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

Audit of the Export-Import Bank's Compliance with the Improper Payments Elimination Act of 2010 for Fiscal Year 2014 Reporting

May 12, 2015
OIG AR-15-06

EXPORT-IMPORT BANK
***of the* UNITED STATES**

INSPECTOR GENERAL

To: David Sena
Senior Vice President and Chief Financial Officer

From: Terry Settle TLS
Assistant Inspector General for Audits

Subject: Audit of the Export-Import Bank's Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2014 Reporting, Report Number: OIG AR-15-06

Date: May 12, 2015

This final report presents the results of our audit of Export-Import Bank of the United States' ("Ex-Im Bank" or "the Bank") compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for fiscal year 2014 reporting. The objective of this audit was to determine whether the Export-Import Bank was in compliance with the reporting requirements of IPERA for fiscal year (FY) 2014 reporting. In addition, we assessed the accuracy and completeness of Ex-Im Bank's improper payment reporting, the Bank's implementation of prior year audit recommendations, and the Bank's effort to reduce and recover improper payments.

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

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

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Executive Summary

Audit of Export-Import Bank's Compliance with the Improper Payments Elimination and Recovery Act of 2010 for FY 2014 Reporting

OIG-AR-15-06
May 12, 2015

Why We Did This Audit

Improper payments are payments made in the wrong amount, to the wrong entity, or for the wrong reason. They can result from processing errors, a lack of information, or fraud. In accordance with the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), each agency's Inspector General is required to perform an annual review of their agency's compliance with improper payments legislation. The audit objective was to determine whether the Export-Import Bank was in compliance with the reporting requirements of IPERA for FY 2014 reporting. In addition, we assessed the accuracy and completeness of Ex-Im Bank's improper payment reporting, the Bank's implementation of prior year audit recommendations, and the Bank's effort to reduce and recover improper payments.

What We Recommended

We recommended the Bank ensure: (1) *Ex-Im Bank's Process and Procedures for Improper Payments* align with OMB requirements for conducting risk assessments to include incorporating underwriting and approval of Ex-Im Bank transactions and estimates of claim payments for fraudulent or noncompliant transactions to determine susceptibility to significant improper payments. If authorizations and claim payments are deemed susceptible, the Bank should develop improper payment estimates, corrective action plans and annual reduction targets; (2) the *Improper Payment Risk Assessment Questionnaire* adequately addresses each program or activity at risk for improper payments by addressing the nine required risk factors plus any risk factors that are specific to the program and that the questionnaire responses are documented to support the Bank's risk determination; and (3) the *Improper Payment Risk Assessment* is reviewed and approved by management prior to the issuance of the Annual Financial Report and a copy of the review and approval are maintained. Management concurred with all three recommendations.

What We Found

The Office of Inspector General (OIG) found the Export-Import Bank of the United States ("Ex-Im Bank" or "the Bank") did not fully comply with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for fiscal year (FY) 2014 reporting. The Bank met five of the six IPERA reporting requirements, but did not conduct a program specific risk assessment for each program or activity as required for compliance.

The Bank developed a process for assessing improper payment risk; however, its assessment did not cover all activities or consider all risk to adequately determine whether the Bank had any programs or activities susceptible to significant improper payments. Specifically, (1) underwriting and approval of Bank transactions including direct and guaranteed loans and insurance were not adequately assessed for improper payments according to the nine minimum risk factors; (2) the risk assessment did not consider claims for transactions with unconditional guarantees – an important risk factor; and (3) Ex-Im Bank's risk assessment questionnaire was not sufficient to support its low risk determination for significant improper payments.

We found Ex-Im Bank's risk assessment for FY 2014 reporting provided limited insight into the actual risk of significant improper payments. As a result, the Bank's improper payment reporting is incomplete and the true risk of significant improper payments is unknown.

Although the Bank did not fully comply with IPERA, the OIG recognizes the Bank's efforts to improve its improper payment review process. Specifically, the Bank conducted an interim assessment on authorizations for the FY 2014 reporting cycle. In addition, the Bank plans to include claim payments for transactions with unconditional guarantees and transactions with inappropriate underwriting and approval decisions in the next reporting cycle.

