



Office of Inspector General
EXPORT-IMPORT BANK *of the* UNITED STATES



April 1, 2010 to September 30, 2010

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 the 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.

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

Or call: (202) 565-3908



EXPORT-IMPORT BANK
of the UNITED STATES

OSVALDO L. GRATACÓS
INSPECTOR GENERAL

October 26, 2010

Fred P. Hochberg
Chairman and President
Export-Import Bank of the U.S.
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 April 1, 2010 to September 30, 2010. 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. Twenty-million dollars in Ex-Im Bank cost savings arising from investigative work in collaboration with Ex-Im Bank management related to policy cancellations
2. Forty-five indictments, informations, arrests, and plea deals made as the result of this office's investigative efforts
3. Thirty-eight referrals to Ex-Im Bank management concerning potential fraudulent schemes and/or participants to support future enhanced due diligence efforts
4. Review of Ex-Im Bank's Economic Impact procedures
5. Follow up reviews of Ex-Im Bank's Medium-Term program
6. Audit of Ex-Im Bank's sponsored-travel procedures

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Transmittal Letter
Chairman Hochberg

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 Larry 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

***OVERVIEW &
CONGRESSIONAL
TESTIMONY***

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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 ten career professionals (five criminal investigators, three auditors, an attorney, and an administrative specialist). Since October 7, 2009, Deputy Inspector General and Counsel, Osvaldo L. Gratacós, had served as Acting Inspector General. Mr. Gratacós was confirmed by the U.S. Senate as Inspector General on September 29, 2010. During the reporting period, Ex-Im OIG has increased audit, evaluation, and investigative activity, a trend expected to continue in succeeding reporting periods.

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

- Regularly met 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
- The Acting Inspector General testified before the Subcommittees on Oversight and Investigations and International Monetary Policy and Trade, U.S. House Committee on Financial Services. The testimony focused on steps taken by Ex-Im Bank in promoting exports and achieving President Obama's National Export Initiative goals
- Met with other Export Credit Agencies to discuss and share steps to improve

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performance and operations and to discuss fraud trends in certain markets

- Created and filled a new position (Inspector) that will allow Ex-Im OIG to conduct on-site inspections throughout all phases of Ex-Im Bank transactions to assess transaction integrity and conformity to applicable laws and representations made to Ex-Im Bank — the incumbent has extensive capital and project finance experience within an international lending institution
- Expanded strategic partnerships and collaboration with other federal law enforcement agencies to further our abilities to investigate fraud
- Trained several of Ex-Im Bank's lending partners on identifying and reporting fraud, waste, and abuse in export programs
- 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
- 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 inspector general responses to the international financial crisis
- Assisted Ex-Im Bank leadership in assessing ways to improve programs and operations in anticipation of Ex-Im Bank's role as part of the National Export Initiative unveiled by President Obama during his State of the Union address
- Participated in the Council of Inspectors General on Integrity and Efficiency efforts in proposing legislative changes to the Paperwork Reduction Act, IG Reform Act, and IG Subpoena Authority bill

*Congressional
Testimony*

On September 29, 2010, the U.S. House of Representatives Committee on Financial Services invited Acting Inspector General Osvaldo L. Gratacós to provide testimony before a joint hearing of the Subcommittee on Oversight and Investigations and the Subcommittee on International Monetary Policy and Trade. The hearing addressed "Ex-Im Bank Oversight: The Role of Trade Finance in Doubling Exports over Five Years".

The hearing focused on the work of Ex-Im Bank — reviewing its activities to promote export growth, especially since the onset of the global financial crisis and recession which made credit availability more challenging for businesses. The subcommittees also assessed what role Ex-Im Bank is and should be playing in the Obama Administration's National Export Initiative to double exports over five years.

Mr. Gratacós' testimony highlighted the significant progress made by Ex-Im Bank in its outreach efforts to U.S. small businesses. He also outlined general challenges Ex-Im Bank is facing in achieving the goal of doubling exports over five years and increasing the participation of small business exporters. Some of these challenges include:

1. Inefficient and ineffective information technology (IT) platform
2. Compliance and oversight procedures for delegated authority
3. Enhancement of due diligence and credit underwriting practices and training efforts to address the surge in applications and potential decentralized application approval process
4. Limited staff resources
5. Need to develop appropriate performance standards and metrics
6. Properly develop simplified application processes, training, and educational materials for first-time exporters

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7. Continue collaboration and cooperation with other agencies, including the Small Business Administration and Department of Commerce in order to reach out to small businesses

A complete copy of Mr. Gratacós' testimony can be found at:

<http://financialservices.house.gov/Media/file/hearings/111/Gratacos092910.pdf>

OFFICE OF
AUDIT

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*The OIG completed six reviews
during the six months ended
September 30, 2010*

