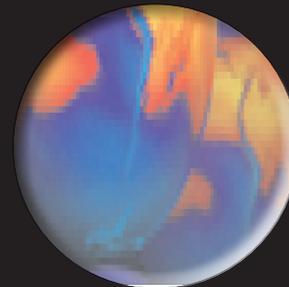
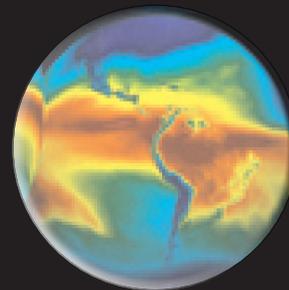
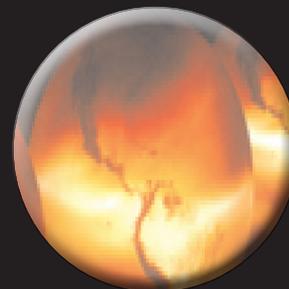




OFFICE OF INSPECTOR GENERAL
EXPORT-IMPORT BANK *of the* UNITED STATES

SEMIANNUAL REPORT TO CONGRESS
OCTOBER 1, 2010 TO MARCH 31, 2011



The Export–Import Bank *of the United States*

The 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 in recent years have been made available for the direct benefit of U.S. small businesses.

In fiscal year 2010, Ex-Im Bank authorized transactions totaling \$24.5 billion. Ex-Im Bank is an independent executive agency and a wholly owned U.S. government corporation that celebrated 75 years of service to the nation in 2009.

Information about Ex-Im Bank is available at www.exim.gov.

Online Availability

Reports of OIG audits, evaluations, and other activities are available at www.exim.gov/oig.

Information about the responsibilities of Inspectors General across the U.S. Government can be found at www.ignet.gov.

Additional Copies

For additional copies of this report, or reports from prior periods, write:

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

Or call: (202) 565-3908



OSVALDO L. GRATACÓS
INSPECTOR GENERAL

EXPORT-IMPORT BANK
of the UNITED STATES

April 27, 2011

Fred P. Hochberg
Chairman and President
Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, DC 20571

Dear Chairman Hochberg:

This Semiannual Report to Congress of the Office of Inspector General (OIG) of the Export-Import Bank of the United States (Ex-Im Bank) summarizes the work of the OIG during the reporting period of October 1, 2010 to March 31, 2011. During this time, OIG staff completed significant audits and investigations of Ex-Im Bank programs and operations, while laying the groundwork for expanded operations in the future.

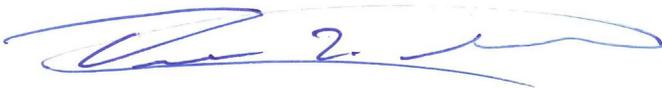
The reporting period is highlighted by the following accomplishments:

1. A significant deficiency in internal controls was detected and identified during FY 2010 Ex-Im Bank's financial statement audit. This deficiency resulted in a \$133 million overstatement in credit loss provisions. This was corrected in the financial statements issued by Ex-Im Bank.
2. Over \$4 million of cost savings and repayments to Ex-Im Bank from active investigative referrals.
3. Over \$1 million in criminal restitution and special assessments paid to Ex-Im Bank.
4. Two criminal judgments arising out of the OIG's investigative efforts.
5. Three criminal informations, two arrests, two search warrants executed, and four guilty pleas pursuant to ongoing investigative matters.

Page Two
Transmittal Letter
Chairman Hochberg

6. Twelve investigative matters referred to the U.S. Department of Justice.
7. Forty-eight law enforcement intelligence referrals to Ex-Im Bank's Office of General Counsel to support enhanced due diligence efforts in the approval of export credits.
8. Completion of FY 2010 Federal Information Security Management Act (FISMA) audit.

I am very proud of the fine work of the OIG staff and its leadership team of Jean Smith, Assistant Inspector General for Audits, and Lawrence Valett, Assistant Inspector General for Investigations, in achieving the results described in this report. I look forward to providing future reports to Congress of the expanding work of this new office as it accomplishes the OIG mission within Ex-Im Bank.



Osvaldo L. Gratacós
Inspector General



INSPECTOR GENERAL'S OVERVIEW

The Office of Inspector General (OIG), an independent office within the Export-Import Bank of the United States (Ex-Im Bank), supports Ex-Im Bank's mission and goals by working to promote economy and efficiency in Ex-Im Bank operations while preventing, detecting, and responding to fraud, waste, and abuse involving Ex-Im Bank programs and operations. The Inspector General Act of 1978 (IG Act), as amended, charges the Inspector General with responsibility for conducting audits, evaluations, inspections, and investigations and keeping the Chairman of Ex-Im Bank and Congress fully and currently informed about problems and deficiencies relating to the administration of Ex-Im Bank programs and operations.

The Ex-Im Bank OIG was created in 2002 and organized in August 2007. At the end of this reporting period, the OIG had a staff of eleven career professionals (five criminal investigators, one investigative analyst, three auditors, a senior inspector, and an administrative specialist) in addition to the Inspector General (IG). The IG, Osvaldo L. Gratacós, was sworn-in as the second Inspector General of the Export-Import Bank on October 15, 2010.

In addition to the audits, reviews, and investigations described in the following sections of this report, activities during this period included the following:

1. In November 2010, the OIG established an Office of Inspections with the hiring of Mark Thorum as Senior Inspector. The Office of Inspections will conduct internal and external inspections of loan guarantees and insurance policies authorized by Ex-Im Bank. The inspections will focus on compliance with Ex-Im Bank requirements, ability of Ex-Im Bank to monitor its assets, compliance with requirements for shipment of U.S. goods, risk management, and review of certain defaulted transactions.
2. Regular meetings with Ex-Im Bank's Office of General Counsel and Asset Management Division staff to discuss and coordinate referrals to the OIG of



claims and other matters where evidence indicating the possibility of fraudulent acts has been identified.

