



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

Evaluation of EXIM's Portfolio Risk Management Procedures and CRO Responsibilities

December 2, 2022

OIG-EV-23-03

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

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

This evaluation was conducted in accordance with the 2020 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).



To: Mary Jean Buhler, Chief Financial Officer
Kenneth Tinsley, Senior Vice President and Chief Risk Officer

From: Heath Wolfe, Acting Assistant Inspector General for Audits and Evaluations /s/

Subject: Evaluation of EXIM's Portfolio Risk Management Procedures and CRO Responsibilities (OIG-EV-23-03)

Date: December 2, 2022

This report presents the results of the independent evaluation of the Export-Import Bank of the United States' (EXIM or agency) portfolio risk management (PRM) procedures and Chief Risk Officer (CRO) responsibilities. The objectives were to (1) evaluate and provide an update on the status of EXIM's portfolio risk management procedures and implementation of the duties assigned the CRO, and (2) to assess the effectiveness of EXIM's controls and procedures for monitoring and managing risks within its portfolio. Under a contract monitored by this office, we engaged the independent consulting firm of Summit Consulting, LLC (Summit) to perform the evaluation.

The report contains five recommendations for corrective action. In response to our report, management concurs with all five recommendations. Management's comments are included in Appendix A of this report. We consider management's proposed actions to be responsive. The recommendations will be closed upon completion and verification of the proposed actions.

This evaluation was conducted in accordance with the 2020 Quality Standards for Inspection and Evaluation as defined by the Council of Inspectors General on Integrity and Efficiency (CIGIE). 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 Summit Consulting, LLC and this office during the evaluation. If you have questions, please contact me at (202) 731-2677 or william.wolfe@exim.gov or Courtney Potter, Deputy Assistant Inspector General for Audits and Evaluations, at (202) 565-3976 or courtney.potter@exim.gov. You can obtain additional information about the EXIM OIG and the Inspector General Act of 1978 at www.exim.gov/about/oig.

EXECUTIVE SUMMARY

Evaluation of EXIM's PRM Procedures and CRO
OIG-EV-23-03, December 2, 2022

Why We Did This Evaluation

The Export-Import Bank Reform and Reauthorization Act of 2015 (the 2015 Reauthorization Act) requires OIG to evaluate the agency's portfolio risk management (PRM) policies and the implementation of the duties assigned to the Chief Risk Officer (CRO) and to submit a written report with its findings to Congress every three years, with this version due no later than December 2, 2022.

What We Recommend

We made five recommendations to improve EXIM's PRM procedures and internal controls. Specifically, we recommended that EXIM:

- 1) Assess the underwriting process to evaluate whether an independent review or other controls would be appropriate to ensure independence of the risk management function from underwriting for transactions that exceed the threshold for delegated authority. Based upon that assessment, EXIM should take the necessary steps to improve the independence in its risk management function over its underwriting.
- 2) Complete development of and implement its enterprise risk management (ERM) training policy, including training to EXIM's enterprise risk committee (ERC) members.
- 3) Strengthen EXIM's internal controls review program by expanding it to apply to all operational processes. Once the internal controls review program is developed, EXIM should communicate it to all business units for awareness and implement it agency-wide.
- 4) Determine whether EXIM can incorporate information for root cause events and intermediate events to measure and monitor as key risk indicators (KRIs).
- 5) Update its KRIs so that they are forward-looking and measurable through specific metrics and determine specific thresholds for KRIs above which EXIM would assess the need for further analysis or action.

What We Found

EXIM strengthened its risk management, internal control processes, and ERM governance framework since our 2019 review. Specifically, EXIM adopted several new policies and implemented enhanced ERM processes. EXIM also more clearly delineated the roles and responsibilities of risk management for staff to enhance its ERM program.

In addition, EXIM:

- Took steps to formalize its ERM strategic plan, which was previously emerging prior to April 2022. The strategic plan now outlines how risks flow from a "top-down approach," with a "bottom-up" reporting style where risks are strategically aligned.
- Enhanced its Business Impact Analysis and ERM framework through strategic hires and contracts to strengthen the EXIM maturity model.
- Established quantitative and qualitative metrics, and dashboard reporting to visually communicate EXIM's ERM reporting to the entire organization.
- Strengthened its risk reporting lines, demonstrating increased risk presence, participation, and improved communication in reporting risk within all levels.

We determined that these high-level changes improved EXIM's risk management architecture, framework, and communications within its organization, but additional actions are recommended.