*Milestones
&
Accomplishments*

1. Sponsored Transactional Travel
2. Follow-Up of Audit Recommendations Reported In Medium Term Export Credit Program — Information Technology (IT) Systems, Support and Governance
3. Follow-Up of Audit Recommendations Reported in Medium Term Export Credit Program Credit and Fraud Risk Management and Business Process Improvement
4. Equal Employment Opportunity
5. Explicit Computer Usage
6. Evaluation Report Relating to Economic Impact Procedures

*At the end of the reporting period, the Office
of Audit had two reviews in process*

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

Audits Issued

*Sponsored Transactional Travel
(OIG-AR-10-04, June 04, 2010)*

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

The OIG conducted an audit of sponsored transactional travel taken by employees of Ex-Im Bank during FYs 2008 and 2009. The specific audit objectives were to determine whether non-federal sponsored transactional travel: (1) policies and procedures comply with federal regulations; (2) controls are adequate to ensure compliance with regulations; and (3) policies and procedures on the collection of reimbursements are adequate.

The audit found that Ex-Im Bank has the authority to accept reimbursement from a non-federal source for travel expenses incurred in connection to a Bank transaction. In fiscal years (FY) 2008 and 2009, Ex-Im Bank authorized 104 sponsored transactional trips from non-federal sources. Of these 104 trips, we selected a sample of 39 for our review. These 39 trips were associated with 25 transactions, and as of March 26, 2010, Ex-Im Bank approved 18 transactions, six were pending, and one withdrew from Ex-Im Bank's consideration. According to an Ex-Im Bank official, offers from non-federal sources to reimburse the agency for travel expenses are not accepted if the transaction does not have approval potential.

Ex-Im Bank generally complied with its established policies and procedures regarding the approval process, documentation requirements, and collection from sponsors. We did not identify a conflict of interest between the Ex-Im Bank employee and the sponsor. Additionally, travel authorizations contained the required documentation and approval by the employee's supervisor and Ethics Official.

Of the 39 sampled cases reviewed, the Office of the Controller wrote off approximately 2 percent of the billed amount. As of the end of FYs 2008 and 2009, the outstanding reimbursable balances for all sponsored travel were \$28,854 and \$158,266, respectively. These balances include sponsored transactional travel and other sponsored travel (e.g., conference, seminar, and speaking engagement). Ex-Im Bank did not separate sponsored travel reimbursable expenses by type.

While Ex-Im Bank's efforts were positive, we noted that improvements are needed in its policies and procedures to obtain travel expense reimbursement from the sponsor. We recommended that:

- The Office of Administration and Security Director develop a policy and related procedures to follow-up on travel vouchers not submitted within the established time frame
- The Office of Administration and Security Director establish procedures to review travel authorizations for accuracy
- The Assistant Controller establish procedures to review bills for accuracy prior to sending them to the sponsors

Subsequent to our fieldwork conducted for this audit, management implemented all recommended actions.

*Evaluations
Issued*

*Follow-Up of Audit Recommendations
Reported in Medium Term Export
Credit Program — Information
Technology (IT) Systems, Support and
Governance(OIG-EV-10-01, June 30, 2010)*

http://www.exim.gov/oig/documents/OIG_EV_10_01.pdf

The OIG contracted with an independent public accountant firm (IPA) to evaluate corrective action taken by management on findings and recommendations previously reported in *Medium Term Export Credit Program — Information Technology (IT) Systems, Support and Governance* (OIG-AR-09-05, June 12, 2009).

The evaluation found that Ex-Im Bank addressed many of the deficiencies. Although the specific recommendations may not have been implemented fully, Ex-Im Bank had taken the necessary actions to establish appropriate controls in most of the areas that needed strengthening. Based on these actions, we closed four of five recommendations reported in OIG-AR-09-05.

For the remaining open recommendation, the Office of the Chief Information Officer will publish an IT Strategic Plan, which will include specific Medium Term objectives, three months after the completion of Ex-Im Bank's Strategic Plan. The IT strategies and plans will align and integrate each program's IT requests with Ex-Im Bank-wide goals and priorities and address specific objectives and goals for the support of the Medium Term short term and long term objectives. The IT Strategic Plan is anticipated to be finalized by December 2010.

***Follow-Up of Audit Recommendations Reported
in Medium Term Export Credit Program Credit
and Fraud Risk Management and Business Process
Improvement (OIG-EV-10-02, July 7, 2010)***

http://www.exim.gov/oig/documents/Follow_Up_of_Audit_Recommendations_10_02.pdf

The OIG contracted with an IPA to evaluate corrective action taken by management on findings and recommendations previously reported in *Medium Term Export Credit Program — Credit and Fraud Risk Management and Business Process Improvement* (OIG-AR-09-04, March 30, 2009)

The evaluation found that Ex-Im Bank had taken the necessary actions to establish appropriate controls to address many of the deficiencies. Based on these actions, four of eight recommendations reported in OIG-AR-09-04 were closed at the time of this evaluation.

