



*Office of Inspector General
Export-Import Bank
of the United States*

Evaluation of the Export-Import Bank's Compliance with the Improper Payments Laws for Fiscal Year 2016 Reporting

*May 11, 2017
OIG-EV-17-04*

The Export-Import Bank of the United States (EXIM Bank) is the official export credit agency of the United States. EXIM Bank is an independent, self-sustaining executive agency and a wholly-owned U.S. government corporation. EXIM Bank's mission is to support jobs in the United States by facilitating the export of U.S. goods and services. EXIM Bank provides competitive export financing and ensures a level playing field for U.S. exports in the global marketplace.

The Office of Inspector General, an independent office within EXIM Bank, was statutorily created in 2002 and organized in 2007. The mission of the EXIM Bank Office of Inspector General 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.

This evaluation was conducted in accordance with the 2012 Quality Standards for Inspection and Evaluation as defined by the Council of Inspectors General on Integrity and Efficiency. This report does not constitute a Government audit and therefore, it was not conducted following the Generally Accepted Government Auditing Standards (GAGAS).



Office of Inspector General

To: David Sena, Senior Vice President and Chief Financial Officer

From: Terry Settle, Assistant Inspector General for Audits *TL*

Subject: Evaluation of the Export-Import Bank's Compliance with the Improper Payments Laws for Fiscal Year 2016 Reporting, Report Number OIG-EV-17-04

Date: May 11, 2017

This final report presents the results of our evaluation of Export-Import Bank of the United States' ("EXIM Bank" or "the Bank") compliance with the Improper Payments Laws for fiscal year 2016 reporting. The objective of this evaluation was to determine whether the Export-Import Bank was in compliance with the reporting requirements of improper payments laws for fiscal year (FY) 2016 reporting. In addition, we assessed the Bank's implementation of prior year audit recommendations.

We determined the Bank fully complied with all six reporting requirements of the improper payment laws, as stipulated in the Office of Management and Budget (OMB) guidance. Further, we determined that the Bank fully implemented all four recommendations from last year's IPERA audit.

We conducted this evaluation in accordance with the Quality Standards for Inspection and Evaluation issued by the Council of Inspectors General on Integrity and Efficiency. Those standards require that we plan and perform the evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our evaluation objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

We appreciate the cooperation and courtesies provided to this office during the evaluation. If you have questions, please contact me at (202) 565-3498 or terry.settle@exim.gov. You can obtain additional information about the Export-Import Bank Office of Inspector General and the Inspector General Act of 1978 at www.exim.gov/about/oig.

cc: C.J. Hall, Acting Chairman and President and Chief Operating Officer
Angela Freyre, General Counsel
Jesse Law, Senior Vice President, Chief of Staff and White House Liaison
Kenneth Tinsley, Chief Risk Officer
Michael Whalen, Senior Advisor to Senior Vice President and Chief Financial Officer
Patricia Wolf, Vice President and Controller
Inci Tonguch-Murray, Deputy Chief Financial Officer
Cristopolis Dieguez, Director, Internal Controls and Compliance

EXECUTIVE SUMMARY

Evaluation of the Export-Import Bank's Compliance with
the Improper Payments Laws for FY 2016 Reporting
OIG-EV-17-04, May 11, 2017

Why We Did This Audit

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) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), each agency's Inspector General is required to perform an annual review of their agency's compliance with improper payments reporting requirements. The objectives of this evaluation were (1) to determine whether the Export-Import Bank was in compliance with the reporting requirements of the improper payments laws for fiscal year 2016 reporting and (2) to assess EXIM Bank's implementation of prior year audit recommendations.

What We Recommend

This report contains no recommendations.

What We Found

The Office of Inspector General (OIG) determined that EXIM Bank fully complied with all reporting requirements of the improper payments laws as stipulated in OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*. We also determined that the Bank implemented all four prior year audit recommendations issued in the OIG's Independent Auditor's Report on Export – Import Bank's Compliance with the Improper Payments Laws for FY 2015 Reporting, issued May 13, 2016 (OIG-AR-16-06). Specifically, EXIM Bank enhanced its presentation of the risk assessment discussion in its annual report by, among other things, addressing the risk of improper payments to employees; describing each of the nine minimum risk factors in OMB Circular A-123; and assessing how the requirements of the "Do Not Pay" initiative are met based on cost –benefit considerations.