We found that EXIM's risk management function as oversight for underwriting did not have full independence. We also found that EXIM had not fully implemented its training policy for ERC members and had not completed development of its comprehensive internal controls review program. Finally, we identified an opportunity to further develop EXIM's KRIs.

Consequently, we made corresponding recommendations to address these deficiencies.

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ABBREVIATIONS AND GLOSSARY

Term	Description
EXIM or Agency	Export-Import Bank of the United States
Board	The Board of Directors, EXIM
CIGIE	Council of Inspectors General on Integrity and Efficiency
COSO	The Committee of Sponsoring Organizations of the Treadway Commission
CRO	Chief Risk Officer
ERC	Enterprise Risk Committee, EXIM
ERM	Enterprise Risk Management
ERMU	Enterprise Risk Management Unit, EXIM
FY	Fiscal Year
GAO	Government Accountability Office
KRI	Key Risk Indicator
OCFO	Office of the Chief Financial Officer, EXIM
OIG	Office of Inspector General, EXIM
OMB	Office of Management and Budget
PRM	Portfolio Risk Management
Summit	Summit Consulting, LLC

INTRODUCTION

EXIM's 2015 reauthorization required OIG to audit or evaluate EXIM's PRM procedures and the agency's implementation of the duties assigned to the CRO.¹ The first report was due to EXIM's congressional committees of jurisdiction on December 4, 2016, with a report due not less than every three years thereafter. OIG's most recent report in response to this statutory requirement was issued on December 2, 2019.

This report presents the results of the independent evaluation conducted by Summit. The objectives were to (1) evaluate and provide an update on the status of EXIM's PRM procedures and implementation of the duties assigned to the CRO, and (2) assess the effectiveness of EXIM's controls and procedures for monitoring and managing risks within its portfolio.

SCOPE AND METHODOLOGY

OIG employed several steps to evaluate EXIM's PRM procedures and implementation of the CRO responsibilities. First, we reviewed prior OIG reports, including the recommendations from those reports, as well as the status of those recommendations. Second, Summit requested and reviewed EXIM's documentation to understand the current state of its procedures and internal controls for PRM, efforts undertaken in response to open OIG recommendations, the ERM program as a whole, and the roles and responsibilities of the CRO.

Third, we researched and reviewed laws, rules, regulations, and industry standards and practices. In addition, we conducted interviews with other governmental agencies that share similarities regarding EXIM's portfolio size, industry and geographical exposures, and lending products, including the Development Finance Corporation, the U.S. Department of Energy's Loan Programs Office, the International Finance Corporation, and the U.S. Department of Agriculture's Rural Development mission area. Fourth, we conducted interviews with EXIM's CRO and key stakeholders directly involved in managing EXIM's portfolio risks.²

We conducted this evaluation from April 2022 to November 2022 in accordance with the 2020 Quality Standards for Inspection and Evaluation issued by CIGIE.

¹ See Section 51007 of the Reauthorization Act of 2015, included in "Division E—Export-Import Bank of the United States" of the "FAST Act," which became public law on December 4, 2015, (Pub. L. No. 114-94) at <https://www.congress.gov/114/bills/hr22/BILLS-114hr22enr.pdf>.

² EXIM interviews consisted of members of its Board of Directors, the CRO, the Chief Financial Officer (CFO), the Deputy CFO and members of her staff, the Director of Internal Controls, the Director of PRM, the Acting Senior Vice President (SVP) of the Office of the Chief Banking Officer, the SVP of the Office of Board Authorized Finance, the Acting SVP of the Office of Small Business, the Vice President (VP) of Business Credit, the VP of Export Credit Insurance, the VP of Credit Policy and Compliance, the VP of Country Risk and Economic Analysis, the Director of Enterprise Risk, the SVP of the Office of Policy Analysis and International Relations, and the Acting VP of Policy Analysis.

BACKGROUND

EXIM is a wholly owned government corporation, established in 1934 through executive order, and subsequently made an independent agency through congressional charter in 1945. As the official export credit agency of the United States, EXIM’s fundamental mission is to support American jobs by facilitating the export of U.S. goods and services through financing and insurance programs. EXIM’s charter authorizes it to engage in “general banking business,” except that of currency circulation.

