written off during FY 2005 was changed from “non-accrual” to “accrual”. As a result, the loan was accruing interest income. Ex-Im Bank management identified the deficiency, and performed a detailed analysis to determine if there were other similar instances where interest income was accruing on written-off loans. Management found no other instances of the deficiency and corrected the “accrual” status and interest income for the above identified loan.

As a result of the error, Ex-Im Bank’s interest income and loan receivable balance as of September 30, 2011 was overstated by \$59 million. An adjusting entry was recorded by management in the current year to the correct interest income and loan receivable balance.



The IPA recommended that the Loan Guarantee Servicing Division perform a thorough review of “accrual” status of loans on a regular basis. Management agreed with the recommendation.

INCORRECT ALLOWANCE FOR LOAN LOSS JOURNAL ENTRY. Calculation of loss reserve is performed to determine where additional loss is expected by Ex-Im Bank. Accordingly, a journal entry is recorded by the Office of Controller to adjust the loss reserve to reflect an addition or reduction in the loss reserve. During testing of Ex-Im Bank’s allowance for loan loss, the IPA noted a journal entry for pre-credit reform claims loss reserve that was recorded in reverse. Though the incorrect journal entry was immaterial and did not result in a misstatement in the current year’s financial statements, such incorrect entries, especially relating to the loan loss, could potentially result in a misstatement. Management corrected the error in the current year.

Management agreed or generally concurred with all recommendations.

The IPA recommended that management enhance controls around the journal entry review process to detect any misstatements that may potentially occur. Management agreed with the recommendation.

INCORRECT FORMULA USED IN THE LOSS GIVEN DEFAULT CALCULATION. The Probability of Default (PD) and Loss Given Default (LGD) are components of the loss factors used to calculate the loss reserve. The IPA identified three formula errors in the PD/LGD calculations. Specifically, a financial analyst entered inaccurate formulas during the LGD calculation. Although the effect of these errors was immaterial to the current year’s financial statements, incorrect information used in the PD/LGD model could cause a misstatement to the loss reserve.

The IPA recommended that management perform a more detailed review of the formulas used in the allowance for loan loss methodology, in order to detect any errors which may result in potential misstatements. A detailed tie-out of the PD/LGD model and the default curve report was also recommended. Management agreed with the recommendation.

RETENTION OF DAILY SECURITY MONITORING REPORTS. Daily Security Monitoring reports should be retained as audit evidence of the monitoring, review, and actions taken as required for attempted information technology infrastructure security breaches, anti-virus infections, vulnerabilities, and availability issues. For 2 of the 15 dates selected for testing, the IPA noted that the Daily Security Monitoring report and actions taken on the report were not retained according to Ex-Im Bank procedures. The Office of the Chief Information Officer delivered additional documentation, from email archives and reproduced from network logs

audit documentary evidence, to note that: (1) compensating controls were in place to detect a security breach for the two days noted as testing exceptions; and (2) emails created on the two days demonstrate that activity by Ex-Im Bank Network Security existed related to the missing Daily Security Monitoring reports. However, the IPA determined that a deficiency in operating effectiveness existed as the properly designed control did not operate as designed. Specifically, due to gaps in employment and shifting of employee responsibilities, audit evidence was not maintained or did not sufficiently document actions taken on the Daily Security Monitoring reports for the two days in question.

The IPA recommended that management ensure all actions taken on the Daily Security Monitoring report are documented and retained. Management agreed with the recommendation.

OIG issued a summary of the IPA's findings and recommendations and management's responses in the report Fiscal Year 2011 Financial Statement Audit—Management Letter (OIG-AR-13-02, January 23, 2013)
www.exim.gov/oig/upload/OIG-AR-13-02-Report.pdf

Improper Payments Reporting—Ex-Im Bank generally complied with improper payments reporting requirements but should improve its improper payments assessment (OIG-AR-13-03, March 14, 2013)
www.exim.gov/oig/upload/OIG-AR-13-03-Final-Audit-Report-Improper-Payments-Web.pdf

Improper payments are payments made in the wrong amount, to the wrong entity, or for the wrong reason. They can result from processing errors, a lack of information, or fraud. In accordance with the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Inspectors General are required to annually review their agency's compliance with improper payments legislation and evaluate agency efforts to assess, report, and reduce improper payments. As a result, we reviewed Ex-Im Bank's improper payments assessment and reporting activities for FY 2011.

We determined that Ex-Im Bank complied with IPIA, as amended by IPERA, in that it reported all required information based on the results of its FY 2011 improper payments assessment. In addition, Ex-Im Bank has established a number of preventive and detective controls and due diligence requirements intended to minimize the possibility of improper payments. However, we identified the following concerns which we believe reduce the overall usefulness and reliability of Ex-Im Bank's improper payments assessment:

- The Office of the Chief Financial Officer (OCFO) incorrectly concluded that all returned or voided wire and check payments are inherently improper and, moreover, were the only improper payments made by Ex-Im Bank. This led to measuring Ex-Im Bank's risk of improper payments against a list of transactions that were largely not improper as



defined by IPIA, and supported the OCFO's decision not to test controls intended to prevent or detect improper payments.

- The OCFO relied on the results of a risk assessment questionnaire that may not have accurately reflected Ex-Im Bank's risk of improper payments.
- Although OMB recognizes that improper payments may include payments based on incomplete, inaccurate, or fraudulent information, the OCFO did not include in its improper payments assessment certain export credit insurance claims later determined to be fraudulent. In FY 2011 alone, the OIG—Office of Investigations determined that such claims totaled \$1.3 million.

Given (1) internal control weaknesses we have previously identified, including those in Ex-Im Bank's key information technology applications, some of which are used to process payments, and (2) the weaknesses we observed in the OCFO's FY 2011 improper payments assessment, we believe Ex-Im Bank's true risk of significant improper payments is unknown. As a result, its FY 2011 improper payments reporting may be inaccurate and incomplete, and its efforts to reduce and recover improper payments may be inadequate.

To improve Ex-Im Bank's processes for identifying and assessing its risk of improper payments, we recommended that Ex-Im Bank:

- Revise its procedures to correctly calculate improper payments rates.
- Reconsider the results of its FY 2011 risk assessment.
- Modify its risk assessment scoring method.
- Include in its assessment insurance claims paid based on fraud or obtain OMB's written approval to continue excluding such payments.
- Consider the cost effectiveness and value of conducting recapture audits and additional periodic testing for improper payments across all program areas.

Management generally concurred with the recommendations, which will be closed upon completion and verification of corrective action.

FY 2012 Information security program and practices audit (OIG-AR-13-04, March 22, 2013)
www.exim.gov/oig/upload/Final-Audit-Report-OIG-AR-13-04-Web-2.pdf

The Federal Information Security Management Act of 2002 (FISMA) requires agencies to develop, document, and implement agency-wide information security programs to protect their information and information systems. FISMA also requires agencies to undergo an annual independent evaluation of their information security programs and practices, as well as an assessment of their compliance with FISMA. To fulfill its FISMA responsibilities,

the OIG contracted with an IPA for an independent evaluation of Ex-Im Bank's information security program and practices and its overall compliance with FISMA requirements.

The audit found that overall Ex-Im Bank continues to improve and strengthen its information security program and is addressing the challenges in each of the areas that OMB identified for the FY 2012 FISMA review. However, Ex-Im Bank is not compliant with all FISMA requirements. The audit made three recommendations for corrective action. Management concurred with the recommendations, which will be closed upon completion and verification of the proposed actions.

Because the report addresses issues associated with information security at Ex-Im Bank, the OIG did not make the complete audit report available on-line; however, it may be available under the Freedom of Information Act.