Agencies are required to perform risk assessments at least once every three years for programs that are deemed to be at low risk of significant improper payments and for which there have not been significant changes. EXIM Bank conducted a risk assessment in FY 2015 of its FY 2014 transactions and its programs were deemed low risk for significant improper payments. Furthermore, for FY 2016 reporting which covered FY 2015 transactions, there were no additional programs added or significant changes to existing programs. Finally, for the Bank's FY 2015 reporting, the OIG found the Bank fully complied with all reporting requirements of the improper payments laws as stipulated in OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*. As a result, a program-specific risk assessment was not required for EXIM Bank's FY 2016 reporting and therefore, was not conducted. EXIM Bank reported that it will perform the next extensive review of improper payments for its FY 2018 reporting.

For additional information, contact the Office of Inspector General at (202) 565-3908 or visit <http://exim.gov/about/oig>

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INTRODUCTION

This report presents the results of our evaluation of Export-Import Bank's ("EXIM Bank" or "the Bank") compliance with the Improper Payments Laws for FY 2016 reporting. The objectives of this evaluation were (1) to determine whether the Export-Import Bank was in compliance with the reporting requirements of the improper payment laws for fiscal year (FY) 2016 reporting and (2) to assess EXIM Bank's implementation of prior year audit recommendations. To answer our objectives, we reviewed the Office of Chief Financial Officer's (OCFO) policies and procedures for implementing IPERA, *EXIM Improper Payments Review Policies and Procedures*, which required the Bank to assess FY 2015 transactions for the FY 2016 reporting period. We also reviewed Office of Management and Budget's (OMB) Appendix C to Circular A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*; OMB Circular A-136, *Financial Reporting Requirements*; the Government Accountability Office's Standards for Internal Control in the Federal Government; prior OIG audit reports relevant to our audit objectives; and consulted with our Office of Investigation and Office of Inspections and Evaluations. To determine whether EXIM Bank was in compliance with reporting requirements of the improper payments laws for FY 2016 reporting, we reviewed the Bank's improper payments information reported in the Bank's FY 2016 Annual Report. Additionally, we reviewed documentation to determine if prior year audit recommendations had been implemented.

The Office of Inspector General (OIG) conducted this evaluation from March 2017 through May 2017 in accordance with the Quality Standards for Inspection and Evaluation issued by the Council of Inspectors General on Integrity and Efficiency¹. Those standards require that we plan and perform the evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our evaluation objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

BACKGROUND

Each year the Federal Government wastes billions of taxpayer dollars on improper payments. To reduce improper payments, the President signed into law the Improper Payments Information Act of 2002 (IPIA). Congress amended IPIA by enacting the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). As amended, IPIA requires agencies to review their programs and activities each fiscal year and identify those susceptible to significant improper payments. Agencies must report in their annual Performance and Accountability Report (PAR) or Agency Financial Report (AFR), herein after also referred to as the "Annual Report", estimated significant improper payments and actions to reduce them. The law requires agencies to examine "the risk of, and feasibility of recapturing, improper payments in *all* programs and activities" that are recognized as programs by the public, Office of Management and Budget (OMB) or Congress, and those

¹ See <https://www.ignet.gov/sites/default/files/files/committees/inspect-eval/iestds12r.pdf>

that entail program management or policy direction. In addition, Inspectors General are required to determine whether their respective agencies are compliant with improper payments reporting requirements.

EXIM Bank Programs and Activities

EXIM Bank is an independent executive agency and a wholly-owned U.S. government corporation. EXIM Bank is the official export-credit agency of the United States and offers export financing through four main programs:

- *Direct Loans*- These loans are underwritten and approved by EXIM Bank and disbursed directly to foreign buyers of U.S. goods and services.
- *Loan Guarantees*- These guarantees are underwritten and approved by EXIM Bank or delegated authority lenders and cover the repayment risk on the foreign buyer's debt obligations incurred in the purchase of U.S. exports. In the event of a payment default by the borrower (the foreign buyer), a claim may be submitted for payment of the guaranteed amount.
- *Working Capital Guarantees*- These working capital guarantees are underwritten and approved by EXIM Bank or delegated authority lenders and provide repayment guarantees to lenders on secured, short-term working capital loans made to qualified exporters. In the event of a payment default by the borrower (the U.S. exporter), a claim may be submitted by the guaranteed lender for payment of the guaranteed amount.
- *Export Credit Insurance*- These insurance policies are underwritten and approved by EXIM Bank and cover U.S. exporters that sell their goods overseas or to a financial institution that is offering either the foreign buyer or the U.S. exporter credits. The insured party named on the policy may submit a claim in the event of a payment default by the foreign buyer.