Portfolio Risk Management and CRO Responsibilities

EXIM’s PRM procedures are overseen by the CRO, and the CRO’s responsibilities are laid out in EXIM’s charter.³ Broadly, the CRO is required to oversee all issues relating to risk within EXIM and report directly to the President and Chair of EXIM. These responsibilities include managing and mitigating risks related to agency operations and programs; the CRO is expected to implement and execute the procedures that allow such risk management to be monitored, enabling EXIM to carry out its mission and achieve its strategic goals. The CRO is tasked with overseeing an integrated risk management program that covers all types of risk throughout the organization, from underwriting, credit, fraud, internal controls, and operational risks.⁴ The CRO is appointed by the President and Chair of EXIM and approved by the agency’s Board of Directors (Board).⁵

Enterprise Risk Management

ERM enhances EXIM’s functionality and its management of portfolio risk. EXIM describes its ERM program as a forward-looking and interactive activity to assess the key risks or threats as well as opportunities associated with an enterprise’s ability to achieve its performance goals and objectives.

The purpose of EXIM’s ERM program is to help leadership make risk-informed decisions to limit the impact of unexpected events, make the best use of EXIM’s resources, and enhance its ability to meet its performance goals and objectives.

EXIM’s ERM process follows a four-stage life cycle in which EXIM: (1) identifies risks,⁶ (2) assesses and prioritizes risks, (3) responds and monitors risk, and (4) evaluates and reports risk. EXIM’s ERM program is meant to focus primarily on risks with the most significant impact to EXIM as described in the strategic goals and objectives of the current EXIM strategic plan, with a particular emphasis on risks with cross-cutting effects. OIG

³ 12 USC 635a(l) states that “[t]here shall be a Chief Risk Officer of the Bank, who shall- (A) oversee all issues relating to risk within the Bank; and (B) report to the President of the Bank.”

⁴ 12 USC 635a(l)(3) describes the duties of the CRO.

⁵ Section 3(l)(1)(B) of EXIM’s charter.

⁶ The general use of the terms “risk” and “risks” represents both the positive and negative aspects of uncertainty.

assessed that EXIM’s ERM processes are generally consistent with best practices for Federal agencies.⁷

Consequently, EXIM’s ERM framework is designed to provide an effective agency-wide approach that considers the combined array of enterprise risks and opportunities as an interrelated portfolio, rather than addressing them only within business lines. EXIM’s goal is for ERM to serve as an agreed-upon framework for identifying and managing key enterprise risks by facilitating collaboration and communication across all offices within EXIM. Since the framework was recently implemented and there is limited implementation evidence, this review does not opine on the effectiveness of EXIM’s implementation of its ERM program. Moreover, we recently completed a review of EXIM’s default rate management practices. Although the report did not specifically address the agency’s overall risk management practices, we found that EXIM’s default rate calculation underestimates risk within the agency’s active portfolio and that EXIM lacked centralized data on the performance of some credits, which impeded the agency’s ability to provide timely and accurate data on non-performing credits.⁸

Activities Since the Prior Report

This report builds upon the prior OIG reports, which provide additional background. This section describes changes, events, and ongoing efforts related to PRM that occurred since our most recent report.⁹