Ongoing audits

Audit of Export-Import Bank's implementation of content policy

The mission of Ex-Im Bank is to assist in financing the export of U.S. goods and services to international markets. Ex-Im Bank enables U.S. companies to turn export opportunities into real sales that help to maintain and create U.S. jobs and contribute to a stronger national economy. Ex-Im Bank provides a variety of financing mechanisms, including working capital guarantees, export-credit insurance, and loans to help foreign buyers purchase U.S. goods and services. The amount of goods and services produced in the U.S. and included in Ex-Im Bank-supported transactions—referred to as domestic content—correlates to the creation or sustainment of U.S. jobs involved in the production of those goods and services. In fiscal year 2012, Ex-Im Bank approved \$35.8 billion in total authorizations supporting an estimated \$50 billion in U.S. export sales and, according to Ex-Im Bank, approximately 255,000 American jobs.

The overall objective of the audit is to evaluate Ex-Im Bank's procedures for determining the U.S. content and eligible foreign content included in each transaction supported by the Ex-Im Bank. Audit work commenced in November 2012. The OIG anticipates issuing an audit report in September 2013.

Audit of Export-Import Bank's Direct Loan Program

Under the Direct Loan Program, Ex-Im Bank offers loans directly to foreign buyers of U.S. goods and services. Ex-Im Bank extends a loan covering up to 85 percent of the U.S. contract value of the goods to the buyer. Direct loans carry fixed interest rates and generally are made at terms that are the most attractive allowed under the provisions of the Organization for Economic Co-operation and Development "Arrangement on Guidelines for Officially



Supported Export Credits”. Direct loan transactions have no minimum or maximum size, but generally involve amounts of more than \$10 million and are approved by Ex-Im Bank’s Board of Directors.

According to the Congressional Research Service, prior to 1980, Ex-Im Bank’s direct lending program was its chief financing vehicle, which it used to finance such capital intensive exports as commercial aircraft and nuclear power plants. Both the budget authority requested by the Administration and the level approved by Congress for Ex-Im Bank’s direct lending were sharply reduced during the 1980s. In addition, in the past decade, demand for Ex-Im Bank direct loans has been limited because commercial interest rates were low. However, in light of the international financial crisis, long- and medium-term loan authorizations increased from \$0 in FY 2007 to \$11.8 billion in FY 2012. Additionally, between FY 2007 and FY 2012, Ex-Im Bank’s exposure due to loans increased from 9 percent (\$5 billion) to 27 percent (\$28 billion) of the total portfolio. (From Export-Import Bank of the United States 2012 Annual Report, www.exim.gov/about/library/reports/annualreports/2012/)

The overall objective of the audit is to evaluate whether Ex-Im Bank has effectively managed direct loan transactions, to include properly underwriting, monitoring, and servicing loans. Audit work commenced in November 2012. The OIG anticipates issuing an audit report in September 2013.

Response to Bicameral Task Force on Climate Change
www.exim.gov/oig/upload/Bicameral_Task_Force_on_Climate_Change_Web.pdf

In a February 25, 2013, letter to the Inspector General the co-chairs of the Bicameral Task Force on Climate Change requested that the OIG assess whether Ex-Im Bank is doing everything it can to confront the growing threat of climate change. Specifically, the OIG was asked to (1) identify the existing requirements in legislation, regulation, executive order, or other directives that apply to Ex-Im Bank; (2) assess whether Ex-Im Bank is meeting these requirements; (3) make recommendations for improving its performance if it is not meeting requirements; (4) assess the authorities Ex-Im Bank has to reduce emissions of heat-trapping pollution; (5) assess Ex-Im Bank’s authorities to make the nation more resilient to the effects of climate change; and (6) assess the most effective additional steps Ex-Im Bank could take to reduce emissions or strengthen resiliency.

Sales and jobs

Ex-Im Bank approved \$35.8 billion in authorizations supporting \$50 billion in U.S. export sales and 255,000 American jobs.

To address the task force's questions, OA reviewed and summarized information related to Ex-Im Bank's efforts to improve energy efficiency in its business operations as well as its financing of renewable energy and other environmentally beneficial exports.

EX-IM BANK EFFORTS TO IMPROVE ENERGY EFFICIENCY IN ITS BUSINESS

OPERATIONS. OA determined that, with respect to its business operations, Ex-Im Bank is taking steps to address requirements for improving energy efficiency. Examples included (1) a multi-year modernization of Ex-Im Bank's Washington, DC headquarters, the Lafayette Building, which Ex-Im Bank leases from the General Services Administration; (2) progress toward promoting green purchasing of products and services; and (3) promoting efficiency in travel to include both mission-related travel and employee commuting. However, given the significant increase in Ex-Im Bank's authorizations and the need for international air travel to support Ex-Im Bank's mission of expanding U.S. exports and developing new foreign buyers of U.S. goods and services, management's efforts to reduce greenhouse gas related to air travel and other business-related activities will continue to be a challenge.

EX-IM BANK FINANCING OF RENEWABLE ENERGY AND OTHER ENVIRONMENTALLY BENEFICIAL EXPORTS.

OA determined that, after reviewing Ex-Im Bank's efforts to meet congressional directives concerning environmental exports financing, the GAO reported in July 2010 that Ex-Im Bank's financing of exports it identified as environmentally beneficial was well short of the 10 percent congressional target.³ In March 2012, Ex-Im Bank management reported specific actions planned and taken to address GAO's recommendations and other steps to support financing for renewable energy and other environmentally beneficial exports. In fact, Ex-Im Bank's increased support for environmentally-beneficial U.S. exports, including those related to the production of renewable sources of energy, has shown an overall positive trend. However, although the total number of environmentally beneficial authorizations increased 4.9 percent to 149 in FY 2012 from 142 in FY 2011, the amount of authorizations decreased 30.9 percent to \$614.5 million from \$889.5 million. Additionally, when examining the portion of these authorizations represented by renewable energy projects, both the total number and amount of authorizations decreased between FY 2011 and FY 2012 by 35.6 percent and 50.7 percent, respectively. Additionally, as illustrated by Ex-Im Bank's financing of coal-fired power plants, OA determined that Ex-Im Bank has struggled to balance the need to support American jobs and energy exports, while simultaneously encouraging development of renewable energy facilities.

³ "Export-Import Bank: Reaching New Targets for Environmentally Beneficial Exports Presents Major Challenges for Bank" (GAO-10-682, July 2010).



In sum, OA reported to the Task Force that, based on a review of information provided by Ex-Im Bank management, to include Ex-Im Bank's (1) 2012 Annual Report, (2) FY 2012 Greenhouse Gas Inventory Management Plan submission, and (3) March 28, 2012, environmental exports report provided to the Senate Committee on Appropriations pursuant to P.L. 112-74, Ex-Im Bank is striving to meet requirements and address existing GAO recommendations for improving its performance. As a result, the OIG did not make additional recommendations for improving Ex-Im Bank's performance.



Government Accountability Office (GAO)

The Inspector General (IG) Act states that each IG shall give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and ensuring effective coordination and cooperation. The GAO issued the following report related to Ex-Im Bank activities during the reporting period:

Export-Import Bank: Recent Growth Underscores Need for Continued Improvements in Risk Management (GAO-13-303, March 28, 2013).
www.gao.gov/assets/660/653373.pdf

GAO reported that, from FY 2008 to FY 2012, Ex-Im Bank's outstanding financial commitments (exposure) grew from about \$59 billion to about \$107 billion, largely in long-term loans and guarantees. Ex-Im Bank's processes for determining credit subsidy costs, loss reserves and allowances, and fees account for multiple risks. Also, consistent with industry practices, Ex-Im Bank added factors to its loss model in 2012. However, GAO found that opportunities exist to further improve the model. For example, Ex-Im Bank uses a one-year forecast of certain bond defaults to predict possible changes in loss estimates from changed economic conditions, but GAO reported that a short-term forecast may not be appropriate for adjusting estimated defaults for longer term products. Additionally, GAO reported that Ex-Im Bank has not maintained data needed to compare the performance of newer books of business with more seasoned books at comparable points in time, a type of analysis recommended by federal banking regulators. Without point-in-time data showing when defaults occur, GAO concluded that the precision of Ex-Im Bank's loss model may be limited.