Subsequent to this evaluation, management had taken action to close three of the four open recommendations. The remaining open recommendation is to develop and document a strategic plan for the Medium Term program and strategies that management will deploy to achieve the goals, including the use of technology and targets for key performance measures. Management anticipates the plan to be finalized by October 31, 2010.

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Equal Employment Opportunity
(OIG-SR-10-01, August 17, 2010)

<http://www.exim.gov/oig/documents/EEO%20Final%20Report%20OIG-SR-10-01.pdf>

The OIG performed a limited review to address an inquiry from Senator Charles E. Grassley on the adequacy of Ex-Im Bank's Equal Employment Opportunities (EEO) program. Our specific objectives were to determine whether Ex-Im Bank has policies in place to promote EEO and assess the degree to which the Equal Opportunity and Diversity Programs (EODP) Office is independent.

We found that Ex-Im Bank has policies to promote EEO. However, the EODP Director should schedule a technical assistance review to be performed by the U.S. Equal Employment Opportunity Commission. This review was originally scheduled for March 2010 but was cancelled by the Director.

Because the EODP Director does not report directly to the agency head, Ex-Im Bank is exposed to the appearance that the EODP Office is not independent. Currently, the EODP Director reports to the Director of Human Resources and Senior Vice President of Resource Management. To strengthen Ex-Im Bank's efforts in accomplishing its EEO mission, we suggest that the Chairman and President direct the EODP Director to report directly to the Chairman and President.

The Senior Vice President and General Counsel stated that Ex-Im Bank will implement the suggested actions.

Explicit Computer Usage
(OIG-SR-10-02, August 26, 2010)

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

The OIG performed a limited review to address an inquiry from Senator Charles E. Grassley on the viewing, downloading, and possible distribution of pornography at Ex-Im Bank. Our specific objectives were to determine whether Ex-Im Bank has (1) policies on information technology use and disciplinary guidance and (2) controls to prevent and identify Ex-Im Bank employees accessing sexually explicit material on government computers.

Our evaluation found that Ex-Im Bank has policies and annual employee training on the proper use of government computers. Additionally, Ex-Im Bank's Policy 752 — *Employee Conduct and Discipline* provides the basic rules of discipline for Ex-Im Bank.

Controls are in place to block employee computers from accessing sexually explicit material, monitor computer activity, and take appropriate action to prevent further illicit access and report incidents. The Office of the Chief Information Officer maintains Internet and e-mail blockers to prevent access to prohibited sources, reviews activity logs daily, and takes necessary appropriate action. When employee misuse is identified, the Chief Information Officer submits a Security Incident Report for further processing by General Counsel. However, the OIG is not alerted to the incident.

General practice by government agencies is to report misconduct to the IG. We suggest that the Chief Information Officer includes the IG in the distribution of Security Incident Reports on computer misuse involving incidents referred to management for disciplinary actions.

The Chief Information Officer stated that incident reports will be provided to the IG after the Office of General Counsel reviews the reports.

***Evaluation Report Relating to Economic Impact Procedures
(OIG-EV-10-03, September 17, 2010)***

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

The OIG completed its evaluation of Ex-Im Bank's economic impact procedures, as most recently amended in April 2007. The objectives of this evaluation were to:

- Independently evaluate Ex-Im Bank's economic impact procedures as well as critiques and suggestions for improvement delivered by members of the Bank's Board of Directors and management, transaction participants, Congress, and other U.S. government agencies having a role in the economic impact review process. The observations and recommendations of the U.S. Government Accountability Office (GAO) from the 2007 report *Export-Import Bank — Improvements Needed in Assessment of Economic Impact* (GAO-07-1071) were also reviewed for this report.
- Identify opportunities to improve the efficiency and effectiveness of the economic impact procedures within the constraints of existing statutory requirements, the requirements of transaction proponents, and the resources available to Ex-Im Bank.

The evaluation determined that Ex-Im Bank's economic impact procedures can be revised to better implement the intent of Congress that the Bank's Board of Directors (not the Bank's officers and staff) decide economic impact cases. The procedures could also be revised to improve transparency and to make the economic impact review process more manageable for U.S. exporters and other participants. The small number of transactions requiring a full economic impact review that have been submitted to Ex-Im Bank in recent years suggests that the Bank's approach to economic impact analysis has discouraged U.S. exporters of capital equipment from applying for Ex-Im Bank support.