Enhanced ERM Implementation

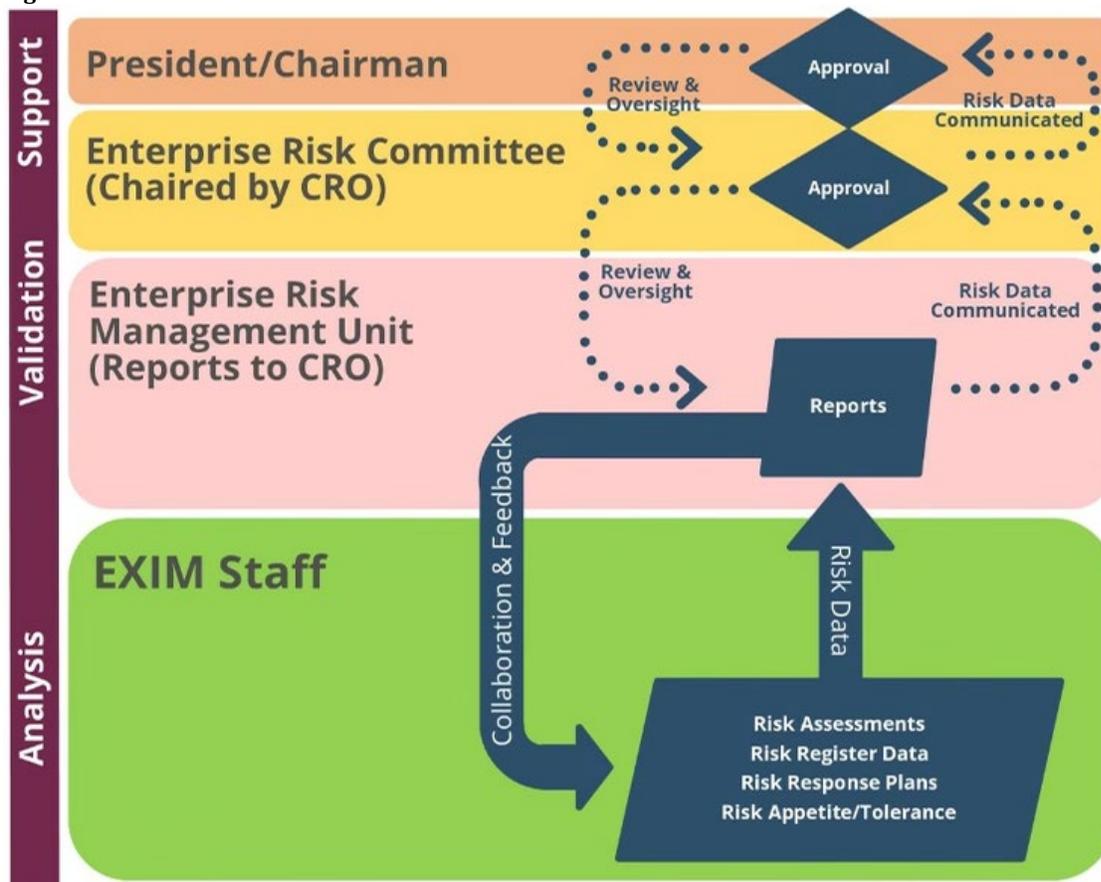
Since the last report, EXIM more clearly outlined the roles and responsibilities of individual units implementing ERM functions. Importantly, EXIM defined the roles of its risk management groups more concretely since OIG’s last review which, when fully implemented, should improve the flow of information. EXIM also implemented new processes for information collection, such as the risk assessments. Figure 1, below, illustrates the updated structure of EXIM’s ERM program as well as the intended flow of risk information throughout EXIM.

⁷ Government Accountability Office (GAO), *Enterprise Risk Management: Selected Agencies’ Experiences Illustrate Good Practices in Managing Risk*, ([GAO-17-63](#), December 2016).

⁸ See OIG, *Review of EXIM’s Default Rate Management Practices* ([OIG-EV-23-01](#), October 14, 2022).

⁹ See OIG, *Evaluation of EXIM’s Portfolio Risk Management Procedures and CRO Responsibilities* ([OIG-EV-20-01](#), December 2, 2019).

Figure 1: EXIM's ERM Structure



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Most notably, since our last report EXIM created the Enterprise Risk Management Unit (ERMU), a unit overseeing the agency's ERM program, which reports to the CRO. ERMU's responsibilities include:

- Facilitating the ongoing efforts in the design and maturity level assessments of EXIM's ERM program;
- Chairing ERM working group;
- Developing and maintaining EXIM's enterprise-wide ERM processes and supporting capabilities;
- Advising and assisting EXIM offices in aligning their risk management efforts with ERM processes, tools, methodologies, and leading practices;
- Providing the CRO, the agency's Enterprise Risk Committee (ERC), and EXIM leadership with information regarding the status of ERM efforts and management of individual risks; and
- Collaborating with the Office of the Chief Financial Officer (OCFO) to establish processes, procedures, and guidance to ensure full integration of internal controls with ERM principles.¹¹

¹⁰ Source: EXIM's ERM Framework and Enterprise Risk Assessment, June 2022.

¹¹ EXIM's ERM manual, revised April 11, 2022.

EXIM employees told Summit that the centralization of this responsibility and ERMU's ability to escalate critical strategies and their risks to the ERC increases the chance that these risks will receive adequate attention and resources. ERMU's mandate for integration increases the likelihood that EXIM will utilize a more coordinated approach to meeting its mission through strategic execution and the use of rigorous risk management and internal controls.

Communications Strategy

In April 2022, EXIM formulated an ERM communication strategy related to its ERC. The ERM program seeks to provide intentional channels of communication across, up, and down an organization with a common basis for discussion to enable proactive management and inform strategy, budget, and execution in line with the organization's mission. The communication strategy documents communication channels with respect to enterprise risks. These communication channels include dashboards for key performance and risk elements, risk registers, and the creation of processes to share and document ERM committee work. The communication strategy also identified priority initiatives, such as climate change and renewable energy, to factor into EXIM's overall risk strategy.