3. Trained several of Ex-Im Bank's lending partners on identifying and reporting fraud, waste, and abuse in export programs.
4. Shared steps with other Export Credit Agencies to improve performance and operations and to discuss fraud trends in certain markets.
5. Expanded strategic partnerships and collaboration with other federal law enforcement agencies to further our abilities to investigate fraud.
6. Addressed several matters of common interest with Ex-Im Bank's Audit Committee in a mutually supportive manner consistent with the independence of the OIG and a positive relationship with Ex-Im Bank.
7. Participated in monthly meetings with Inspectors General of other agencies responsible for regulating the U.S. financial sector to discuss issues of common interest, including agency and inspectors general responses to the international financial crisis.
8. Participated in recurring meetings related to the renovation of Ex-Im Bank headquarters building. These meetings included staff from the General Services Administration, Ex-Im Bank, construction companies, and an industrial hygienist.
9. Assisted Ex-Im Bank leadership in assessing ways to improve Ex-Im Bank's programs and operations as part of the National Export Initiative unveiled by President Obama during his State of the Union address in 2010.



CONGRESSIONAL TESTIMONY

No Congressional testimony during the reporting period.

MANAGEMENT COMMUNICATIONS & ACTIONS ISSUED TO EX-IM BANK

On December 2, 2010, the IG issued a memorandum to Ex-Im Bank management to highlight the fact that Ex-Im Bank was not issuing an annual Performance and Accountability Report under the Report Consolidations Act of 2000 (RCA). Specifically, this office requested clarification as to whether Ex-Im Bank

1. had made an official determination as to whether Ex-Im Bank did not fall under the definitions of agency or instrumentalities as defined by the RCA;
2. had made a determination not to consolidate reports under the RCA; and
3. had decided not to develop agency and performance measures and metrics (as required under the Government Performance and Results Act of 1993).

On March 16, 2011, Ex-Im Bank General Counsel responded to the questions asked by the IG. In its memorandum, the General Counsel stated that Ex-Im Bank had elected not to consolidate the reporting requirements as allowed under the RCA, even though Ex-Im Bank's annual report complies with most of RCA's requirements. It further stated that, commencing in FY 2012, Ex-Im Bank would begin filing an Annual Performance Plan (APP) in accordance with the Government Performance and Results Act of 1993.

The OIG will closely monitor the development and implementation of the APP as agreed by Ex-Im Bank management.



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The Office of Audits completed two audits during the six months ended March 31, 2011:

- Ex-Im Bank's Financial Statements for Fiscal Year 2010
- Fiscal Year 2010 Information Security Program and Practices and Technical Configuration Reviews

At the end of the reporting period, the Office of Audits had one audit in process:

- Delegated Authority Working Capital Guarantee Audit

AUDITS ISSUED DURING PERIOD

Export-Import Bank's Financial Statements for Fiscal Year 2010 (OIG-AR-11-01, November 15, 2010)

http://www.exim.gov/oig/documents/FY_2010_Financial_Report.pdf

An independent public accountant (IPA), working under OIG supervision, conducted an audit of Ex-Im Bank's financial statements for fiscal year 2010. The IPA issued an unqualified opinion on Ex-Im Bank's financial statements. The IPA did not identify any deficiencies in internal control considered to be material weaknesses; however, the IPA identified a certain deficiency in internal control considered to be a significant deficiency. The IPA found no reportable noncompliance with laws and regulations.



The significant deficiency initially caused a \$133 million overstatement of the provision for credit losses. Management corrected this amount in the issued financial statements. The significant deficiency was a result of management's change in the method of accounting for subsidy expense to rectify a reconciliation difference in the Financing and Program Funds account as a result of the elimination of certain Standard General Ledger accounts. Management expected that the additional subsidy expense recorded as a result of this change would be eliminated during the re-estimate process, which turned out to be an incorrect expectation.

The recommended action to correct this deficiency was that management perform a more thorough analysis as part of any consideration to change an accounting treatment. The analysis should include consideration for the applicable accounting literature related to the issue and an evaluation of the implication of such change to the financial statements. Any assertion made should include an evaluation of the rationale supporting such assertion. A review of the analysis should be performed by an individual with the appropriate competency and authority. Such analysis should include all supporting documentation underlying the conclusion reached and evidence of review and approval should be documented. Depending on the significance of the change, it may be appropriate to consult with the U.S. Department of Treasury or/and Office of Management and Budget in regards to management's assessment.

During the annual financial statement audit, the IPA noted certain deficiencies related to Ex-Im Bank's internal control over financial reporting and other matters. OIG issued a summary of the findings and the recommendations identified by the IPA in connection with this audit. The summary is presented in the report titled Fiscal Year 2010 Financial Statement Audit – Management Letter Excerpt (OIG-AR-11-03E, January 6, 2011). <http://www.exim.gov/oig/documents/FinancialStatementReport2010.pdf>

The recommended actions to strengthen controls were as follows:

1. The Office of the Treasurer should have at least two competent individuals to perform a detailed review of the data input into the automated cash flow process to ensure that the risk of human errors in the manual aspect of the subsidy re-estimate process is minimized.