As of September 30, 2015, EXIM Bank had a total exposure of \$102.2 billion of which 72 percent was comprised of guarantees and insurance transactions. The remaining 28 percent was comprised of direct loans. During FY 2015, EXIM authorized \$12.3 billion for guarantees and insurance and \$73 million for direct loans.

OMB Guidance

The OMB is responsible for issuing guidance to agencies for implementing the requirements of the improper payments laws. The implementing guidance found in OMB Circular A-123, Appendix C² was modified on October 20, 2014³ to transform the improper

² OMB Circular A-123, Appendix C, Parts I and II (M-11-16, April 2011) and Part III (M-10-13, March 2010).

payment compliance framework to create a more unified and comprehensive set of requirements. The guidance requires federal agencies to complete the following steps:

- Step 1: Review all programs and activities and identify those that are susceptible to significant improper payments.⁴
- Step 2: Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities that are identified in Step 1 as susceptible to significant improper payments.
- Step 3: Implement a plan to reduce improper payments.
- Step 4: Report an estimate of the annual amount and rate of improper payments for all programs and activities determined to be susceptible to significant improper payments in the AFR or PAR.

OMB Circular A-123, Appendix C also includes six reporting requirements to determine if the agencies:

- Published an AFR or PAR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on its website.
- Conducted a program-specific risk assessment for each program or activity as required.
- Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments as required.
- Published programmatic corrective action plans in the PAR or AFR as required.
- Published and met annual reduction targets for each program assessed to be at risk and measured for improper payments.
- Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR.

The OMB also issued more detailed reporting guidance in OMB Circular A-136, *Financial Reporting Requirements*, dated October 7, 2016⁵. OMB Circular A-136 outlines the following areas for detailed discussion, as applicable, in each agency's AFR or PAR:

- Risk Assessment
- Sampling and Estimation
- Improper Payment Reporting

3 OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments (M-15-02, October 2014).

4 Beginning with FY 2014 reporting and beyond, "significant improper payments" are defined as gross annual improper payments (i.e., the total amount of overpayments and underpayments) in the program exceeding (1) both 1.5 percent of program outlays and \$10,000,000 of all program or activity payments made during the fiscal year reported or (2) \$100,000,000 (regardless of the improper payment percentage of total program outlays).

5 OMB A-136, Financial Reporting Requirements dated October 7, 2016 section II.5.8. IPIA (as amended by IPERA and IPERIA)

- Improper Payment Root Cause Categories
- Improper Payment Corrective Actions
- Internal Controls Over Payments
- Accountability
- Agency Information Systems and Other Infrastructure
- Barriers
- Recapture of Improper Payment Reporting
- Additional Comments
- Agency reduction of improper payments with the Do Not Pay Initiative

EXIM Bank's Improper Payments Review Process for FY 2016

Agencies are required to perform risk assessments at least once every three years for programs that are deemed to be at low risk of significant improper payments and for which there have not been significant changes. EXIM Bank conducted a risk assessment in FY 2015 of its FY 2014 transactions and its programs were deemed low risk for significant improper payments. Furthermore, for FY 2016 reporting which covered FY 2015 transactions, there were no additional programs added or significant changes to existing programs. Finally, for the Bank's FY 2015 reporting, the OIG found the Bank fully complied with all reporting requirements of the improper payments laws as stipulated in OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*. As a result, a program-specific risk assessment was not required for EXIM Bank's FY 2016 reporting and therefore, was not conducted. EXIM Bank reported that it will perform the next extensive review of improper payments for its FY 2018 reporting.

EVALUATION RESULTS

EXIM Bank Fully Complied with Improper Payments Laws for FY 2016 Reporting

EXIM Bank fully complied with all reporting requirements of the improper payments laws as stipulated in OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*. OMB provides specific guidance on what each agency Inspector General should review to determine if an agency is compliant with the improper payments laws. Table 1 summarizes the six requirements and the results of our review of EXIM Bank's compliance.