Gartner Maturity Assessment

As part of its ongoing ERM maturation initiatives, EXIM engaged a private consulting firm, Gartner, to complete a maturity assessment of its ERM functional maturity in April 2022. EXIM received a score of 4+ out of 5, demonstrating progress since the last review.¹² Gartner identified three areas for improvement: (1) incorporating ERM in strategy, (2) operationalizing risk appetite, and (3) engaging in business resiliency. Leveraging these recommendations and additional resources, ERMU is continuing to work on maturing EXIM as an ERM organization. By contrast, EXIM received a score of 3 out of 5 in its 2017 maturity assessment by Gartner.

Prior Reviews of EXIM's PRM and CRO Responsibilities

We previously issued three reports in response to provisions of the 2015 Reauthorization Act requiring us to evaluate the agency's PRM policies and the implementation of the duties assigned to the CRO. Additional information can be found in Appendix B of this report. Additionally, we published a report on EXIM's default rate and made associated recommendations for improving EXIM's default risk monitoring in 2022.¹³

RESULTS IN BRIEF

Since our December 2019 evaluation, EXIM strengthened its risk management, internal control processes, and ERM governance framework. Specifically, we closed three recommendations from our December 2, 2019, report ([OIG-EV-20-01](#)) based on EXIM's actions. Those recommendations advised EXIM to (1) provide ongoing updates its ERM

¹² The report is on a level scale from 1 to 5 and measures maturity, action steps, and the importance of taking certain steps towards a higher level of maturity. Maturity scores are refined with a plus (+) or minus (-) to indicate intermediate levels of maturity.

¹³ See OIG, *Review of EXIM's Default Rate Management Practices* ([OIG-EV-23-01](#), October 14, 2022).

maturity assessment, (2) establish an EXIM-wide Model Risk Management framework, and (3) develop an EXIM-wide Risk and Control Matrix and a Risk and Controls Self-Assessment that covers both financial and non-financial internal controls identification and mitigation of risks.

Additionally, EXIM adopted several new policies and implemented improved ERM processes. EXIM also more clearly delineated roles and responsibilities of risk management for staff to enhance its ERM program. Specifically, EXIM:

- Took steps to formalize its ERM strategic plan, which was previously emerging prior to April 2022. The strategic plan outlines how risks flow from a “top-down approach,” with a “bottom-up” reporting style where risks are strategically aligned.
- Enhanced its Business Impact Analysis and ERM framework through strategic hires and contracts to strengthen the EXIM maturity model.
- Established quantitative and qualitative metrics, and dashboard reporting to visually and accurately communicate EXIM’s ERM reporting to the entire organization.
- Strengthened its risk reporting lines, demonstrating increased risk presence, participation, and improved communication in reporting risk within all levels.

Broadly, we identified three areas where EXIM can improve PRM by (1) assessing the need for improvement of a risk management function for underwriting independent of direct supervisors; (2) implementing its training policy, and (3) completing development of its internal controls review program. We made three recommendations to further improve EXIM’s PRM efforts.

As described below, we identified ongoing efforts to iteratively refine its KRIs. We view this effort as critical to EXIM’s continued progress in managing portfolio risk; we highlight these efforts and add two recommendations to reinforce their importance in the Other Matters section of this report.

FINDINGS

To continue to mature EXIM’s PRM functions, we identified three key areas of improvement and made recommendations accordingly. As described below, these span conducting a review for the potential for an independent risk management function, the implementation of a training policy for the ERC members, continuing development on the internal controls program, and further development of forward-facing KRIs.

Finding 1: EXIM’s Risk Management Function as Oversight for Underwriting Did Not Have Full Independence

We found that EXIM did not have an independent team with dedicated staff to manage underwriting risk. An independent team with this responsibility is a best practice across similar Federal credit programs. While most of the duties of the risk management function, such as overseeing credit policy and monitoring country risk, fell under the CRO, underwriting risk management was assigned to direct supervisors within EXIM’s business units. This does not indicate that EXIM’s underwriting process occurs in isolation. On the contrary, the underwriting process includes participation and input from numerous teams across EXIM, including the Country Risk & Analysis Division, the Office of General Counsel, OCFO, the Office of Policy and International Relations, and Model Risk Management Working Group. Nevertheless, the scope of these teams’ involvement does not include a validation of the agency’s underwriting.

Additionally, although the review process included approvals from committees, such as EXIM’s Transaction Review Committee, those entities primarily depended on analysis and representations made by the underwriting staff and their direct supervisors. The scope of the committee reviews did not generally include an independent validation of the underwriting.