2. The Office of the Controller should identify the appropriate department to risk rate the sovereign claims portfolio. Also, a more detailed review of the monitored credits risk rating should be performed by the appropriate individuals to minimize human errors.
3. The Office of the Controller should coordinate with the Information Management and Technology Office to correct the code to ensure the expired contracts are properly removed from the Loan/Guarantee and Accounting system in accordance with management's policy.

***Fiscal Year 2010 Information Security Program and
Practices and Technical Configuration Reviews
(OIG-AR-11-02, December 15, 2010)***

The Federal Information Security Management Act (FISMA) requires an annual independent evaluation of Ex-Im Bank's information security program and practices. The OIG contracted with an IPA to determine whether Ex-Im Bank met FISMA requirements and to evaluate Ex-Im Bank's privacy program and privacy impact assessment process. The audit also included a technical review to determine if baselines and implemented configurations of routers and firewalls are adequate for protecting Ex-Im infrastructure and data.

The audit found that Ex-Im Bank adequately addressed many FISMA requirements. Ex-Im Bank

- maintained a Certification and Accreditation program;
- adequately implemented a security configuration management program;
- complied with security training program requirements;
- maintained an adequate Plan of Action and Milestones process;



- complied with remote access, as well as account and identity management guidance;
- adequately established an entity-wide continuous monitoring program;
- completed and tested contingency plans for major systems;
- developed incident reporting policies and procedures; and
- addressed three out of four findings identified in the prior year FISMA audit. Management has been working on the remaining open recommendation and plans to complete their work by January 31, 2012.

While the above are positive efforts, additional action is needed to comply fully with guidance issued by the Office of Management and Budget and the National Institute of Standards and Technology. The audit made one recommendation, which management implemented, that should strengthen Ex-Im Bank's information security.

Because this report addresses issues associated with information security at Ex-Im Bank, the OIG did not make the report available on-line.



ON-GOING AUDIT

Delegated Authority Working Capital Guarantee Audit

The OIG is completing audit fieldwork to evaluate Ex-Im Bank's policies and procedures for the Delegated Authority Working Capital Guarantee Program. The objective of this audit is to determine whether Ex-Im Bank supplied sufficient oversight of lenders granted Delegated Authority to approve Working Capital guarantees. The specific audit objectives are to evaluate the

1. oversight practices used to ensure that lenders comply with Ex-Im Bank's Delegated Authority Working Capital Guarantee Program requirements;
2. internal controls to ensure examinations performed by Ex-Im Bank are properly managed; and
3. internal controls over lenders to reduce/eliminate claims.

Audit work commenced in January 2011. The OIG anticipates issuing an audit report in May 2011.

GOVERNMENT ACCOUNTABILITY OFFICE (GAO)

The IG Act states that each Inspector General 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. During this period, GAO issued no reports on Ex-Im Bank.



AUDIT FOLLOW-UP

The IG Act and the Federal Financial Management Improvement Act of 1996 (FFMIA) require the Inspectors General of certain agencies to report “instances and reasons” when the Agency has not met intermediate target dates established in a remediation plan to bring the Agency’s financial management system into substantial compliance with the FFMIA. Ex-Im Bank is not subject to the FFMIA; however, it voluntarily seeks to comply with its requirements. During this reporting period, there were no events giving rise to a duty to report under FFMIA.

As of the end of this reporting period, there were no audit recommendations on reports issued over six months ago that have not been either fully implemented or are in the process of implementation.



OFFICE OF INVESTIGATIONS



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INVESTIGATIONS & HOTLINE ACTIVITY

MILESTONES & NOTEWORTHY ACCOMPLISHMENTS

During this reporting period, the Office of Investigations achieved several milestones and accomplishments towards meeting mission objectives of investigating trade finance and export credit fraud impacting Ex-Im Bank. Several actions have occurred in ongoing investigations resulting from investments made in training, infrastructure, and law enforcement resources by the Office of Investigations.

These actions include:

- cost savings and repayments of \$4,316,558 to Ex-Im Bank stemming from referrals of active investigative information
- two criminal judgments resulting in 24 months imprisonment, 84 months probation, and \$1,067,706 in criminal restitution and special assessments
- two arrests based on warrants obtained by Ex-Im Bank OIG Special Agents;
- two federal search warrants executed against subjects in ongoing investigations
- three criminal informations against subjects of ongoing investigations



- twelve investigative matters referred to the U.S. Department of Justice for prosecutive decision
- four plea agreements entered in court by subjects pursuant to ongoing investigative matters
- forty-eight pieces of investigative information referred to Ex-Im Bank Office of General Counsel concerning potential fraud and funds at risk to support enhanced due diligence efforts in approving, processing, and monitoring export credit loan guarantees and insurance policies



SUMMARY OF INVESTIGATIONS

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

SUMMARY OF INVESTIGATIVE ACTIVITY DURING PERIOD	TOTAL INVESTIGATIONS	NO. OF CLAIMS*	AMOUNT OF CLAIMS
Investigations open as of October 1, 2010	48	504	\$295,147,473
Opened during period	3	104	\$66,365,017
Closed during period	(14)	(74)	(\$13,152,674)
Investigations open as of March 31, 2011	37	534	\$348,359,816

* 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 INVESTIGATIONS	JOINT INVESTIGATIONS*	TOTAL
Matters Referred to the U.S. Department of Justice	8	4	12
Arrests Made	2	0	2
Search Warrants Executed	2	0	2
Criminal Indictments, Informations, Complaints, Pleas Entered	3	4	7
Criminal Judgments	2	0	2
Prison Time (months)	24	0	24
Probation (months)	84	0	84
Criminal Fines, Restitution, and Forfeiture	\$1,067,706	0	\$1,067,706
Administrative Actions **	5	1	6
Administrative Cost Savings and Repayments	\$4,216,558	\$100,000	\$4,316,558

* Joint investigations with other law enforcement agencies.