Implementation of the suggested actions made in this Report should reduce the uncertainty, delay, and cost associated with transactions requiring economic impact

review, and advance the Bank's mission of creating jobs for American workers by expanding U.S. exports. The suggested actions specifically addressed the following:

- Improve economic impact procedures and reports to better support the Board's Congressionally mandated role in deciding economic impact cases
- Develop improved criteria to guide the Board and staff in deciding economic impact cases
- The Bank should improve the transparency of its economic impact procedures and its economic impact determinations
- The Bank should improve the efficiency and responsiveness of the economic impact procedures by simplifying the process and reallocating resources

The OIG acknowledges active assistance and support for this report and does not claim sole credit for many of the findings and suggestions. The findings and suggestions were based on discussions with Ex-Im Bank's Policy and Planning Group, management and Board, as well as other interview subjects, including representatives of the Reviewing Agencies.

On-going Audits

***Ex-Im Bank's Financial Statements
for Fiscal Year 2010***

An IPA, working under OIG oversight, is performing an audit of Ex-Im Bank's FY 2010 financial statements. The IPA is also performing audit follow-up work on the seven recommendations made in the *FY 2009 Financial Statement Audit — Management Letter* (OIG-AR-10-03, March 9, 2010).

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

Audit work commenced in May 2010. The OIG anticipates the IPA will issue its opinion on the FY 2010 financial statements in November 2010.

***Fiscal Year 2010 Information Security Program and
Practices and Technical Configuration Reviews***

The Federal Information Security Management Act (FISMA) requires an annual independent evaluation of U.S. government agency information security programs and practices. The OIG contracted with an IPA to perform the FY 2010 FISMA review of Ex-Im Bank's systems.

The audit includes assessing Ex-Im Bank's progress in developing, documenting, and implementing an agency-wide program to provide security for the information and information systems that support operations and assets of Ex-Im Bank. The audit also includes reviewing Ex-Im Bank's privacy program and the privacy impact assessment process and performing audit follow-up work on the four recommendations made in the audit report *Fiscal Year 2009 Information Security Program and Practices and Technical Configuration Reviews* (OIG-AR-10-02, January 25, 2010) <http://www.exim.gov/oig/documents/jan2010audit.pdf>

Audit work commenced in July 2010. The OIG anticipates the IPA to respond to the Office of Management and Budget reporting requirements on the audit results in November 2010 and issue an audit report in December 2010.

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, the GAO referenced Ex-Im Bank in three GAO reports:



*Government
Accountability
Office*

***Reaching New Targets for Environmentally Beneficial Exports
Presents Major Challenges for Bank (GAO-10-682, July 2010)***

In FY 2008, Congress directed Ex-Im Bank to allocate 10 percent of its annual financing to renewable energy and environmentally beneficial products and services. For FYs 2009 and 2010, Congress directed Ex-Im Bank to allocate 10 percent to renewable energy and energy efficient end-use technologies.

GAO conducted this audit to review Ex-Im Bank's efforts to meet congressional directives concerning environmental exports financing. GAO found that Ex-Im Bank financing for environmentally beneficial exports in general, and the smaller renewable energy and energy efficient end-use portion, has been well short of the 10 percent congressional target.

GAO recommended that Ex-Im Bank (1) develop clear definitions for its subcategories of environmentally beneficial exports — specifically energy efficient end-use exports — and report its financing in these areas, and (2) consistently implement key strategic planning practices in this area.

Export Promotion: The Export-Import Bank's Financing of Dual-Use Exports (GAO-10-1052R, September 15, 2010)

Ex-Im Bank has statutory authority to provide loans, guarantees, and insurance to help finance U.S. exports of defense articles and services, provided that it determines these items are non-lethal and meant primarily for civilian use (dual-use)

As required by legislation, GAO reported on Ex-Im Bank's financing for dual-use exports in FYs 2007 through 2009. GAO reported that Ex-Im Bank did not finance any dual-use exports during this period. GAO found dual-use exports were last financed by Ex-Im Bank in FY 2002.

Export Promotion: Observations on the Export-Import Bank's Efforts to Achieve U.S. Policy Goals (GAO-10-1069T, September 29, 2010)

GAO testified before the Subcommittees on Oversight and Investigations and International Monetary Policy and Trade, Committee on Financial Services, House of Representatives on the role of Ex-Im Bank in promoting exports and achieving other U.S. policy goals. GAO reported that Ex-Im Bank has been identified as having a key role in the President's National Export Initiative of doubling exports in the next 5 years. Between FYs 2003 and 2008, Ex-Im Bank authorized financing averaging \$12.8 billion annually. In FY 2009, Ex-Im Bank had a record year, financing more than \$21 billion in 2,891 authorizations.

GAO's work on Ex-Im Bank's financing found Ex-Im Bank needs to improve its data systems for accurate reporting as well as its tracking of efforts to increase small business financing. Also, Ex-Im Bank needs to more consistently follow strategic planning practices on its environmentally beneficial exports financing. While Ex-Im Bank has taken a number of

steps in response to GAO recommendations, opportunities for improvement remain in assessing its financing with respect to small business and environmentally beneficial exports. Additional attention to these issues will enable Ex-Im Bank to develop better communication with Congress and other stakeholders regarding the balance between the small business and environmental export targets and the broader priorities in the National Export Initiative.