According to EXIM’s senior leadership, the agency’s organizational structure does not currently include an independent underwriting risk management function described above as this was intentional during prior restructurings to increase efficiency of the underwriting process, as well as to optimize allocation of staff resources. Some of EXIM’s senior leadership suggested that such a risk management function may not be necessary for EXIM. Additionally, EXIM’s underwriting process includes direct supervisory reviews, and other internal controls for underwriting quality. Strengthening the internal controls in the underwriting process helps to ensure policies are implemented as intended, thereby reducing risks in the portfolio. An independent function with its own view of the portfolio risks develops diversity of thought that can identify risks that a narrowly focused underwriting team may miss.

Per Office of Management and Budget (OMB) Circular A-129, “[r]isk management functions are generally expected to have the following characteristics: [...] supporting implementation of effective controls, which may include a quality control or loan review function that monitors for underwriting errors or other deviations from acceptable practice; [...] and identifying emerging risks, concentrations, and other situations that should be accurately assessed.”

OMB Circular A-129 also calls for “independence from credit program administration. Professionals engaged in risk management should work closely with the management and staff of the various programs. Such functions are generally more effective when strong working relationships exist. However, professionals engaged in risk management should have well-defined roles, sufficient stature within the organization, and clear reporting lines to senior officials that provide for sufficient independence and ability to raise issues that may not have been identified by program management. In cases of small programs where the same people oversee underwriting and oversight, agencies should take steps to facilitate the independence of the risk management function.”

Furthermore, Federal credit programs with transaction sizes similar to EXIM’s Board-approved finance transactions as well as other international finance institutions, maintain an independent risk management function focused on underwriting rigor. While these functions differ in name, their responsibility includes maintaining a view of risks across the entire portfolio and oversight/concurring of the risk presentation of each credit based on an independent review of the applicant’s materials. In developing internal controls and creating independence, institutions must balance the cost of the control against the benefit in terms of risk mitigation. As EXIM restructures some of its business units, there may be opportunities to introduce an independent risk management function without materially increasing administrative burden and processing timeframes.

RECOMMENDATION

We recommend that EXIM:

1. Assess the underwriting process to evaluate whether an independent review or other controls would be appropriate to ensure independence of the risk management function from underwriting for transactions that exceed the threshold for delegated authority. Based upon that cost-benefit assessment, EXIM should take the necessary steps to improve the independence in its risk management function over its underwriting.

Finding 2: EXIM Has Not Fully Implemented its Training Policy for ERC Members

We found that EXIM has not fully implemented its training policy for ERC members. The CRO and the ERMU drafted a policy for providing regular training to all new senior staff members and risk practitioners. The policy included training on ERM concepts, the roles and responsibilities of EXIM’s ERM functions, as well as the ERM activities that EXIM staff regularly perform. However, EXIM has not finalized or fully implemented the draft policy.

The lack of fully implemented training for new team members could negatively impact the effectiveness of EXIM’s ERM operations, particularly if staffing levels are lean and turnover is high. As staff fill multiple positions, or move into new roles, they must both acquaint themselves with their new responsibilities, and orient staff that are filling their previous role. Without an implemented ERC training policy, there is a higher risk that staff new to their roles lack sufficient knowledge to carry out their ERC duties, leaving gaps in the functioning of the ERC and exposing EXIM to potential portfolio risks.

Implementation of a training plan is also in accordance with the Government Accountability Office’s (GAO) Green Book. GAO’s Green Book Principle 4, Demonstrate Commitment to Competence 4.02, states the following:

Management establishes expectations of competence for key roles, and other roles at management’s discretion, to help the entity achieve its objectives. Competence is the qualification to carry out assigned responsibilities. It requires relevant knowledge, skills, and abilities, which are gained largely from professional experience, training, and certifications. It is demonstrated by the behavior of individuals as they carry out their responsibilities.

We acknowledge that delayed implementation of the training policy may be due to the recent nature of significant updates to the ERM program. EXIM recently refreshed and expanded its documentation of ERM processes with the ERM Manual published in August 2020. Following those efforts, EXIM began developing an ERM training policy, but has not completed implementation of the policy. The training policy, among other objectives, ensures that ERC members receive training to perform their responsibilities on the committee.

RECOMMENDATION

We recommend that EXIM:

2. Finalize and implement its ERM training policy, including training to ERC members.

Finding 3: EXIM Has Not Completed Development of its Comprehensive Internal Controls Review Program, Including Operational Processes

We also found that EXIM lacks a comprehensive internal controls review program that applies to operational processes. EXIM’s existing internal controls review program, overseen by the OCFO, targets specific operational processes for review on a periodic basis, while comprehensively reviewing internal controls related to financial statement reporting. An internal controls program that does not include operational processes can result in insufficient or improper internal controls for certain processes, resulting in an increased operational risk.