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



HOTLINE ACTIVITY

Ex-Im Bank OIG maintains a Hotline reachable by telephone, email, or mail 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, referral to other law enforcement authorities having jurisdiction, or referral to management for administrative action.

The OIG received eight Hotline reports during the reporting period. One was resolved by the Hotline administrator, three were referred elsewhere, and four were referred for investigation.

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

Hotline reports can be made:

by phone at 1-888-OIG-EXIM (1-888-644-3946)

by email to IGHotline@exim.gov

by mail or delivery service to

Ex-Im Bank OIG Hotline
Office of Inspector General
Export-Import Bank of the United States
811 Vermont Ave., N.W.
Room 976
Washington, DC 20571



INVESTIGATIONS

Criminals Use an Array of Methods to Defraud Ex-Im Bank Loan Guarantee and Export Credit Insurance Programs

Two of Ex-Im Bank's key programs — the loan guarantee program and the export credit insurance program — have been particularly susceptible to fraud schemes by foreign borrowers, U.S. based exporters, and other transaction participants, including deal brokers commonly referred to as “agents” or “finders” who assist in arranging the transactions and shipments. These two programs account for the majority of investigations currently underway. Each program offers different features to Ex-Im Bank customers, but criminal activity exploit certain processes within the programs in order to induce Ex-Im Bank to approve fraudulent loan guarantees or insurance coverage.

Loan Guarantee Program

Ex-Im Bank assists exporters by guaranteeing term financing provided by 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 loan guarantee coverage 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 includes the following:

Guilty Pleas Entered in Several Ex-Im Bank Fraud Schemes

During this reporting period, several defendants in Ex-Im Bank fraud cases have pleaded guilty in various judicial districts pursuant to ongoing investigations by Ex-Im Bank



OIG Special Agents. The pleas cap successful efforts by OIG Special Agents to detect and investigate a variety of fraud schemes used by the defendants and others to obtain cash loan proceeds from lenders guaranteed by Ex-Im Bank, then keep or send cash to foreign borrowers overseas. Once the loan has defaulted, Ex-Im Bank will pay the claim as guaranteed under the program. In these types of investigations, several parties may be involved to help falsify loan applications, create fake export and shipping records, and distribute stolen loan proceeds worldwide. At the end of this reporting period, the three defendants are awaiting sentencing in federal court and these investigations are continuing.

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.

Examples of successful investigative efforts within the Export Credit Insurance program during this reporting period include the following:

**Miami Resident Sentenced for Defrauding the
Export-Import Bank of the United States**

Miami resident Guillermo Sanchez was sentenced on November 1, 2010, by U.S. District Judge Gladys Kessler, to 48 months supervised release, 200 hours community service, and ordered to pay restitution in the amount of \$1,062,490 for his role in defrauding Ex-Im Bank of approximately \$854,000. Through the terms of his guilty plea, Sanchez has paid Ex-Im Bank \$1,062,490, which included penalties and interest.

Sanchez previously pleaded guilty in U.S. District Court in Washington, D.C. on April 29, 2010, to one count of conspiracy to defraud Ex-Im Bank and one count of mail fraud in connection with 10 loans guaranteed by Ex-Im Bank.



According to court documents and testimony, from approximately May 2006 through August 2007, Sanchez acted as a purported exporter of construction equipment to South America in ten different loan transactions. Sanchez's company, ACE Products, received loan proceeds based on false representations and Sanchez retained a portion of the money for his own personal benefit and use. The loans were obtained from a Florida bank and insured by Ex-Im Bank. Sanchez admitted that he and a co-conspirator prepared and submitted loan documents falsely reflecting that Sanchez purchased and shipped generators manufactured in the United States to South American customers. On or about August 2007, defaults on the loan transactions caused Ex-Im Bank to pay the Florida bank's claim for outstanding principal and accrued interest.

The scheme was investigated by Ex-Im Bank OIG Special Agents after bank staff referred information concerning the loan defaults. This case was prosecuted by the U.S. Department of Justice Criminal Division Fraud Section.

Miami Resident Arrested for Role in Allegedly Defrauding the Export Import Bank of the United States

U.S. Customs and Border Patrol officers in Atlanta, Georgia arrested Miami resident Carlos Luis Morano on November 8, 2010, as he arrived on a flight from Argentina. Morano was arrested based on a warrant obtained by Ex-Im Bank OIG Special Agents on charges that Morano conspired to commit wire fraud in connection with two Ex-Im Bank short-term, multi-buyer, loan insurance policies resulting in loan defaults and claims of approximately \$750,000 paid by Ex-Im Bank.

An arrest based on a criminal complaint is merely a charge and should not be considered as evidence of guilt. The defendant is presumed innocent until proven guilty in a court of law.

According to the criminal complaint, Morano owned and managed a business known as CLM Financing and Investment in Miami, Florida, which purported to be an investment planning company. Around 2009 through 2010, Morano conspired with others to obtain Ex-Im Bank insured loans for exporting U.S. goods overseas. Morano received fees or commissions for help in obtaining Ex-Im Bank insured loans that were intended to purchase U.S. manufactured goods for shipment to borrowers in Central America. As part of the loan guarantee, the exporters were required to submit invoices and shipping documents as evidence that the goods had been shipped. Morano and others conspired to create fake foreign buyers and falsify invoices and shipping documents and did not use the loan proceeds for the purchase and shipment of the goods guaranteed by Ex-Im Bank. Morano



was charged with conspiracy to commit wire fraud by knowingly executing a scheme or artifice, by means of false or fraudulent pretenses transmitted by wire, for purposes of obtaining money or property. In 2002, Morano also acted as an exporter in approximately 20 other Ex-Im Bank insured loans that subsequently defaulted, resulting in approximately \$1.5 million in losses to the U.S. government.