GAO also noted that Ex-Im Bank has started addressing recommendations by the OIG regarding portfolio stress testing, thresholds for managing portfolio concentrations, and risk governance. GAO reported that their review of internal control standards and industry practices indicates that the OIG's recommendations represent promising techniques that merit continued attention. The related OIG inspection report (Report on Portfolio Risk and Loss Reserve Allocation Policies, OIG-INS-12-02, September 28, 2012) can be accessed at www.exim.gov/oig/upload/Final-20Report-20Complete-20Portfolio-20Risk-20120928-1.pdf.

GAO recommended that Ex-Im Bank should (1) assess whether it is using the best available data for adjusting the loss estimates for longer-term transactions to account for global economic risk, (2) retain point-in-time performance data to compare the performance of newer and older business and to enhance loss modeling, (3) report stress testing scenarios and results to Congress, and (4) develop benchmarks to monitor and manage workload levels. Management concurred with GAO's recommendations.



Office of Inspections and Evaluations

Summary

The Office of Inspections and Evaluations (OIE) conducts independent inspections and policy evaluations to assess the efficiency and effectiveness of Ex-Im Bank's programs, operations, and transactions. All OIE assignments are performed in accordance with CIGIE guidelines and standards including the 2010 "Quality Standards for Inspections and Evaluations". OIE works in tandem with the Office of Audit and the Office of Investigations whenever appropriate. Moreover, OIE refers irregularities and other suspicious conduct detected during its reviews to the Office of Investigations for investigative consideration.

During the first half of FY 2013, OIE worked with Ex-Im Bank management to address the recommendations issued in our Portfolio Risk and Loss Reserve Allocation Policies Report dated September 28, 2012 (www.exim.gov/oig/upload/Final-20Report-20Complete-20Portfolio-20Risk-20120928-1.pdf) and commenced two new initiatives:

1 Follow-up evaluation of Ex-Im Bank economic impact procedures

Ex-Im Bank's economic impact procedures are intended to provide a methodological framework to assure that Ex-Im Bank's projects do not have an adverse impact on U.S. industry. First introduced to Ex-Im Bank's Charter in 1968, the procedures have been the subject of Congressional scrutiny and public interest. In prior years, both the OIG and GAO have identified opportunities for improvement.⁴ The most recent version of the procedures was approved by Ex-Im Bank's Board of Directors on November 19, 2012 and will take effect April 1, 2013.

This follow-up evaluation complements OIG's prior report by analyzing the new procedures in the context of OIG's prior findings and recommendations. OIE expects to publish the results of its evaluation during the next fiscal period.

2 Transaction Inspections

Transaction inspections are key to good financial governance and help Ex-Im Bank achieve several core objectives:

- Validate delivery of goods and services financed.
- Establish areas of noncompliance with policies and procedures.
- Determine factors that may lead or have led to project impairment.
- Identify areas of vulnerability and possible corporate malfeasance or fraud.
- Provide "lessons learned" and recommendations for corrective action to mitigate the risk of loss.

⁴ OIG's 2010 report entitled, Evaluation Report Relating to Economic Impact Procedures can be found at www.exim.gov/oig/loader.cfm?csModule=security/getfile&pageid=13549.



OIE conducts two types of inspections:

- Validation inspections to confirm delivery of goods/services and ensure transaction specifications are met.
- Directed inquiries which provide a comprehensive assessment of all aspects of the transaction involving substantial resource allocation and are subject to predefined selection criteria including the risk of material loss, allegations of fraud, Congressional request, etc.

OIE identified several potential inspections for FY 2013 and is currently reviewing two Ex-Im Bank structured financings. A brief description of one of the financings appears below. OIE expects to release the results of its inspections in the following fiscal period.

Minera y Metalurica Del Boleo S.A. (Boleo)

The Boleo project involves the development of an underground copper-cobalt-zinc mine located near the town of Santa Rosalia in Baja California Sur, Mexico. The mine is owned and operated by a consortium of Korean companies and the Baja Mining Corporation, a listed Canadian company. The total project cost for developing the mine was initially estimated at \$1.199 billion, financed by sponsor equity of \$490 million and debt financing of approximately \$710 million. Ex-Im Bank joined an existing syndicate of lenders, providing \$419.9 million in financing. Other export credit agencies, as well as commercial lenders, provided the balance of the financing. OIE's inspection seeks to develop a coherent explanation of events and causal factors that led to a significant cost overrun of the project and, with the benefit of hindsight, to identify lessons learned on Ex-Im Bank's underwriting and monitoring of the transaction. Specifically, what could Ex-Im Bank have done differently from a credit approval and monitoring perspective?

New initiatives

- Follow-up evaluation of economic impact procedures that provide a framework to assure that projects do not have an adverse impact on industry.
- Transaction inspections that are a key to good financial governance and help Ex-Im Bank achieve several core objectives

Interagency cooperation and interaction

OIE organized and moderated a discussion roundtable on credit portfolio management best practices in October, 2012. The roundtable was attended by a broad group of U.S. federal agencies and multilateral financial institutions. Moreover, the OIE participates in a cross-agency dialogue to promote credit portfolio management best practices across U.S. federal agencies.

In addition, the OIE 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.

During this period, OIE participated in several conversations with representatives from GAO to discuss Ex-Im Bank's loss reserve and risk management practices, business strategy, and due diligence procedures.



Office of Investigations

Summary

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. Special Agents in OI 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 reporting period, OI continued its mission objectives of investigating and preventing trade finance and export credit insurance fraud impacting Ex-Im Bank. Some of the actions recorded during the period include:

- Obtained five criminal judgments resulting in 80 months imprisonment, 180 months' probation, and \$2,379,577 in criminal restitution, forfeiture, and special assessments.
- Obtained four administrative actions⁵ including \$1,100,000 in payments to Ex-Im Bank and one voluntary exclusion with 120 months of debarment as a result of referrals of active investigative information to Ex-Im Bank.
- Obtained three plea agreements entered in court by subjects pursuant to ongoing investigative matters.
- Provided 45 reports of investigative information to the 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.
- Referred five investigative matters to the Department of Justice for prosecutive decision.
- Successfully closed 12 investigations after concluding all remaining actions and prosecutive results in those cases and closed further investigative review of over \$91 million in suspected claims which had been under investigation.
- Entered into a Memorandum of Understanding with INTERPOL to help facilitate the collection and use of international criminal intelligence.

⁵ Administrative actions are Ex-Im Bank responses to stop transactions, cancel policies, or protect funds at risk based upon investigative findings.



Summary of investigations

OI evaluates all reports of possible fraud or illegality affecting Ex-Im Bank programs and activities. Such reports are received from a variety of sources including Ex-Im Bank employees, Ex-Im Bank Office of General Counsel, participants in Ex-Im Bank transactions, other government agencies, and the Ex-Im Bank OIG Hotline. Evaluations that identify reasonable indications of possible fraud or illegality result in an investigation. These investigations are summarized in the table below.

Activity	Investigations	Claims*	Claim amounts
Open as of October 1, 2012	39	502	\$339,512,631
Opened during period	4	14	\$2,379,800
Closed during period	(12)	(142)	(\$91,343,067)
Open as of March 31, 2013	31	374	\$250,549,264

** 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. The referral of a claim to the OIG for investigation does not establish the existence of fraud and not all claims included in a case under investigation are necessarily fraudulent until proven so by evidence developed in the investigation. The number of claims may vary during the course of an investigation as facts and findings develop.*

Summary of investigative results

The Office of Investigations obtained the following actions during this reporting period.