The lack of a comprehensive program is inconsistent with industry best practice, based on our interviews with similar Federal lending institutions. This is also inconsistent with the GAO’s Green Book Principle 16, Performing Monitoring Activities 16.01, which states that “[m]anagement should establish and operate monitoring activities to monitor the internal control system and evaluate the results”, and OMB Circular A-123, which establishes a process that “[m]anagement must implement to properly assess and improve internal controls over operations, reporting, and compliance.”¹⁴

Since our most recent review on PRM, EXIM began working towards strengthening its internal controls program to comprehensively include operational processes. EXIM recently engaged in efforts to develop the program,¹⁵ and was originally scheduled to complete development in Fiscal Year (FY) 2022. However, EXIM prioritized completing internal control reviews for certain business units in coordination with a restructuring effort, to realize efficiencies. Nevertheless, EXIM made significant progress towards development of the comprehensive program and is on track for completion in FY 2023.

¹⁴ Cover page to OMB Circular No. A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control.

¹⁵ EXIM recently hired new relevant staff members and plans to kick-start this program. EXIM also engaged an external contractor to help with the development of an enhanced internal controls program.

RECOMMENDATION

We recommend that EXIM:

3. Continue to strengthen its internal controls review program. Once the strengthened internal controls review program is enacted, EXIM should expand it to operational processes EXIM-wide and communicate it to all business units for awareness.

OTHER MATTER

EXIM's Key Risk Indicators Require Improvements

During this evaluation, we determined that EXIM has not defined thresholds on KRIs or identified KRIs that are forward-looking in terms of portfolio risk. A lack of sufficiently developed KRIs could lead EXIM to an incomplete picture of risks or delayed identification of emerging risks. This incomplete information could be a missed opportunity for EXIM to appropriately prioritize and mitigate risk.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2010, "Developing Key Risk Indicators to Strengthen Enterprise Risk Management,"¹⁶ states "[i]n developing a KRI to serve as a leading indicator for potential future occurrences of this risk, it can be helpful to think through the chain of events that led to the loss so that management can uncover the ultimate driver (i.e., root cause(s)) of the risk event."

COSO also states that in organizations with well-developed KRIs, "[i]n advance, management has pre-determined certain levels or thresholds for each KRI that will trigger actions by management to adjust their strategies proactively to manage the risk accordingly."

We found that EXIM is building and strengthening its communication channels with respect to enterprise risks, with the initial development of KRIs being part of those efforts. EXIM's KRIs were developed recently as part of its ERM maturation process, but many of the identified KRIs do not include specific measurements and were not leading indicators. EXIM was also providing extensive internal and external training to staff to support the development of measurable and leading KRIs. This continued training, in combination with further iteration on the KRIs, should result in stronger KRIs that are consistent with best practices.

RECOMMENDATIONS

We recommend that EXIM:

4. Determine whether the agency can incorporate information for root cause events and intermediate events to measure and monitor as KRIs.

¹⁶ See [COSO's Developing Key Risk Indicators to Strengthen Enterprise Risk Management](#), December 2010.

5. Update its KRIs so that they are forward-looking and measurable through specific metrics; and determine specific thresholds for KRIs above which EXIM would assess the need for further analysis or action.

CONCLUSION

EXIM's current PRM procedures and internal controls are improving. Broadly, EXIM demonstrated a culture of risk management, and matured as an ERM organization. We found that EXIM has several ongoing initiatives that will bolster its PRM procedures and internal controls once implemented. We made three recommendations that will assist EXIM in continuing to enhance its PRM procedures and internal controls, and two recommendations to improve the information used to monitor portfolio risk.

APPENDIXES

Appendix A: Management Response and OIG Evaluation



Helping American Businesses Win the Future

DATE: December 1, 2022

TO: The Honorable Parisa Salehi, Inspector General, Office of Inspector General

THROUGH: Inci Tonguch-Murray, Senior Vice President, and Deputy Chief Financial Officer

FROM: Elizabeth Ryan, Deputy Chief Management Officer, *Acting For*
Adam Martinez, Senior Vice President, and Chief Management Officer

SUBJECT: Evaluation of EXIM’s Portfolio Risk Management Procedures and CRO Responsibilities (OIG-EV-23-03)

ELIZABETH
RYAN

Digitally signed by ELIZABETH
RYAN
Date: 2022.12.01 16:45:34 -05'00'

Dear Inspector General Salehi,

Thank you for providing the Export-Import Bank of the United States (“EXIM” or “EXIM Bank”) management with the Office of Inspector General’s (“OIG”) Evaluation of EXIM’s Portfolio Risk Management Procedures and CRO Responsibilities (OIG-EV-23-03), dated December 1, 2022 (the “Report”).