This case is being prosecuted by the U.S. Department of Justice Criminal Division Fraud Section and the U.S. Attorney's Office of the Southern District of Florida.

Miami Resident Sentenced to 24 Months in Prison for Defrauding the Export Import Bank of the United States

Miami resident Yader A. Padilla was sentenced to 24 months in prison on December 3, 2010, by the Honorable U.S. District Judge Paul C. Huck in U.S. District Court for the Southern District of Florida. Padilla had previously pleaded guilty on July 29, 2010 to a criminal information that charged him with conspiracy to commit wire fraud in a scheme to defraud Ex-Im Bank of approximately \$310,639.

According to court documents and testimony at the plea hearing, from approximately May 2009 through January 2010, Padilla falsely represented his Miami, Florida pharmacy as an exporter of U.S. manufactured pharmaceutical products. Instead of exporting the purported U.S. manufactured pharmaceutical products to South American buyers, Padilla and his co-conspirators misappropriated the money and utilized it for their personal gain. Padilla's loans were obtained from a Florida bank and insured by Ex-Im Bank. Padilla admitted that he and co-conspirators prepared and submitted false loan documents, including commercial invoices, packing lists, and bills of lading that falsely reflected that Padilla purchased and shipped approximately \$310,639 worth of pharmaceutical products to South American customers.

Padilla was arrested in Miami on May 5, 2010, by Ex-Im Bank OIG Special Agents pursuant to the criminal investigation. Padilla's arrest, conviction, and sentencing are part of a larger, ongoing investigation by Ex-Im Bank OIG into allegations of fraud concerning Padilla and other co-conspirators. In addition to his prison term, Padilla was ordered to serve 36 months supervised release after his confinement. Padilla was also ordered to serve 1,400 hours of community service and pay \$215,639 in restitution to the U.S. government.



The scheme was investigated by Ex-Im Bank OIG Special Agents after bank staff referred information concerning the suspicious loan defaults. This case was prosecuted by the U.S. Department of Justice Criminal Division Fraud Section.

Miami Exporter Arrested in Ex-Im Bank Fraud Case

In another ongoing investigation by Ex-Im Bank OIG Special Agents, a Miami exporter was arrested by U.S. Customs and Border Patrol officers at Miami International Airport on October 30, 2010, as he entered the United States from abroad. The arrest stemmed from a criminal arrest warrant obtained by Ex-Im Bank OIG Special Agents pursuant to ongoing investigative efforts examining export credit insurance fraud schemes in the Miami area. In these types of schemes, exporters seek and obtain export credit insurance backed by Ex-Im Bank for exporting products abroad. However, instead of shipping the goods, these individuals will then keep or split the cash loan proceeds with foreign parties who then default on the loan. The exporter has pleaded guilty and is awaiting sentencing in this matter. This investigation is continuing.

Ex-Im Bank Broker Removed from List of Registered Ex-Im Bank Brokers

During the course of ongoing investigative efforts, Ex-Im Bank OIG Special Agents found evidence that an Ex-Im Bank registered broker was in violation of Ex-Im Bank's *Insurance Broker Standards of Service and Conduct* and presented those findings to Ex-Im Bank officials. Specifically, it was found that the broker was aware that the owner of an investment firm in Miami, Florida, continued to be involved with Ex-Im Bank insurance policies after a 2008 Ex-Im Bank directive to the contrary. The broker's actions indicated that he failed to act with the utmost good faith and integrity with regard to Ex-Im Bank matters as required by the *Insurance Broker Standards of Service and Conduct*. As a result, the broker was instructed to have no direct or indirect involvement with any Ex-Im Bank insurance policy, insured or guaranteed transactions, or direct loan. Effective February 28, 2011, it was determined that it was in the best interest of Ex-Im Bank to remove both the broker and his company from the list of registered Ex-Im Bank brokers and to terminate Ex-Im Bank's broker agreement with each of them.



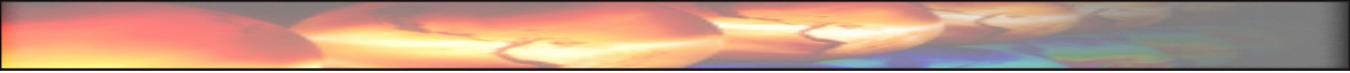
***OIG Special Agents Work Collaboratively with
Ex-Im Bank to Help Protect Funds at Risk***

To the extent permissible and within the confines and limitations of an investigation, OIG Special Agents work collaboratively to share investigative intelligence with divisions of Ex-Im Bank including the Office of General Counsel, the Credit and Risk Management Division, and the Asset Management Division. This collaboration helps identify potential and suspected fraudulent activity within Ex-Im Bank transactions and protect taxpayer funds at risk.

During this reporting period, the OIG shared developed investigative leads with Ex-Im Bank management resulting in enhanced monitoring of several existing transactions and due diligence reviews of proposed transactions. As an example, the OIG shared active law enforcement intelligence with Ex-Im Bank on five different matters concerning suspected criminal activity by participants involved in active policies or transactions under review. As a result of information provided in one particular matter, Ex-Im Bank denied nine claims totaling \$500,735. In another matter, Ex-Im Bank canceled one short term insurance policy in the amount of \$3,500,000. Additionally, the OIG was able to facilitate and collect repayments to Ex-Im Bank in the amounts of \$5,000, \$100,000, and \$210,823 respectively from three separate defendants in ongoing investigative matters.