Recommended actions remain open on two audits reported in the previous Semiannual Report



***Audit
Follow-Up***

Medium Term Export Credit Program — Credit and Fraud Risk Management and Business Process Improvement (OIG-AR-09-04, March 30, 2009)

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

Of the eight recommendations, management reported that it had completed action on seven recommendations and plans to complete action on the remaining recommendation by October 31, 2010.

The remaining open recommendation is to develop a strategic plan for the Medium Term Program.

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*Medium Term Export Credit Program —
Information Technology (IT) Systems, Support, and
Governance (OIG-AR-09-05, June 12, 2009)*

<http://www.exim.gov/oig/documents/MTITauditreportfinal.pdf>

Management reported that corrective action had been completed on four of the five recommendations. The remaining open recommendation is to develop an IT Strategic Plan aligned with the Medium Term Program business plan. Management plans to complete action to satisfy this recommendation by December 2010.

***OFFICE OF
INVESTIGATIONS***

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*Milestones
&
Accomplishments*

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

These actions included:

- Achieving \$20,494,212 in cost savings for Ex-Im Bank stemming from referrals of active investigative information
- Obtaining twenty-three criminal indictments and six criminal informations against subjects of on-going investigations
- Twenty-four arrest warrants obtained and ten arrests made by Ex-Im Bank OIG Special Agents working both independently and jointly with other law enforcement partners
- Executing seven federal search warrants against subjects in on-going investigations
- Nine referrals of investigative matters to the Department of Justice for prosecutive decision
- Entering six plea agreements in court by subjects pursuant to on-going investigative matters
- Thirty-eight referrals of investigative information to the 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

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*Summary
of Investigations*

The 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 the Ex-Im Bank OIG Hotline. Evaluations that identify reasonable indications of possible fraud or illegality result in an investigation.

These investigations are summarized in the table below.

Summary of Investigative Activity During Period	Investigations Totals	No. of Claims*	Net Amount Of Claims**
Investigations open as of March 31, 2010	35	410	\$327,842,133
Opened during period	16	180	\$39,799,300
Closed during period	(3)	(86)	(\$72,493,960)
Investigations open as of September 30, 2010	48	504	\$295,147,473

* The number and net amount of claims subject to investigation. Not all investigations involve claims paid by Ex-Im Bank. 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.

** The net amount of claims may vary between reporting periods as post-default interest accrues and collection expenses are incurred and as the Bank obtains recoveries of funds through its civil collection efforts. Accordingly, the net dollar amount of claims reported is subject to fluctuation between reporting periods.

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

*Summary
of Investigative
Results*

Description	OIG	Joint Activities	Total
Matters Referred to the Department of Justice	6	3	9
Arrest Warrants Obtained	3	21	24
Arrests Made	1	9	10
Criminal Indictments, Informations, Complaints, Pleas Entered	4	31	35
Criminal Judgments	0	2	2
Prison Time (months)	0	31	31
Probation (months)	0	72	72
Criminal Fines, Restitution, & Forfeiture	0	\$3,673,223	\$3,673,223
Administrative Actions	17	1	18
Administrative Cost Savings & Repayments	\$19,194,212	\$1,300,000	\$20,494,212

Hotline Activity

The Ex-Im Bank OIG maintains a Hotline reachable by telephone, e-mail, or mail to receive reports of fraud, waste, and abuse in Ex-Im 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 four Hotline reports during the reporting period. Three were referred for investigation, and one is currently pending review.

Hotline reports can be made by phone at 1-888-EXIM-OIG (1-888-644-3946), by e-mail to IGHotline@exim.gov, or 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. NW, Washington, D.C. 20571.

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

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 (both summarized below) - 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 exploits certain processes within the programs in order to induce the Bank to approve fraudulent loan guarantees or insurance coverage.

Summary of Ex-Im Bank’s Loan Guarantee Program

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

Several examples of successful investigative efforts within Ex-Im Bank’s loan guarantee program during the reporting period include the following:

Export-Import Bank Stops Multi-million Dollar Fraud in Progress

Ex-Im Bank OIG Special Agents and Ex-Im Bank staff stopped a nearly \$6 million fraud in progress when it was discovered that the parties had lied during the underwriting process. Ex-Im Bank terminated its relationship with the lender for covering up the fraud. As a result of canceling the lender’s Master Guarantee Agreement, five pending loan applications totaling over \$7.4 million in requests for financing were also cancelled.