EXIM is pleased that the OIG acknowledged that EXIM’s Enterprise Risk Management (ERM) process “is generally consistent with best practices for Federal agencies” and scored a 4+ out of 5 in a maturity assessment by a third-party consultant. EXIM appreciates that the OIG found that “EXIM strengthened its risk management, internal control processes, and ERM governance framework” since the OIG 2019 review and “EXIM adopted several new policies and implemented enhanced ERM processes.” EXIM also notes that the OIG recognized that for internal controls, “EXIM made significant progress towards development of the comprehensive program.”

EXIM notes that the OIG provided the draft report to the agency on November 25, 2022. EXIM takes OIG reports and findings very seriously and worked diligently to provide technical feedback and input on an expedited basis, so that the OIG could meet its statutory deadline of December 2, 2022, for report issuance.

OIG has made five recommendations in this report:

Recommendation 1: Assess the underwriting process to evaluate whether an independent review or other controls would be appropriate to ensure independence of the risk management

function from underwriting for transactions that exceed the threshold for delegated authority. Based upon that assessment, EXIM should take the necessary steps to improve the independence in its risk management function over its underwriting.

Management response: EXIM concurs with this recommendation. EXIM will undertake an assessment, including a cost-benefit analysis, to determine what steps, if any, may be necessary to improve the independence in its risk management function over underwriting.

Recommendation 2: Finalize and implement its ERM training policy, including training to ERC members.

Management response: EXIM concurs with this recommendation, and will finalize and implement its ERM training policy, including training to ERC members.

Recommendation 3: Strengthen its internal controls review program by expanding it to apply to all operational processes. Once the internal controls review program is developed, EXIM should communicate it to all business units for awareness and implement it EXIM-wide.

Management response: EXIM concurs with this recommendation. EXIM will continue to expand its internal controls program so that it applies to all operational processes, and appropriately communicate to all business units EXIM-wide.

Recommendation 4: Determine whether the agency can incorporate information for root cause events and intermediate events to measure and monitor as KRIs.

Management response: EXIM concurs with this recommendation. EXIM will conduct an analysis to determine whether the agency can incorporate information for root cause events and intermediate events to measure and monitor as KRIs.

Recommendation 5: Update its KRIs so that they are forward-looking and measurable through specific metrics; and determine specific thresholds for KRIs above which EXIM would assess the need for further analysis or action.

Management response: EXIM concurs with this recommendation. EXIM will review and update its KRIs so that they are forward-looking and measurable through specific metrics. In addition, EXIM will determine specific thresholds for KRIs above which EXIM would assess the need for further analysis or action.

CC:

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James Burrows, Senior Vice President and Acting Chief Business Officer

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OIG Evaluation

On December 1, 2022, EXIM provided its management response to a draft of this report, concurring with all recommendations. The response identified EXIM’s actions to address the recommendations. We consider EXIM’s actions sufficient to resolve the recommendations. The recommendations will remain open until we determine that the agreed upon corrective actions are completed and responsive to the recommendations.

Appendix B: Prior OIG PRM Reviews and Status of Recommendations

EXIM OIG Report ([OIG-EV-20-01](#))

We issued one report to meet the provision in the 2015 Reauthorization Act's second reporting period: Evaluation of EXIM's PRM Procedures and CRO Responsibilities. This report contained a total of three recommendations to improve EXIM's PRM process and procedures and implementation of the CRO responsibilities. No recommendations remain open.

EXIM OIG reports ([OIG-EV-16-01](#) and [OIG-EV-17-01](#))

We issued two reports to meet the provision in the 2015 Reauthorization Act's first reporting period: (1) the *Report on Portfolio Risk and Loss Reserve Allocation Policies*; and (2) the *Evaluation of Risk Management Procedures and CRO Responsibilities*. Collectively, the reports contained a total of 16 recommendations to improve EXIM's PRM process and procedures and implementation of the CRO responsibilities. As of the date of this report, one recommendation remains open as shown in the following table:

Evaluation of Risk Management Procedures and Chief Risk Officer Responsibilities (OIG-EV-17-01, December 2, 2016)		
No.	Recommendation	Status
1	To clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency, EXIM Bank should formally document the risk management roles, responsibilities and authority of its line of defense functions; clarify responsibilities and interaction between different senior management committees and divisions; identify the individuals and functions to be responsible for each; and address any gaps in those responsibilities.	Open

Appendix C: Distribution List

Reta Jo Lewis, Esq., President and Chair of the Board
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