Additionally during this reporting period, the OIG has made 48 referrals of investigative information to Ex-Im Bank Office of General Counsel to enhance due diligence efforts.

These efforts are part of the Office of Investigations' objective to expeditiously protect funds at risk concurrent with ongoing criminal investigations and to enhance Ex-Im Bank's existing capabilities in monitoring, oversight, and civil collection efforts involving transactions in which fraud is uncovered.



***OIG Combines Efforts to Educate the Export Community
on Identifying and Reporting Fraud, Waste, and Abuse***

On October 19, 2010, the OIG helped prepare and present a training session to Ex-Im Bank staff on ways to recognize and report a variety of fraudulent schemes within several Ex-Im Bank programs. The effort was spearheaded by the OIG and Ex-Im Bank Credit Review & Compliance division and presented with assistance from the Office of General Counsel. The purpose was to help illustrate some recognizable fraud scenarios and fraud risks associated with Ex-Im Bank's programs. The presentation successfully illustrated the collaborative efforts the OIG has established with internal Ex-Im Bank stakeholders, as well as other members of the lending and export community.



SEMIANNUAL SUMMARY OF CLOSED INVESTIGATIONS NOT RELEASED TO THE PUBLIC

1. This investigation was initiated based on a suspicious transaction involving the alleged shipment in 2006 of approximately 46,000 pounds of used jeans by an exporter insured by Ex-Im Bank. The buyer allegedly defaulted on payments and the exporter subsequently filed a claim in the amount of \$71,725.00 and received payment on January 12, 2007. However, during collection efforts by Ex-Im Bank, the buyer denied any involvement in the transaction and information appeared to indicate the shipment may not have occurred. Investigation found that a trailer of goods was apparently delivered to, but was never shipped out of, the Port of Baltimore and the dock receipt appeared to have been forged by parties unknown. The exporter denied any knowledge of fraud and claimed the buyer did in fact receive the goods in question. Other evidence and witnesses could not be located to further the investigation. On October 22, 2010, the facts of this investigation were discussed with the U.S. Department of Justice (DOJ) at which time they declined prosecution based on the small dollar loss, aged dates of shipment and claim payment, and the lack of sufficient evidence. Further investigation was determined not to be cost beneficial due to the low dollar amount of the claim and unlikelihood of producing any actionable results. This case was closed on October 22, 2010. (Case No. 07-0001-OGC-C)
2. This investigation was initiated based on information that used computer equipment was sold and shipped to a borrower in South America, along with cash from loan proceeds guaranteed by Ex-Im Bank. It was alleged that the computer equipment was of lesser value than represented to Ex-Im Bank and the difference in price was paid in cash to the foreign borrower and their financial advisor. Further investigation found that the exporter did transfer \$500,000 to the borrower and \$30,000 to the financial advisor, as alleged. Despite the transfer of cash, there was no dollar loss to the government since the borrower paid the loan back in full and there was no default or claim ever made to Ex-Im Bank. It was found that the exporter moved overseas and declined to be interviewed in this matter. Furthermore, it was determined that additional expenditures to travel and meet with the borrower and the financial advisor in this matter would prove unproductive due to acts occurring outside the statute of limitations and no dollar loss to the government. On



January 28, 2011, the facts of this investigation were provided to DOJ at which time this case was declined. The facts of this case were discussed with Ex-Im Bank Office of General Counsel for any enhanced due diligence deemed appropriate. This investigation was closed on February 10, 2011. (Case No. 08-0003-HOT-C)

3. This investigation was initiated based on information from a prospective borrower that he was approached by two individuals who misrepresented themselves to be associated with Ex-Im Bank. Based on these misrepresentations, the borrower alleged he spent approximately \$512,000 in funds, fees, and travel expenses in efforts to secure an Ex-Im Bank loan, and further alleged they proposed a scheme to divert those loan proceeds for use in private land deals. However, the complainant alleged no funding ever materialized. During the course of this investigation, it was found that no applications were submitted to (or any transactions approved by) Ex-Im Bank with respect to the above referenced allegations. Accordingly, there was no dollar loss to the U.S. government. The complainant was not cooperative and investigative efforts to interview and obtain documents from the complainant were unproductive. Subsequently, the complainant reported that he had received most of his

money back from the individuals in question. Investigators also obtained and reviewed documents provided by the subjects that failed to show any partnership or investment in a foreign real estate deal, as alleged, or any Ex-Im Bank deals involving the subjects. Furthermore, there was no evidence of any improper representations regarding their relationship with Ex-Im Bank. Attempts to facilitate interviews with the subjects through counsel were unproductive, further investigation was deemed not to be cost beneficial under the circumstances, and there was no dollar loss to the government. No evidence of a crime could be established and this matter was not presented to DOJ. This investigation was closed on February 24, 2011. (Case No. 08-0006-OGC-C)

4. This investigation was initiated based on information from a borrower who alleged his company entered into a loan agreement in 2008 with a lender and paid up front fees of \$350,000 although no Ex-Im Bank funding materialized. It was alleged that the lender misrepresented that they had a Master Guarantee Agreement (MGA) with Ex-Im Bank and were misleading prospective borrowers, collecting sizable up-front fees, and then failing to follow through with a loan. Examination of the lender's website found apparent misrepresentations



regarding their relationship with Ex-Im Bank. Ex-Im Bank issued a cease and desist letter to the lender in 2008, at which time the website was shut down and subsequently changed. The investigation found that the lender did have an MGA, at a prior time, which was subsequently revoked. However, investigative review of the loan agreement between the borrower and the lender failed to identify Ex-Im Bank as having any participation in the loan, nor could evidence be found that such representations were ever made to the borrower.