Description	OIG	Joint activities*	Total
Matters Referred to the Department of Justice	3	2	5
Pleas Entered	2	1	3
Criminal Judgments	2	3	5
Prison Time (months)	26	54	80
Probation (months)	72	108	180
Court Ordered Fines, Restitution, and Forfeiture	\$1,375,374	\$1,004,203	\$2,379,577
Administrative Actions**	0	4	4
Administrative Cost Savings and Repayments	\$0	\$1,100,000	\$1,100,000

** Joint investigations with other law enforcement agencies.*

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

Investigations

Export Credit Insurance & Loan Guarantee 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. based exporters, and other transaction participants. This program accounts for several investigations currently underway. While there are several different programs in Ex-Im Bank, criminal activity exploits certain processes within the programs in order to induce Ex-Im Bank to approve insurance or guaranteed coverage.

Export Credit Insurance Program

This 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 access working capital funds. One fraudulent scheme to exploit this program involves the falsification of shipping records to convince Ex-Im Bank that the described goods have been shipped when in fact they have not.

Successful investigative efforts within the export credit insurance program during the reporting period include the reports noted below.

Mexican Businessman Sentenced for Scheme to Defraud Export-Import Bank

On October 31, 2012, Judge Kathleen Cardone in the U.S. District Court in El Paso, Texas sentenced Eduardo Rodriguez-Davalos to serve six months home confinement for his role in a scheme to defraud the Ex-Im Bank. Rodriguez pleaded guilty on May 15, 2012, to one count of making a false statement in connection with a scheme to defraud Ex-Im Bank of approximately \$975,025. In addition to his prison term, Rodriguez was sentenced to serve five years of supervised release and was ordered to pay a \$25,000 fine. Rodriguez's sentencing is part of an ongoing federal investigation involving multiple subjects engaged in fraudulent loan applications and exports into Mexico.

According to court documents, Rodriguez, a Mexican citizen, was the owner of a pecan brokerage company in Ciudad Juarez known as Procesadora La Nogalera S.A. de C.V. and resided both in Ciudad Juarez, Mexico and in El Paso, Texas. Rodriguez admitted that, in 2005, he applied for an Ex-Im Bank insured loan for approximately \$975,025 through a private finance company in Maryland. As part of his fraudulent loan application, Rodriguez and others submitted a fraudulent loan application, invoices, letters, and bills of lading to falsely represent to the Maryland finance company and Ex-Im Bank for the purchase and



export of U.S. goods to Rodriguez in Mexico. Rodriguez also admitted to assisting a co-conspirator transfer \$351,000 in Ex-Im Bank insured loan proceeds.

The case was prosecuted by the Department of Justice Criminal Division Fraud Section and U.S. Attorney's Office for the Western District of Texas, El Paso Division. The Ex-Im Bank OIG, Homeland Security Investigations in El Paso, the Internal Revenue Service-Criminal Investigation and U.S. Postal Inspection Service, Washington, DC investigated the case.

Mexican Pecan Company Owner Sentenced to 48 Months in Prison for Scheme to Defraud Export-Import Bank

On November 7, 2012, Judge Kathleen Cardone in the U.S. District Court in El Paso, Texas sentenced Leopoldo Valencia-Urrea, the owner of a pecan brokerage company in Ciudad Juarez, Chihuahua, Mexico, to serve 48 months in prison for his role in a scheme to defraud Ex-Im Bank of approximately \$400,000. Valencia pleaded guilty on Oct. 13, 2011, to one count of conspiracy to commit wire fraud, one count of wire fraud, and one count of money laundering conspiracy. In addition to his prison term, Valencia was sentenced to serve three years of supervised release and was ordered to pay \$58,000 in restitution and \$399,075 in forfeiture.

According to court documents, Valencia, a United States citizen, was the owner of a pecan brokerage company in Ciudad Juarez and resided in El Paso. Valencia admitted that in 2006, he applied for an Ex-Im Bank insured loan for \$406,258 through a bank in Miami. As part of his fraudulent loan application, Valencia, and others, submitted a fraudulent loan application, financial statements, invoices, letters, and bills of lading to falsely represent to the Miami bank and Ex-Im Bank for the purchase and export of U.S. goods to Valencia in Mexico. After the exporter who conspired with Valencia received \$399,075 from the Miami bank, Valencia and others diverted the loan proceeds directly to Valencia and others in Mexico. Because of the fraud, Valencia's loan defaulted, causing Ex-Im Bank to pay a claim to the lending bank on a \$371,962 loss.

The Department of Justice Criminal Division Fraud Section and the U.S. Attorney's Office of the Western District of Texas are prosecuting the case. Ex-Im Bank OIG, Homeland Security Investigations in El Paso, Internal Revenue Service-Criminal Investigation in Washington, DC, and the U.S. Postal Inspection Service in Washington, DC investigated the case. The Financial Crimes Enforcement Network provided significant financial analysis and strategic assistance during the course of this investigation.

South Florida Business Owner Sentenced for Scheme to Defraud Export-Import Bank
Hector R. Mestrl, a Miami armored glass supplier, was sentenced on March 13, 2013,

The headlines

- Mexican Businessman Sentenced for Scheme to Defraud Bank
- Mexican Pecan Company Owner Sentenced to Prison for Scheme to Defraud Ex-Im Bank
- South Florida Business Owner Sentenced for Scheme to Defraud Bank
- Miami Businessman Sentenced in Scheme to Defraud Bank
- Mexican Produce Company Owner Sentenced for Making False Statement
- Mexican Farmer Pleads Guilty to Defrauding Ex-Im Bank
- Financial Consultant Extradited for Alleged Scheme to Defraud Bank
- OIG Announces Capture and Seeks Information on Fugitives

by Judge Jose E. Martinez in U.S. District Court in Miami, Florida to serve 14 months in prison for his role in a scheme to defraud Ex-Im Bank of approximately \$888,400. Mestril, a naturalized U.S. citizen from Cuba, pleaded guilty on January 3, 2013, to one count of conspiracy to commit wire fraud and one count of wire fraud. In addition to the prison term, Mestril was sentenced to 36 months of supervised release, was ordered to pay \$345,727.64 in restitution (jointly with a co-defendant), forfeit \$888,393.26, and pay \$200 in special assessments.

According to court documents, Mestril was the owner of Interglass & Armoring Corporation, an exporter located in Miami that purported to be in the business of exporting armored glass products to buyers in foreign countries. Mestril admitted that he and co-conspirators created false invoices, shipping documents, financial statements, and other documents that were submitted to a Miami finance company. The false documents were ultimately submitted to Ex-Im Bank to insure the financial transaction. Mestril admitted that none of the buyers existed and none of the equipment was exported. Mestril received a total of \$888,393.26 in insured loan proceeds and ultimately defaulted on his loan, causing a loss to Ex-Im Bank and the U.S. government of \$575,380.53.

Mestril's sentencing is part of an ongoing OIG investigation into a network of export credit insurance fraud schemes involving exports into South America which, to date, has resulted in criminal charges against six defendants, four convictions, and more than \$13.5 million in court ordered criminal fines and restitution. One fugitive fled to Argentina; he was captured in December 2011 and is awaiting extradition back into the United States.

The Department of Justice Criminal Division Fraud Section is prosecuting the case. Special agents with Ex-Im Bank OIG investigated the case.

Miami Businessman Sentenced in Scheme to Defraud Export-Import Bank

On February 13, 2013, Diego Pinzon-Villamil was sentenced by Judge Marcia G. Cooke in U.S. District Court in Miami, Florida to serve 12 months in home confinement for his role in a scheme to defraud Ex-Im Bank of nearly \$141,000.