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The fraud was uncovered by Ex-Im Bank staff in the course of a due diligence check when they suspected false documents had been provided concerning the exportation and payment of millions of dollars in oil rig equipment. The equipment had allegedly been exported to Mexico. After referral to Ex-Im Bank OIG, Special Agents developed the evidence and information and, in close coordination with the Department of Justice's Fraud Section, moved to stop the transaction. The evidence gathered showed that the transaction was fraudulent and designed to lure Ex-Im Bank into guaranteeing a loan that, instead of resulting in an export of U.S. goods, would have instead resulted in the perpetrators splitting the cash proceeds.

To protect funds at risk, the OIG provided the evidence to Ex-Im Bank management that resulted in Ex-Im Bank's cancellation of the policy and pending transactions and terminating their relationship with the lender. The investigation is continuing in close coordination with the Department of Justice Criminal Division's Fraud Section.

***Texas Business Owner and a Mexican Citizen
Both Charged with Money Laundering and
Conspiring to Defraud Ex-Im Bank***

A Texas businessman and a co-conspirator have been indicted with money laundering and conspiring to defraud Ex-Im Bank of more than \$950,000. An indictment is merely an allegation and defendants are presumed innocent unless proven guilty in a court of law.

On August 11, 2010, a federal grand jury in the Western District of Texas returned an eight-count indictment against Leopoldo Parra, of El Paso, Texas, and Eduardo Rodriguez-Davalos, a Mexican citizen residing in El Paso. The indictment alleges that Parra, Rodriguez, and others defrauded Ex-Im Bank of more than \$950,000 by engaging in fraudulent and fictitious transactions purportedly involving U.S. and Mexican companies. Parra, Rodriguez, and their co-conspirators gave the lender false documents stating that U.S. goods had been purchased by, and shipped to, Rodriguez in Mexico. By providing the false documents to the lender, the

defendants defrauded both the lender and Ex-Im Bank by receiving the proceeds of the loan from the Lender and using them for personal gain. The loan was issued by a U.S. lending bank based in Baltimore which had insured the loan with a medium-term insurance policy from Ex-Im Bank. According to the indictment, Parra owned Poma Tools and Industrial Supplies, a Texas-based equipment dealer.

Parra and Rodriguez were summoned on August 13, 2010 to appear before a U.S. Magistrate Judge in El Paso. Parra and Rodriguez are each charged with one count of conspiracy to commit wire fraud, two counts of wire fraud, one count of conspiracy to commit money laundering, and four counts of money laundering concealment. They are each facing up to 20 years in prison and fines of up to \$500,000 or twice their gain or loss, whichever is greater.

The case is being prosecuted by the Department of Justice Criminal Division's Fraud Section and the U.S. Attorney's Office for the Western District of Texas. This case is being investigated by Ex-Im Bank OIG, the Internal Revenue Service, U.S. Immigration and Customs Enforcement, the Federal Bureau of Investigation, and the U.S. Postal Inspection Service.

***Six Persons Arrested for Ex-Im Bank Loan Guarantee
Fraud in Three Separate Investigations***

Pursuant to three other investigations concerning fraud within the Loan Guarantee Program, six subjects were arrested this period by Ex-Im Bank OIG Special Agents and other law enforcement partners engaged in joint operations with the Ex-Im Bank OIG. The subjects were arrested pursuant to federal arrest warrants issued for them in each of the investigations and cap on-going investigative efforts by the Ex-Im Bank OIG into the fraudulent sale of U.S. goods to foreign borrowers resulting in the production of false loan documents, false shipping documents, and the transfer of cash — in lieu of goods — to foreign borrowers who then default, causing Ex-Im Bank to pay the claim. These investigations are on-going.

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Summary of Ex-Im Bank's 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 the reporting period include the following:

Miami Resident Pleads Guilty to Conspiracy to Defraud the Export-Import Bank

Miami, Florida resident Guillermo Sanchez plead guilty to charges that he conspired to defraud Ex-Im Bank of approximately \$854,000. Sanchez plead guilty in U.S. District Court in Washington, D.C., to one count of conspiracy to defraud Ex-Im Bank and one count of mail fraud in connection with ten loans guaranteed by Ex-Im Bank.

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

According to court documents and testimony, Sanchez's company, ACE Products, received approximately \$853,642 in loan proceeds based on the false representations and Sanchez retained a portion of the money for his own personal benefit and use. 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 of approximately \$854,161.

Sentencing for Sanchez is scheduled for Nov. 1, 2010. The conspiracy charge carries a maximum prison sentence of five years and the mail fraud charge carries a maximum prison sentence of 20 years. Each charge also carries a maximum fine of \$250,000, or twice the gain or loss, whichever is greater. The defendant also faces a term of supervised release following any prison sentence.

The scheme was investigated by special agents of Ex-Im Bank OIG after bank staff referred information concerning the loan defaults. This case was prosecuted by Department of Justice Criminal Division's Fraud Section.