During the course of this investigation, another borrower made similar allegations. He had paid \$226,000 in extension fees to the lender for a loan that was never approved by Ex-Im Bank. Subpoenaed documents from the lender revealed communications with this second borrower that clearly informed the borrower that the lender no longer had any guarantees or association with Ex-Im Bank. Subsequently, this borrower's attorney reported that his client contributed to the loss by refusing to follow the attorney's advice as counsel in the matter.

In both cases, there was no dollar loss to the government. No evidence was found that the lender made any misrepresentations to the borrowers

or that any applications had ever been submitted by the lender to Ex-Im Bank concerning these borrowers. Based on this information, evidence of a crime could not be clearly established and no dollar loss to the government was incurred. This matter was not presented to DOJ. This investigation was closed on October 25, 2010. (Case No. 09-0001-OGC-PI).

5. This investigation was initiated to support an ongoing investigation by other law enforcement agencies involving several exporters fraudulently engaged in loan transactions guaranteed or insured by Ex-Im Bank. OIG Special Agents coordinated appropriately with these agencies and the U.S. Attorney's Office, at which time new allegations were developed and are currently being pursued by Ex-Im Bank OIG under a separate investigation. The above referenced matter remained open to provide logistical support and financial intelligence to participating law enforcement agencies and the U.S. Attorney's Office, to include the production of Ex-Im Bank records and database searches, claims data analysis, and investigative review of charging documents for accuracy as it pertains to Ex-Im Bank language. The investigation is still being pursued by those other agencies, but it has been determined that active participation



by Ex-Im OIG is not necessary to further judicial action in the matter. All investigative support has since been accomplished and, absent any active participation by Ex-Im Bank OIG, this case was closed on October 18, 2010. (Case No. 09-0002-OGC-C)

6. This investigation concerned an exporter who had filed 19 claims with Ex-Im Bank between 1997 and 2005 in connection with transactions involving a variety of South American buyers. Ex-Im Bank found indications that some of the buyers may not have existed or that other buyers had paid the exporter who failed to inform Ex-Im Bank. The total loss to the U.S. government based on the 19 claims was \$311,244. The last claim had been paid in 2005. Investigation found no other Ex-Im Bank transactions or claims associated with the exporter or his related companies. It was found that, during recovery efforts, the exporter admitted to collection agents he did not ship some goods, collected money from the borrowers, and received insurance proceeds from Ex-Im Bank. Investigative financial analysis of multiple accounts found the exporter's actual purchases and receipts from industry related suppliers, but was unable to connect specific product purchases to specific borrowers. Analysis of the four highest claims (totaling \$141,970) was conducted and

the related shipping documents were obtained. Investigative efforts were able to prove the bills of lading themselves were false. Information concerning the exporter and his related companies was provided to Ex-Im Bank officials for enhanced due diligence. OIG Special Agents interviewed the subject at which time he admitted to some instances wherein buyers did not receive goods but subsequently sought counsel in this matter. On October 18, 2010, this case was presented to the U.S. Attorney's Office of the Southern District of Florida, at which time they declined prosecution based on the low dollar loss and events beyond the statute of limitations. This case was closed on October 22, 2010. (Case No. 09-0006-OGC-C)

7. This case was initiated based on allegations that an exporter may not have shipped goods or equipment as represented to Ex-Im Bank and that collection officers from Ex-Im Bank could not locate some buyers. The loans defaulted, leading to four claims between January 2006 and September 2007 totaling \$167,952. Ex-Im Bank OIG Special Agents interviewed collection officials who reported that buyers could not be located and indicated the exporter may have exported some products to an affiliated business overseas rather than to one buyer. Investigation found no



prior criminal history or outstanding warrants concerning the subject in this matter and determined there had been no other Ex-Im Bank transactions or claims involving the subject. Despite the alleged concerns, the investigation was able to authenticate that the shipments did occur and the bills of lading that evidenced shipment to the buyers were legitimate. Furthermore, financial analysis found no evidence indicating any loan proceeds were sent to any of the foreign buyers. On December 2, 2010, this case was presented to the U.S. Attorney's Office of the Southern District of Florida, at which time they declined prosecution based on the low dollar loss and the lack of evidence of any fraudulent activity. This case was closed on December 7, 2010. (Case No. 09-0024-AMD-PI-C)

8. This investigation was initiated based on an anonymous letter to the OIG Hotline alleging that a senior Ex-Im Bank official circumvented hiring rules, provided an unjustified rating and cash award for a friend, and took expensive and unnecessary business trips to two foreign countries. Investigators interviewed senior Ex-Im Bank officials and reviewed appropriate personnel records, hiring records, award information, and travel records. In summary, it was found that all regulations, policies,

and procedures were followed with regard to hiring and the selection was made from a large pool of applicants. There was no evidence to indicate the process was unfair or uncompetitive. Analysis of the rating and award files and interviews with senior staff found no violations of rules or policies and the award justification was reviewed appropriately. A total of 18 travel authorizations and claims were reviewed and analyzed and it was determined that all travel was well documented and approved. Other staff members on similar business accompanied the individual and all travel was within allowable expenses and was appropriate. No improper conduct was found in this matter and there were no actionable results to be reported to Ex-Im Bank or the DOJ. This case was closed on October 14, 2010. (Case No. 10-0005-HOT-PI)