In addition to home confinement, Pinzon was sentenced to 36 months of supervised release and was ordered to pay \$141,053 in restitution. Pinzon pleaded guilty on November 28, 2012, to one count of conspiracy to commit wire fraud and one count of wire fraud in connection with a scheme to defraud Ex-Im Bank of approximately \$141,000. Pinzon was born in Colombia and is a lawful permanent resident of the United States.



According to court documents, Pinzon was the owner of Ceramic Tile USA, a ceramic tile and equipment exporter located in Miami that purported to be in the business of exporting tile and tile cutting equipment to buyers in South America. According to court records, Pinzon admitted that he and co-conspirators created false invoices, shipping documents, financial statements, and other documents that were submitted to a Miami finance company. The false documents were ultimately submitted to Ex-Im Bank to insure the financial transaction. Pinzon admitted that, in fact, none of the buyers existed and none of the equipment was exported. Pinzon received a total of \$656,117.96 in insured loan proceeds and ultimately defaulted on his loan, causing a loss to Ex-Im Bank and the U.S. government of \$141,053.

Pinzon's sentencing is part of an ongoing OIG investigation into a network of export credit insurance fraud schemes involving exports into South America which, to date, has resulted in criminal charges against six defendants, four convictions, and more than \$13.5 million in court ordered criminal fines and restitution. One fugitive had fled to Argentina, where he was captured in December 2011 and is awaiting extradition back into the United States.

The case was prosecuted by the Fraud Section of the U.S. Department of Justice Criminal Division and investigated by the Ex-Im Bank OIG.

Mexican Produce Company Owner Sentenced for Making a False Statement to Institution Insured By Export-Import Bank

On March 15, 2013, Chief Judge Fred Biery in U.S. District Court in San Antonio, Texas, sentenced Gilberto Salazar-Escoboza, to \$500,000.00 in fines and twelve months of supervised release. Salazar was the owner of a produce company in Hermosillo, Sonora, Mexico.

Salazar pleaded guilty on August 13, 2012, to one count of making a false statement to Frost National Bank, concerning loans insured by Ex-Im Bank. Salazar was arrested on July 14, 2012, in California as he entered the United States from Mexico. According to an indictment filed on June 20, 2012, in the Western District of Texas, San Antonio, Texas, Salazar was originally charged with three counts of bank fraud in connection with Ex-Im Bank insured loans. Since his plea in August 2012, Salazar has paid back approximately \$2.64 million in restitution to Ex-Im Bank, Frost National Bank, and a private insurance agency.

According to court documents, Salazar, a Mexican citizen, was the owner of three businesses identified as Empacadora Fruitcola Santa Ines, S.A. de C.V., La Costa Distribuciones Comerciales S.A. de C.V., and Videxport S.A. de C.V. located in Hermosillo, Sonora, Mexico. All of these businesses are large produce and fruit companies which obtained loans from Frost National Bank for purchasing U.S. manufactured equipment from U.S. suppliers.

\$13.5 million in fines

The sentencing is part of an the OIG investigation into a network of export credit insurance fraud schemes that has resulted in charges against six defendants, four convictions, and \$13.5 million in fines and restitution

Frost Bank insured some of those loans with Ex-Im Bank. Salazar admitted that in February 2009, he knowingly made a false statement and report to a financial institution, when he submitted five checks to Frost National Bank purporting to show the payment of invoices to a supplier of goods, when such checks were never delivered to the supplier.

The case was prosecuted by the U.S. Attorney's Office for the Western District of Texas, San Antonio Division. The case was investigated by the Ex-Im Bank Office of Inspector General and Homeland Security Investigations in El Paso.

Mexican Farmer Pleads Guilty to Defrauding Ex-Im Bank

A Mexican farmer, subject of an ongoing investigation in Texas, is facing judicial action for his role in a scheme to defraud the Ex-Im Bank. On September 5, 2012, the individual surrendered at the U.S. port of entry in El Paso, Texas pursuant to an indictment and warrant sought by Ex-Im Bank OIG agents for his arrest in 2010. He was arrested at the border and processed by Ex-Im Bank OIG agents with the U.S. Marshals Service in El Paso. On January 8, 2013, he pleaded guilty and is currently awaiting sentencing as part of this ongoing investigation into \$2.8 million in fraudulent claims against Ex-Im Bank.

Loan Guarantee Program

Ex-Im Bank assists exporters by guaranteeing term financing from a commercial lender to creditworthy international buyers, both private and public sector, for purchases of U.S. goods and services. Ex-Im Bank's guarantee of a lender's loan to an international buyer is used to finance purchases of U.S. goods and services. Criminals have exploited this program by submitting false financial statements of foreign borrowers in order to induce Ex-Im Bank to provide its guarantee coverage for a loan for which they might otherwise be ineligible, and by submitting false documentation to the guaranteed lender and Ex-Im Bank regarding the shipment, nature, or quantity of the U.S. goods allegedly being exported.

Successful investigative efforts within the loan guarantee program during the reporting period include the following:

Financial Consultant Extradited to the United States for Alleged Scheme to Defraud the U.S. Export-Import Bank

On January 25, 2013, Manuel Ernesto Ortiz-Barraza, an independent financial consultant, was extradited to the United States for his alleged role in a scheme to defraud Ex-Im Bank of over \$2.5 million. Ortiz-Barraza was charged, in an indictment unsealed on Oct. 19, 2011 in the Western District of Texas, with one count of conspiracy to commit wire and bank fraud, three counts of wire fraud and one count of bank fraud for his alleged role in a



scheme with several others. Based on a provisional arrest warrant, Mexican authorities arrested Ortiz-Barraza in Mexico on Feb. 13, 2012 and he has been awaiting extradition to the United States, a process which was recently finalized by the Mexican courts.

According to the U.S. indictment and court documents, Ortiz-Barraza and his coconspirators allegedly conspired to obtain Ex-Im Bank guaranteed loans through banks by creating false loan applications, false financial statements, and other documents purportedly for the purchase and export of U.S. goods into Mexico. Ortiz-Barraza and his co-conspirators allegedly falsified shipping records to support their claims of doing legitimate business and did not ship the goods that were guaranteed by Ex-Im Bank. After the loan proceeds were received, Ortiz-Barraza and his co-conspirators allegedly split the loan proceeds among themselves. Because of the alleged fraud, the conspirators' loans defaulted, causing Ex-Im Bank to pay claims to lending banks on a loss of over \$2.5 million.

The charges and allegations contained in the indictment are merely accusations and the defendants are presumed innocent unless and until proven guilty.

The case is being prosecuted by the Department of Justice Criminal Division Fraud Section and the U.S. Attorney's Office of the Western District of Texas. Ex-Im Bank OIG, Homeland Security Investigations in El Paso, Internal Revenue Service-Criminal Investigation in Washington, DC; and the U.S. Postal Inspection Service in Washington, DC investigated the case. The U.S. Marshals Service and the Department of Justice Criminal Division Office of International Affairs in Washington, D.C. provided substantial assistance. The Department of Justice is particularly grateful to the government of Mexico for their assistance in this matter.

OIG Export-Import Bank Announces Capture and Seeks Information on Fugitives

On February 1, 2013, the OIG announced that, pursuant to an ongoing joint investigation, one fugitive has been captured and extradited to the United States and several federal fugitives continue to be sought in connection to a multi-million dollar export fraud scheme.

Federal agents are currently seeking the location and arrest of eight fugitives charged in unsealed federal indictments and believed to be residing in or near Ciudad Juarez, Chihuahua, Mexico. These fugitives are:

- Sergio Acosta-Camacho, a Mexican citizen and former owner of AML Construction;
- Pedro Ruvalcaba-Placencia, a Mexican citizen and owner of a business, Delicas Nuez, in Ciudad Juarez;
- Jorge Martinez-Joo, a Mexican citizen and former owner of El Paso-based exporter, El Paso Valcomar Inc.;

Seeking fugitives

Federal agents are seeking eight fugitives charged in unsealed federal indictments and believed to be residing in or near Ciudad Juarez, Chihuahua, Mexico.