***Exporter Pleads Guilty to Conspiring to Defraud the
U.S. Export-Import Bank of more than \$24 Million***

Guillermo O. Mondino, of Miami, Florida, plead guilty to leading a scheme to defraud Ex-Im Bank of more than \$24 million. Mondino entered his guilty plea in U.S. District Court in Washington, D. C., before U.S. Magistrate Judge John M. Facciola. Mondino plead guilty to a two-count criminal information charging him with one count of conspiracy to defraud the United States and to commit mail fraud and one count of money laundering.

According to plea documents, Mondino was the owner of Texon Inc., an exporting company located in Miami. From April 2003 to May 2009, Mondino and others conspired to defraud Ex-Im Bank by submitting false and fraudulent information to Ex-Im Bank to obtain approximately \$24 million in loans and to misappropriate certain loan proceeds. Mondino prepared or instructed others to prepare false documents that would be submitted to lending banks and Ex-Im Bank to facilitate the fraudulent loan transactions. Mondino and his co-conspirators agreed that a

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smaller amount of the loan proceeds than was represented to Ex-Im Bank would actually be used to purchase U.S. goods for foreign buyers, as specified by Ex-Im Bank loan program requirements. In some cases, Mondino provided loan proceeds to borrowers in cash rather than using the proceeds to purchase goods to be shipped to the borrowers. He also commingled the loan proceeds with personal and other monies and transferred loan proceeds to bank accounts controlled by co-conspirators. Texon and its related entities retained approximately \$2.5 million of the loan proceeds and Mondino retained approximately \$170,000 of the loan proceeds for his own benefit and use.

Also according to plea documents, on September 8, 2008, Mondino transmitted by wire approximately \$217,647 of criminally derived money from a Texon bank account in Miami to the bank account of a freight forwarder in Laredo, Texas.

Mondino is set to be sentenced in January, 2011 by U.S. District Court Judge Ricardo M. Urbina and faces a maximum sentence of 15 years in prison and a \$500,000 fine. According to the plea agreement, he has agreed to pay more than \$2.7 million in forfeiture and to pay restitution in full as of the date of sentencing of more than \$12.5 million.

The case is being prosecuted by Department of Justice Criminal Division's Fraud Section and is being investigated by the Ex-Im Bank OIG, the Internal Revenue Service - Criminal Investigations Division in Washington, and the U. S. Postal Inspection Service Miami Division.

Four Persons Arrested for Ex-Im Bank Export Credit Insurance Fraud in Two Separate Investigations

Four persons were arrested by Ex-Im Bank OIG Special Agents and other law enforcement partners in two on-going investigations concerning fraudulent activity within the Ex-Im Bank export credit insurance program. The arrests were pursuant to federal arrest warrants issued for the subjects for their role in various fraud schemes involving the program and cap investigative efforts to examine allegations

of fraudulent claims associated with the program. Typically, fraud alleged within the program concerns the falsification of loan applications and shipping records associated with the need for export credit from a lender, and export credit insurance products offered by Ex-Im Bank. The loan proceeds are then embezzled by the parties, after which an insurance claim is submitted to, and paid by, Ex-Im Bank in the event of a loan default.

***Special Agents Collaborate with Ex-Im
Bank to Help Protect Funds at Risk***



***Other
Activities***

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

During this reporting period, the OIG communicated with Ex-Im Bank management to enhance the monitoring of several existing transactions and due diligence reviews of proposed transactions based on developed investigative leads. As an example, the Office of Investigations shared active law enforcement intelligence with Ex-Im Bank on 18 different matters concerning suspected criminal activity by participants involved in active policies or transactions under review. As a result of information provided, Ex-Im Bank cancelled several insurance policies and a lender's Master Guarantee Agreement resulting in a combined cost savings of \$20,494,212.

Additionally during this reporting period, the OIG has made 38 referrals of investigative information to the Ex-Im Bank Office of General Counsel concerning potential fraud and funds at risk.

These efforts are part of the Office of Investigations' objective to protect funds at risk concurrent with on-going criminal investigations and to enhance Ex-Im Bank's

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existing capabilities in monitoring, oversight, and civil collection efforts involving transactions in which fraud is uncovered.

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

The OIG completed the development of a training presentation to help Ex-Im Bank staff and members of the lending and export communities recognize and report a variety of fraudulent schemes within several Ex-Im Bank programs. The effort was spearheaded by the OIG to help train peers in the law enforcement community and was expanded to educate stakeholders in the lending and export communities in order to help illustrate some recognizable fraud scenarios and fraud risks associated with Ex-Im Bank programs.

On July 29, 2010, Ex-Im Bank OIG Special Agents combined efforts with the Federal Maritime Commission in Miami, Florida, to meet with senior staff at a local lending institution in order to present and discuss several fraud risks associated with exports. Various schemes involving false bills of lading and other shipping records were discussed with the participants who provided positive feedback and opportunities for enhanced lender oversight in Ex-Im Bank transactions. “Believe me, with all the checking we have in place today, a [false] bill of lading like that doesn’t stand a chance,” reported a lender representative.