9. This investigation was initiated from a request for support from another law enforcement agency. It was alleged that certain subjects in an unrelated investigation were attempting to secure an Ex-Im Bank loan and may possibly be bribing foreign officials to help in the process. It was found that several letters of interest were submitted to Ex-Im Bank for potential deals, but no applications had been received or loans approved. Ex-Im Bank OIG Special Agents obtained financial records, but



no financial intelligence was found in this matter to support the allegations. Subsequently, it was learned by other law enforcement partners that the anticipated deal never materialized and there were no applications or loss to Ex-Im Bank. A review of the evidence with DOJ indicated that there were no chargeable offenses related to any violation affiliated with Ex-Im Bank. Accordingly, this investigation was closed on October 7, 2010. (Case No. 10-0013-LEO-C)

10. This investigation was initiated from statements made by an accountant that caused the lender and Ex-Im Bank to question whether or not he actually prepared a borrower's financial statements. About the same time, the borrower defaulted on three previous loans totaling \$4.8 million in losses to the government, but attributed those defaults to a business fire from which he was unable to recover. OIG Special Agents compared previous financial statements prepared by the accountant in past transactions over several years and found no discrepancies in signatures, letterheads, formats, or unusual variances in the figures. Interviews with Ex-Im Bank collection officers verified that the fire did occur and the location was inspected and photographs taken. Investigators contacted shipping lines and customs officials and were able to authenticate

that the shipments in each of the claimed transactions did in fact occur to the borrower. Ex-Im Bank officials and lending institution officials were interviewed. Other than a potential misunderstanding, no clear explanation was provided regarding the accountant's apparent discrepancy regarding his preparation of the statements. No indications were found of suspected fraud by the borrower. Investigation found that goods were shipped and, other than the initial conflicting statement to the lender, there did not appear to be any reasonable indication of a crime. Further investigation of this matter was deemed not to be cost beneficial or likely to produce further evidence to help refute or verify whether or not the accountant prepared the financial statement in question. This case was closed on January 20, 2011. (Case No. 10-0017-OGC-PI).

11. This case was initiated based on allegations that a prospective exporter, seeking insurance from Ex-Im Bank through an approved broker, sent a forged letter to the lender. The letter was purportedly from the broker to the exporter stating he had been "approved" for an Ex-Im Bank insurance policy. During the lender's due diligence process in May 2010, it was determined that the broker had neither authored nor signed the "approval" letter to the exporter. No policy was issued



and there was no dollar loss to the government. Investigation found no other transactions or claims involving the exporter in question. His name was provided to Ex-Im Bank for enhanced due diligence. Investigators interviewed Ex-Im Bank staff members, the broker, and officials from the lending institution. Several investigative techniques were utilized in an attempt to locate and track down the exporter in question, but he could not be located. It was determined that while further investigative effort may be successful in locating him, it would not be without significant effort, costs, and travel. Early in the investigation, this matter was discussed with DOJ and they indicated prosecution would not be forthcoming without a dollar loss or confession from the subject. Since there was no dollar loss in this matter, further investigative efforts were deemed not to be cost beneficial and this matter was closed on January 21, 2011. (Case No. 10-0019-OGC-C)

altered. The investigation included several interviews with various officials and examined financial records, exporter records, and transportation records. It was determined that the Mexican importation documents were accurate with respect to the contents and shipment, but only the name of the borrower was changed. According to customs officials, the alternation of the name most probably was an effort to avoid importation taxes in Mexico. The investigation was able to authenticate that the shipment did occur, the exporter had been partially paid before defaulting on the loan, and there were no indications that any of the loan proceeds were fraudulently sent back to the borrower. Based on this information, this matter was presented to the U.S. Attorney's Office of the Southern District of Florida and they declined prosecution on March 29, 2011. This case was closed on March 31, 2011. (Case No.10-0011-OGC-C).

12. This investigation was initiated based on information that a foreign buyer obtained a short-term loan to export soybean meal to Mexico and defaulted, after making no payments, causing a claim in the amount of \$1,182,115.94. Subsequently, he could not be located by collection agents and Mexican importation documents he submitted to the lender appeared to have been



CROSS-REFERENCE TO REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT

Set forth below are cross-references of the reporting requirements prescribed by the identified sections of the IG Act to the specific pages in this Semiannual Report where they are addressed.

<i>CITATION</i>	<i>REPORTING REQUIREMENTS</i>	<i>PAGE</i>
Section 4(a)(2)	Review of legislation and regulations	1 - 2
Section 5(a)(1)	Significant problems, abuses, and deficiencies	7 - 8
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	7 - 8
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed	12
Section 5(a)(4)	Matters referred to prosecutorial authorities	18
Section 5(a)(5)	Summary of instances in which information was refused	None
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs and recommendations that funds be put to better use	None
Section 5(a)(7)	Summary of each particularly significant report	7 - 10
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs	None
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	None
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by end of reporting period	None
Section 5(a)(11)	Significant revised management decisions	None
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees	None
Sections 5(a) (14), (15), & (16)	Peer Review conducted and outstanding recommendations	None

Office of Inspector General (OIG) Hotline

Reporting 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, regulations, 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.

Reporting Methods

You may submit your complaint or information by any of these methods:

In person: Office of Inspector General
Export-Import Bank of the United States
811 Vermont Avenue, NW
Washington, D.C. 20571

By Telephone: 1- 888-OIG-EXIM (1-888-644-3946)

By Mail: Ex-Im Bank OIG Hotline
Office of Inspector General
Export-Import Bank of the United States
811 Vermont Avenue, NW
Washington, D.C. 20571

By E-mail: IGHotline@exim.gov



Office of Inspector General
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