- Adrian Rascon-Chavez and his wife Genoveva Fontes de Rascon, both United States citizens and former owners of Juarez-based clinic Centro Oncologico de Norte SA;
- Maria de Jesus Ortiz-Saldivar, a Mexican citizen and the former accountant of Genoveva Fontes de Rascon;
- Jorge Valdez-Cota and his wife, Veronica Iglesias-Lucero, both Mexican citizens and owners of a metal fabrication shop in Ciudad Juarez; and
- Gilberto Ruiz-Gonzalez, a Mexican citizen, resident of Ciudad Juarez, and owner of Passage Supply.

OIG investigations have found that the fugitives and several other defendants conspired to defraud Ex-Im Bank of millions of dollars through various loan schemes resulting in over \$22 million in claims paid Ex-Im Bank. These fugitives have been charged with a variety of federal criminal violations to include conspiracy, wire fraud, and money laundering.

On January 25, 2013, fugitive Manuel Ernesto Ortiz-Barraza (Ortiz) was extradited to the United States from Mexico as part of this ongoing investigation (www.exim.gov/oig/upload/Ortiz-Barraza-Extradition.pdf). Because of the successful capture and extradition of Ortiz, investigators are currently attempting to locate and arrest eight additional fugitives and co-conspirators of Ortiz charged as a result of the joint investigation related to trade financing fraud.

Ex-Im Bank OIG, Immigration Customs Enforcement-Homeland Security Investigations, the U.S. Postal Inspection Service, and Internal Revenue Service-Criminal Investigations in Washington, DC are conducting this joint investigation. Homeland Security Investigations' Special Agents in El Paso and Mexico are assisting Ex-Im Bank OIG agents to locate the fugitives through liaison efforts with Mexican law enforcement authorities.

Other Investigative Results

Special agents work collaboratively with Ex-Im Bank to help protect funds at risk

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 Ex-Im Bank transactions and to protect funds at risk.

During this reporting period, OI communications with Ex-Im Bank management enhanced the monitoring of several existing transactions and due diligence reviews of proposed transactions based on developed investigative leads.



- OI coordination with Department of Justice and Ex-Im Bank helped to facilitate four administrative actions resulting in the direct repayment and collection of outstanding debt by responsible parties in amounts totaling \$1,100,000. In one of these administrative actions, the defendant agreed to make repayments to Ex-Im Bank. During this period, the defendant made two separate payments totaling \$700,000 in order to pay down his debt.
- Investigative intelligence was shared with the Office of General Counsel regarding a subject engaged in ongoing criminal activity being investigated by both the OIG and other law enforcement agencies. The investigation found the subject had obtained an Ex-Im Bank Short-Term insurance policy the previous year and was in the process of renewing the policy for a credit limit of \$400,000. As a result of shared intelligence, the subject's policy was amended to remove any approved buyers and then was subsequently canceled by Ex-Im Bank to protect funds at risk.
- Information of criminal activity was provided to the Office of General Counsel resulting in the proposed debarment of the subject. As a result, the subject signed a Voluntary Exclusion Agreement on behalf of himself and his company, effectively excluding himself from participation in all covered transactions with the U.S. government for a period of 10 years.

Additionally, during this reporting period, OI made 45 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 expeditiously protect funds at risk concurrent in monitoring, oversight, and collection efforts involving transactions in which fraud is uncovered.

Investigative capabilities are strengthened by Memorandums of Understanding & other law enforcement partnerships

During this reporting period, the OI further strengthened its investigative capabilities and investigative support by entering into a Memorandum of Understanding (MOU) with the International Criminal Police Organization (INTERPOL), an intergovernmental organization, facilitating international police cooperation. INTERPOL Washington is a component of the U.S. Department of Justice and serves as the United States' representative to INTERPOL. The MOU allows the OI Investigative Analyst to serve on temporary detail to INTERPOL Washington on behalf of the OIG in order to coordinate international law enforcement matters and provide logistical and analytical support to these types of Ex-Im Bank international trade finance fraud investigations. The MOU allows for operational and field support during investigations worldwide through access to international criminal intelligence. This MOU will help OI effectively utilize available information and evidence to produce investigative results.

45 fraud, risk referrals

OI made 45 referrals of investigative information concerning potential fraud and funds at risk for enhanced due diligence by Ex-Im Bank.

Outreach—OIG continues efforts to educate the export community on identifying & reporting fraud, waste, & 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 various risks and fraud scenarios most commonly seen in trade finance and export credit fraud cases.

On January 15, and again on March 28, 2013, OI representatives met with several senior vice presidents, senior staff, and analysts from the Financial Intelligence Unit and Anti-Money Laundering Monitoring team of HSBC North America Holdings Inc., New York. OI discussed common fraud scenarios and money laundering patterns often seen in trade finance fraud investigations and provided information regarding the role and responsibility of the OIG in combatting fraud, waste, and abuse. The presentation was well received and arrangements were made to prepare and present a similar presentation during the next quarter for other HSBC staff involved in financial intelligence.

On February 7, 2013, an OI representative worked with officials from the International Factoring Association (IFA) to plan and prepare for an upcoming training seminar on trade finance fraud schemes in factoring transactions. Factoring is a means of business financing to secure working capital using a business' accounts receivable as collateral. IFA's goal is to assist the factoring community by providing information, training, and purchasing power and to serve as a resource for the factoring community. OI investigations often find evidence of ongoing factoring fraud committed by subjects who are concurrently defrauding Ex-Im Bank.

Additionally, during this period, OI met with several representatives from the GAO in order to discuss fraud risks and various fraud scenarios often seen and investigated by the OIG. The purpose of the meeting was to discuss the structure, organization, and authority of the OI investigative team and to outline some of the various fraud risks associated with Ex-Im Bank programs.



Hotline activity

The 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, based on the available evidence, may result in the initiation of an investigation, audit, referral to other law enforcement authorities having jurisdiction, or referral to management for administrative action.

The OIG received five hotline reports during the reporting period. Three were referred for investigation, one was referred to an office outside the OIG for resolution, and one was resolved and closed by the hotline.

Hotline reports can be made by any of the following methods:

- phone at 1-888-OIG-EXIM (1-888-644-3946)
- email to IGHotline@exim.gov
- mail or delivery service to

Ex-Im Bank OIG Hotline
Office of Inspector General
811 Vermont Ave. NW
Washington, DC 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 45 of 58 recommendations from six audit, inspection, and evaluation reports remain open at the end of the reporting period. Fourteen are from three reports issued during the last period. The oldest is from FY 2010.

		Recommendations				Latest target
Report Date	Report Title	Total	Open	Closed	Unresolved	closure date
Last Period						
Audits						
OIG-AR-12-05	Audit of Export-Import Bank's Short-Term Insurance Program	10	2	4	4	1/31/13
OIG-AR-12-06	Audit of Export-Import Bank's Purchase Card Program	6	1	5	0	2/28/13
Inspections and Evaluations						
OIG-INS-12/02	Report on Portfolio Risk and Loss Reserve Allocation Policies	7	4	0	3	9/30/13
Prior Periods						
Audits						
OIG-AR-12-04	Audit of Information Technology Support for Export-Import Bank's Mission	11	7	4	0	1/31/13
Inspections and Evaluations						
OIG-INS-12-01	Report on Performance Metrics for Operational Efficiency and Customer Service, Phase 1	8	8	0	0	9/30/13
OIG-EV-10-03	Evaluation Reporting Relating to Economic Impact Procedures	16	16	0	0	None provided
Totals		58	38	13	7	



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 2014.