Joint training efforts and material were also finalized this reporting period with the Ex-Im Bank Office of Credit Review & Compliance in order to present fraud training to Ex-Im Bank staff in several training sessions during the upcoming FY 2011.

***SUMMARY OF CLOSED
INVESTIGATIONS
NOT RELEASED TO
THE PUBLIC***

***SUMMARY OF CLOSED INVESTIGATIONS
NOT RELEASED TO THE PUBLIC***

APRIL 1, 2010 – SEPTEMBER 30, 2010

1. *This investigation was initiated in* coordination with the Department of Justice (DOJ) Civil Division to examine potential false claims act damages by lender(s) resulting from an \$80 million dollar fraud scheme between 1999 and 2005 that was investigated and concluded by the FBI. In summary, our investigation found no evidence of reckless disregard or willful negligence by the lender in the transactions. The loan officer at the lending bank declined to be further interviewed, however the FBI reported no conclusive evidence of any wrongdoing or complicity on the part of the loan officer or other lenders. Analysis of bank records reflected no undue compensation or unjust bonuses to the loan officer as a result of these loan approvals. A random sample of several claims were reviewed and interviews were conducted with several borrowers who confirmed meeting with lender representatives pursuant to their loans. Examination of loan documents indicated the lender did conduct several oversight steps such as checking suppliers, exporters, and borrowers as well as obtaining financial statements. Other documents and correspondence were found showing communication between the lender, brokers, suppliers, and exporters, to include follow-up correspondence with exporters with regard to delayed shipments. This correspondence was not indicative of fraud or complicity on behalf of the lender.

At the time this investigation was initiated by Ex-Im Bank OIG, eight individuals had already been convicted and sentenced for their involvement in the fraud scheme. Four other individuals have been indicted by a federal grand jury in the District of Columbia for their alleged involvement in the scheme — one has died prior to trial and the others are pending arrest and extradition from the Philippines.

Due to a lack of any evidence of reckless disregard or willful negligence on the part of the lender, the aged dates and time frames involved in most transactions, and the fact that Ex-Im Bank continues to pursue recovery efforts on each transaction, further investigation would not have likely produced actionable results and did not appear cost beneficial to continue. This investigation was closed with the concurrence of DOJ Civil Division on August 30, 2010. (Case No 07-0019-OGC-C)

2. *This investigation was initiated pursuant* to a lead stemming from another active OIG investigation, in which evidence was found that a foreign borrower contacted a U.S. exporter allegedly seeking an Ex-Im loan under false pretenses. There was no dollar loss to the U.S. government because the loan never materialized and was never guaranteed by Ex-Im Bank. During the course of investigation, evidence was found indicating that the borrower was willing to fraudulently secure the loan for cash, but was unable to meet with the exporter or otherwise take any additional steps in furtherance of the scheme. Financial analysis failed to identify any connections which would further the scheme and DOJ declined to pursue the matter in the absence of any such evidence. Ex-Im Bank OIG continued to monitor this borrower's actions in the course of the other related investigation with no further evidence produced. Due a lack of prosecutable evidence, the fact that there is no dollar loss to the U.S. government, and no transactions in progress involved this subject, further investigation was deemed not to be cost beneficial. This case was closed on June 10, 2010. (Case No. 10-0007-AGT-C)

3. *This investigation was initiated based* on information concerning questionable activity by an exporter's associate in a \$475,000.00 loan for the export of three heavy pieces of equipment. It was alleged that attempts to export this equipment failed when Ex-Im Bank refused to finance the transaction due to the exporter's high default rate. The exporter then allegedly used an associate as the exporter of record to get the loan approved. The loan defaulted after three payments and Ex-Im Bank paid the claim in the amount of \$252,616. The investigation and financial analysis was able to prove that two of the heavy equipment exports were fraudulent and orchestrated by the exporter in conjunction with other fraudulent activities already being addressed in another, on-going OIG investigation specifically concerning the exporter. The other piece of equipment was actually shipped by the associate and there was no other evidence proving the associate had knowledge of, or participated in the other exporter's fraud. Based on this information, DOJ declined prosecution of the associate. This case was closed on September 27, 2010, while the exporter's fraudulent activities continue to be pursued in another investigation. (Case No. 10-0010-AMD-PI-C)

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***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	5 - 6
Section 5(a)(1)	Significant problems, abuses, and deficiencies	None
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	None
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed	23 - 24
Section 5(a)(4)	Matters referred to prosecutorial authorities	27 - 29
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	12 - 19
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

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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
Export-Import Bank of the United States
811 Vermont Ave. N. W.
Washington D.C. 20571
Or call: (202) 565-3908**