Table 1 Summary of EXIM Bank's Compliance with Improper Payments Requirements

OMB Improper Payments Requirement (Cir. A-123) Did the agency...	Yes, No or Not Required
a. Publish an AFR or PAR for the most recent fiscal year and post that report and any accompanying materials required by OMB on the agency website?	Yes ⁶
b. Conduct a program-specific risk assessment for each program or activity as required?	Not Required ⁷ Risk assessment not required for FY 2016 Reporting
c. Publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments as required?	Not Required Based on the EXIM Bank's risk assessment for FY 2015
d. Publish programmatic corrective action plans in the PAR or AFR as required?	Not Required Based on the EXIM Bank's risk assessment for FY 2015
e. Publish and met annual reduction targets for each program assessed to be at risk and measured for improper payments?	Not Required Based on the EXIM Bank's risk assessment for FY 2015
f. Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR?	Not Required Based on the EXIM Bank's risk assessment for FY 2015

We also determined that the Bank implemented all four prior year audit recommendations issued in the OIG's Independent Auditor's Report on Export – Import Bank's Compliance with the Improper Payments Laws for FY 2015 Reporting, issued May 13, 2016 (OIG-AR-16-06). Specifically, EXIM Bank enhanced its presentation of the risk assessment discussion in its annual report by, among other things, addressing the risk of improper payments to employees; describing each of the nine minimum risk factors in OMB Circular A-123; and assessing how the requirements of the "Do Not Pay" initiative are met based on cost –benefit considerations.

Moreover, we observed that EXIM Bank made several additional improvements to its internal policies and procedures in accordance with three prior year audit recommendations that further strengthened its internal controls. Specifically, EXIM Bank improved its *Improper Payments Review – Policies and Procedures* to:

⁶ <http://www.exim.gov/sites/default/files/reports/annual/EXIM-2016-Annual-Report.pdf>

⁷ IPERA requires agencies to conduct improper payment risk assessments for all programs, unless it receives a waiver from OMB. For programs that are deemed to be low risk of significant improper payments, agencies must perform risk assessments at least once every three years. EXIM Bank conducted a risk assessment in FY 2015 and its programs were deemed low risk for significant improper payments; therefore, a program-specific risk assessment for FY 2016 was not required.

- align with key OMB requirements to include incorporating all sources that provide authoritative guidance related to specific aspects of improper payments;
- enhance the *Improper Payments Risk Assessment Questionnaires* to require both more open ended questions as well as programs reporting specific dollar amounts to provide perspective on potential improper payment risk; and
- maintain thorough, accurate, and consistent supporting documentation for management to use during the decision making process.

CONCLUSION

We found the Bank complied with all improper payments reporting requirements for its FY 2016 reporting cycle. In addition, the Bank implemented all four prior year recommendations by making several improvements to both its annual report and its *Improper Payments Review – Policies and Procedures*. We have no recommendations.

Management’s Comments and OIG Response

Management’s comments on this report are included in their entirety in Appendix A: Management Response. EXIM Bank management highlighted the results of the evaluation and acknowledged the OIG’s efforts to ensure Bank policies and procedures continue to improve. Management’s comments were responsive to the results of this evaluation.

Appendix A: Management Response



EXPORT-IMPORT BANK
OF THE UNITED STATES

May 9, 2017

Michael McCarthy
Acting Inspector General
Office of the Inspector General
Export-Import Bank of the United States
811 Vermont Avenue, NW
Washington, DC 20571

Dear Mr. McCarthy,

Thank you for providing the Export-Import Bank of the United States ("EXIM Bank" or "the Bank") management with the Office of the Inspector General's ("OIG") "Evaluation of the Export-Import Bank's Compliance with the Improper Payments Laws for Fiscal Year 2016 Reporting," dated April 28, 2017 (the "Report"). Management continues to support the OIG's work which complements the Bank's efforts to continually improve its processes. EXIM Bank is proud of the strong and cooperative relationship it has with the OIG.

The OIG conducted its annual review of the Bank's compliance with improper payments reporting requirements of the improper payments laws, assessing whether the Bank was in compliance with the reporting requirements for FY2016 and whether the prior year audit recommendations were implemented. EXIM Bank appreciates that the OIG made no recommendations to the Bank, acknowledging that "EXIM Bank fully complied with all reporting requirements of the improper payments laws as stipulated in OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*" and that the Bank "implemented all four prior year audit recommendations issued in the OIG's Independent Auditor's Report on Export-Import Bank's Compliance with the Improper Payments Laws for FY2015 Reporting, issued May 13, 2016 (OIG-AR-16-06)", "making several improvements to both its annual report and its *Improper Payments Review - Policies and Procedures*."

We thank the OIG for your efforts to ensure the Bank's policies and procedures continue to improve, as well as the work you do with us to protect EXIM funds from fraud, waste, and

abuse. We look forward to strengthening our working relationship and continuing to work closely with the Office of the Inspector General.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Sena', with a stylized flourish at the end.

David Sena
Senior Vice President and Chief Financial Officer

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