Appendix C

Abbreviations and acronyms

Acronym	Definition
APP	Annual Performance Plan
CIGIE	Council of Inspectors General on Integrity and Efficiency
ECA	Export Credit Agency
EX-IM BANK	Export-Import Bank of the United States
FISMA	Federal Information Security Management Act of 2002
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
IFA	International Factoring Association
IG	Inspector General
INTERPOL	International Criminal Police Organization
IPA	Independent Public Accountant
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payment Information Act of 2002
IT	Information Technology
LGD	Loss Given Default
MOU	Memorandum of Understanding
OA	Office of Audits, Office of Inspector General, Export-Import Bank
OCFO	Office of the Chief Financial Officer, 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
OMB	Office of Management and Budget, The White House
PD	Probability of Default
WPEA	Whistleblower Protection Act of 2012



Appendix D

Inspector General Act reporting requirements

Inspector General	Requirement definition	Page
Section 4(a)(2)	Review of Legislation and Regulations	9
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	13–17
Section 5(a)(2)	Recommendations for Corrective Actions	20–26
Section 5(a)(3)	Prior Significant Audit Recommendations Yet to Be Implemented	55
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	43
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	20–26
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	35
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	57



Appendix E

Florida business paper notes impact of Ex-Im Bank OIG



LAW | REAL ESTATE | FINANCE

D
An **ALM** Publication

MARCH 13, 2013

DAILY BUSINESS REVIEW

CAPITAL SOURCES

Export-Import Bank risk-protection access harder for small firms

by Mike Seemuth

Export-Import Bank, a U.S. government agency that insures against export risks, has trimmed its exposure to companies in South Florida and their foreign customers despite overall growth in the area's international trade.

Possible reasons for the pullback include tougher qualifications for Export-Import Bank protection as well as intensified prosecution of people who defraud the federal agency and increased competition from foreign insurers of export financing.

"Florida is a very interesting area because of the growth potential you see there, but we also see Florida as a place where we need to be careful," said **Richard Ariens**, president of the U.S. operations of **Atradius**, a private Dutch insurer that competes with the Export-Import Bank.

Atradius, which plans to open a Florida office later

this year in either Miami or Orlando, takes extra precautions in dealing with South Florida companies, said Ariens, who is based in Baltimore.

"If I have a South Florida application, I do a few more checks than for an application out of New England, for example," he said. "In South Florida, you can see in the statistics there is a higher propensity for fraud than other places."

Export-Import Bank insured \$417 million of loans to support export sales by companies in South Florida in the year ended Sept. 30, down 18 percent from \$493 million the year before. Since Oct. 1, the federal agency has insured \$63 million of loans to support export sales from South Florida.

The federal agency known as Ex-Im Bank, for short, is a valuable financial ally of companies that export U.S.-made products to unfamiliar customers in foreign markets. One beneficiary is Tire Group



J. ALBERT DIAZ

Antonio Gonzalez of Tire Group International in Miami says Ex-Im Bank protection has allowed him to do business in 45 countries.

International in Miami, a wholesale distributor of tires to buyers in more than 45 countries — including a few buyers the company would have avoided without Export-Import Bank protection.

Export-Import Bank coverage cuts default risk on bank loans that foreign customers use to finance purchases from the 21-year-old Tire Group, which has annual revenue in excess of \$130 million. The company arranges customer financing through Columbus, Ohio-

based **Huntington National Bank**, **BAC Florida Bank** in Miami and **Mercantil Commercebank** in Coral Gables.

UNDER SCRUTINY

"In places where you're not familiar with the clientele and you're wetting your feet, it's great," Antonio Gonzalez, the tire company's co-founder, chairman and chief executive officer, said of Export-Import Bank protection. "In every country, there's an account

or two we otherwise wouldn't take the risk on, we wouldn't finance at all. This has allowed us to take that risk."

Agribusiness distributors Bunge and Cargill are among the largest companies exporting from South Florida with backing from Export-Import Bank. Other types of companies that commonly benefit from bank protection include exporters of plastics, paper and recycled metal, said **William Schenck**, Miami-based regional vice president, global banking, at **Wells Fargo**. For loans with Export-Import Bank



Schenck

coverage, Schenck said, "Most of the companies we work with are \$20 million in [annual] revenue or larger."

Smaller operators may find Export-Import Bank access more difficult to obtain than in recent years. **Richard H. Lopez**, managing principal of **Drake Finance Group**, a trade finance firm in Miami, said Export-Import Bank not only screens foreign buyers of exports

to ensure they can repay their loans but also started looking more carefully at the financial capacity of the exporters themselves.

Lopez said Export-Import Bank sometimes will issue an "enhanced endorsement" along with a commitment to insure loans to foreign customers, and the endorsement often induces a bank to provide export financing. But for big-ticket exporters of equipment and agricultural products, "procuring that endorsement has become more difficult now," he said. "They want to make sure that the exporter has some resources in case Ex-Im has recourse to you and needs to come after you."

FOUR CONVICTIONS

Export-Import Bank has been going after abusers of its programs more intensively since the 2007 startup of its Office of Inspector General. The office's website is flush with announcements of prison sentences for South Floridians caught defrauding the bank.

Last month, for example, U.S. District Judge **Marcia G. Cooke** sentenced Miami tile company owner Diego Pinzon-Villamil to a year of house arrest plus \$141,000 restitution for his role in a scheme to defraud Export-Import Bank. A statement from the inspector general's office said he admitted faking export sales to obtain receivables financing

from a lender before his company defaulted on the loan, forcing Export-Import Bank to pay a lender's claim.

"Pinzon's sentencing is part of an ongoing OIG investigation into a network of export credit insurance fraud schemes involving exports into South America," the office said in the Feb. 14 statement. The investigation so far has led to "criminal charges against six defendants, four convictions and more than \$13.5 million of court-ordered criminal fines and restitution."

Luis E. Prieto, a director of **Export Import Credit Corp.**, a trade finance consulting firm in Miami, said criminals have made life harder for legitimate users of Export-Import Bank programs.

"There has been a lot of fraud with exporters in South Florida, and so the due diligence required to work with a Florida-

based exporter is really overwhelming," he said. "Everybody pays for some bad apples."

Export-Import Bank pre-screening efforts are "not just focusing on the buyers anymore," Prieto said. "The due diligence falls equally on the exporter and overseas buyer." In particular, Export-Import Bank has tightened its review of U.S. equipment exporters "and more so with used equipment," he said. "If I come across an exporter in Florida that is exporting used equipment, I just walk away because I know that deal is going to be almost impossible to get through."

Loans with Export-Import Bank protection to finance exports by Florida companies

Fiscal year	Florida	South Florida
2012	\$583	\$417
2011	\$645	\$493
2010	\$500	\$367
Dollars in millions		

Source: U.S. Export-Import Bank

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
Washington, D.C. 20571

Telephone 202.565.3908
Facsimile 202.565.3988

www.exim.gov/oig

Ex-Im Bank Management Response

Thank you for providing the Export-Import Bank of the United States ("Ex-Im Bank") Management with the Office of the Inspector General's (OIG) Semi-Annual Report to Congress covering the period from October 1, 2012 to March 31, 2013. This letter constitutes Management's response to the Report. Management continues to support the OIG's work, particularly in prosecuting and preventing fraud against Ex-Im Bank, as well as a number of OIG audits that are helpful to the Bank's efforts to continually improve its processes. Ex-Im Bank is proud of the strong partnership maintained with the OIG and appreciates the OIG's cooperative relationship.

While we appreciate and concur with much of the OIG's observations, we disagree with several of the Report's characterizations particularly related to 1) a non-cash accrual issue identified by Ex-Im Bank's management last year and shared with auditors and 2) several issues that are in the section of your report entitled "Management Challenges." Below we have set forth these clarifications to the OIG Report, and provided additional information.

1. Non-cash accrual issue

Page 3 of the OIG Report discusses a non-cash accrual issue, that is better clarified later in the OIG's Report on page 14. The description of the issue on page 3 of the OIG's Report does not mention that the non-accrual issue was first identified and resolved internally by Ex-Im Bank's Management, and then brought to the attention of an independent public accountant (IPA), which conducted an audit of Ex-Im Bank's financial statements for FY 12. The IPA's audit report also makes this clear, stating:

"Management identified an instance where a rescheduled loan, though written off in 2005, was accruing interest income. Management extended its review and performed a detailed analysis to check if there were other similar instances where interest income was accruing on written-off loans. There was no other instance noted by management. 'Accrual' status and the interest income for the above identified loan were corrected by management in the current year."

We note and appreciate that the OIG Report later (on page 14) states that this issue was identified by Ex-Im Bank management, that the accrual status of the loan occurred during a

system migration in a previous year, that no other instances were found, and that management corrected the accrual status and interest income for that loan.

The new financial system Ex-Im Bank is putting in place will also prevent this issue from occurring in the future.

2. "Management Challenges"

A. Human Capital

For the last five fiscal years, Ex-Im Bank has experienced tremendous growth in authorizations from \$14.4B in FY 2008 to \$35.8B in FY 2012 in order to meet the demand in the market. To keep pace with this growth, Ex-Im Bank has reallocated positions to underwriting, asset management, and compliance positions and has increased the complement to effectively manage the added responsibility. In FY 2008, Ex-Im Bank had 359 total full-time equivalent (FTE) employees and at the end of FY 2012, Ex-Im Bank had 406 FTEs. The majority of the new FTEs have been allocated to underwriting, asset management, and legal counsel, as well as to small business consistent with the Bank's priority on reaching more small businesses.

The Bank systematically reviews its resource allocation needs to ensure that it is appropriately staffed to support the current and projected workload requirements. The Bank will also review and analyze operational risk issues consistent with the GAO recommendations set forth in their report from May 2013. Ex-Im Bank requested additional resources in the FY 12 and FY 13 budgets; however these requests were not approved by Congress despite the fact that Ex-Im Bank generated more than a billion in excess revenue for the taxpayers during that time frame. It should be noted that Ex-Im Bank has made significant modifications to its workforce to address the issues raised by OIG and GAO, while still working within the constrained budget.

B. Information Technology (IT) Management

Ex-Im Bank is currently working on designing and developing a new comprehensive IT infrastructure to improve its operations. As we stated in our November 30, 2012 comments to the OIG Semi-Annual Report to Congress covering the prior period, April 1, 2012 to September 30, 2012, Congress had for the first time in recent history provided Ex-Im Bank with resources to begin modernizing its IT system, including the financial management system. In addition, the Bank's Total Enterprise Modernization (TEM) is being implemented and projects are underway to modernize the Bank's IT systems and business processes. These are long-term projects that cannot be completed within the six month increments of the OIG Semi-Annual Report to

Congress, but it should be noted that with these new resources we are continually improving our IT infrastructure with a goal of full implementation by September of 2015.

C. Risk Management

GAO recently published its Risk Management Report to Congress titled *Recent Growth Underscores Need for Continued Improvements in Risk Management*, GAO-13-303 (March 2013). The GAO Report acknowledges that Ex-Im Bank has made improvements to its risk management and has started to address recommendations by the OIG about portfolio stress testing, thresholds for managing portfolio concentrations, and risk governance. The GAO Report notes that Ex-Im Bank has been developing a more comprehensive risk-management framework. Ex-Im will continue to address and improve its risk management and agreed to all recommendations made by GAO.

As acknowledged in the OIG report, Ex-Im Bank has started to include qualitative data in its loss reserve and risk management analyses.

D. Customer Service

Beginning in late 2012, with the hiring of the agency's first Vice President of Customer Experience, Ex-Im Bank embarked on a holistic approach to embedding customer experience best practices from the private and public sectors into its day-to-day operations. The Vice President of Customer Experience has met with dozens of Ex-Im Bank customers and has conducted focus group listening sessions as recently as our April Annual Conference. Specifically with respect to surveys, in 2013, Ex-Im Bank contracted with Pacific Consulting Group, the same contractor that previously worked for the OIG to produce your report OIG-INS-12-03. Pacific Consulting Group (PCG) will develop and administer a survey of 150 Ex-Im Bank brokers to measure the extent to which brokers believe they have the tools, training, and the materials needed to go to market with Ex-Im Bank products. Brokers represent a vital link to engaging small business and therefore are a key pathway to advancing Ex-Im Bank's small business mandate. The survey will gather quantitative and qualitative data. Survey results are due from PCG in June 2013. Moving forward, on an annual basis, Ex-Im Bank plans to target an appropriate customer segment for formal surveying. Survey targets will be chosen based on Ex-Im Bank's strategic plan, congressional mandates, and financial resources available.

President Obama's April 27, 2011 Executive Order 13571 requests, but does not require, independent federal agencies to develop customer service plans. Although not required to have a customer service plan, Ex-Im Bank continues to focus on improving the experience for Ex-Im customers. Since the order, we have reduced application processing times to the point where 85

percent of applications are approved within 30 days and 97 percent are approved within 100 days.

E. Credit Underwriting and Due Diligence Practices

We agree with the OIG that it is vital that Ex-Im Bank continues to improve its credit underwriting and due diligence practices. Ex-Im Bank has robust underwriting and due diligence procedures in place and strives to always improve in these areas to best protect against loss and fraud.

F. Corporate Governance, Business Practices, and Internal Control Policies and Practices

Ex-Im Bank completed its extensive review and revision of the Ex-Im Bank Loan, Guarantee & Insurance Manual during FY 13. This comprehensive Manual establishes the Bank's business processes and internal control policies and has been implemented by the Bank.

Ex-Im Bank has received positive feedback from GAO as a result of audits of the Bank's Business Plan, Risk Management, and Jobs Calculations. Ex-Im Bank has agreed to implement all of the GAO recommendations made in their reports.

G. Renewable Energy Products and Clean Energy Export Opportunities

We are pleased that the OIG has acknowledged Ex-Im Bank proactive approach in developing renewable energy products in an effort to meet the renewable energy mandate Congress placed in our appropriations bill. We believe it is also important to note that a 2010 Department of Commerce report, *Renewable Energy and Energy Efficiency Export Initiative*, estimated the value of all U.S. renewable energy exports at \$2 billion in 2009. Thus, if Ex-Im Bank had financed 100 percent of U.S. renewable energy exports that year, it still could not have met its renewable energy target. While market demand continues to be a challenge to the Bank in meeting the renewable energy mandate, Ex-Im Bank still looks to develop new strategies and products to support that export market. The GAO Report on Ex-Im Bank Business Plan, GAO-13-620, also acknowledges market demand may constrain Ex-Im Bank ability to meet this mandate.

H. Small Business Participation

Ex-Im Bank is committed to reaching the 20 percent mandated target for small business exports and has also been very proactive in its efforts to enhance support from the small business export market. We are proud of the fact that small business financing has grown approximately 90%

from \$3.2 billion in FY 08 to a record \$6.1 billion in FY 12. The GAO Report on Ex-Im Bank's Business Plan, GAO-13-620, points out several ways that Ex-Im Bank has been working to reach its small business mandate, including, recently opening four new regional offices to support small business exporters, launching new business products for the small business market, adding staff to the small business division, series of small business seminars and webinars to assist exporters, and dedicated IT resources. Ex-Im Bank requested additional resources to support small business efforts in the FY 12 and FY 13 budgets; however these requests were not approved by Congress despite earning more than \$1 billion in excess revenue for the taxpayers.

Once again, we thank the OIG for your efforts to ensure Ex-Im Bank policies and procedures continue to improve, as well as the work you do to protect Ex-Im Bank funds from fraud, waste, and abuse. We look forward to continuing to work closely with the Office of the Inspector General.