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

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Introduction

This audit report presents the results of our audit of Export-Import Bank's ("Ex-Im Bank" or "the Bank") compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The objective of this audit was to determine whether the Export-Import Bank was in compliance with the reporting requirements of IPERA for fiscal year (FY) 2014 reporting. In addition, we assessed the accuracy and completeness of Ex-Im Bank's improper payment reporting, the Bank's implementation of prior year audit recommendations, and the Bank's effort to reduce and recover improper payments. To answer our objective, we reviewed the Office of Chief Financial Officer's (OCFO) policies and procedures for implementing IPERA, which required the Bank to assess FY 2013 transactions for the FY 2014 reporting period. We also interviewed Bank officials responsible for completing the Bank's improper payment risk assessment procedures and analyzed the supporting documents to verify the accuracy and completeness of the Bank's improper payment reporting. In addition, we reviewed documentation to determine if prior year audit recommendations had been implemented. For more details on the audit scope and methodology see Appendix I.

We conducted this performance audit from December 2014 through April 2015 in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Each year, the Federal Government wastes billions of taxpayer dollars on improper payments. To reduce improper payments, the President signed into law the Improper Payments Information Act of 2002 (IPIA). Congress amended IPIA by enacting the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). As amended, IPIA requires agencies to review their programs and activities each fiscal year and identify those susceptible to significant improper payments. Agencies must report in their annual Performance and Accountability Report (PAR) or Agency Financial Report (AFR) estimated significant improper payments and actions to reduce them. The law requires agencies to examine "the risk of, and feasibility of recapturing, improper payments in *all* programs and activities" that are recognized as programs by the public, Office of Management and Budget (OMB) or Congress, and those that entail program management or policy direction. In addition, Inspectors General are required to determine whether their respective agencies are compliant with IPERA and may also evaluate the accuracy and completeness of agency reporting and performance in reducing and recapturing improper payments.

Ex-Im Bank Programs and Activities

Ex-Im Bank is an independent executive agency and a wholly-owned U.S. government corporation. Ex-Im Bank is the official export-credit agency of the United States and offers

export financing through four main programs:

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

As of September 30, 2013, Ex-Im Bank had a total exposure of $113.8 billion which was comprised of 71 percent guarantees, insurance, and working capital transactions, with direct loans capturing the remaining 29 percent. During FY 2013, Ex-Im authorized $20.5 billion for guarantees and insurance and $6.8 billion for direct loans.

OMB Guidance

The OMB is responsible for issuing guidance to agencies for implementing the requirements of IPERA. The implementing guidance found in OMB Circular A-123, Appendix C[1] was modified on October 20, 2014[2] to transform the improper payment compliance framework to create a more unified and comprehensive set of requirements. The revised guidance applicable to Ex-Im Bank's improper payment assessment was effective for the FY 2014 reporting period. The guidance requires federal agencies to complete the following steps to comply with IPERA:

- Step 1: Review all programs and activities and identify those that are susceptible to significant improper payments.[3]
- Step 2: Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities that are identified in Step 1 as susceptible to significant improper payments.

[1] OMB Circular A-123, Appendix C, Parts I and II (M-11-16, April 2011) and Part III (M-10-13, March 2010).
[2] OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments (M-15-02, October 2014).
[3] Beginning with FY 2014 reporting and beyond, "significant improper payments" are defined as gross annual improper payments (i.e., the total amount of overpayments and underpayments) in the program exceeding (1) both 1.5 percent of program outlays and $10,000,000 of all program or activity payments made during the fiscal year reported or (2) $100,000,000 (regardless of the improper payment percentage of total program outlays).

- Step 3: Implement a plan to reduce improper payments.
- Step 4: Report an estimate of the annual amount and rate of improper payments for all programs and activities determined to be susceptible to significant improper payments in the AFR or PAR.

Improper Payment Review and Reporting by Ex-Im Bank

From FY 2011 to FY 2014, Ex-Im Bank conducted risk assessments on three areas of payments - administrative payments, claim payments and loan disbursements using various methods to identify and measure risk of significant improper payments. Starting in FY 2013, the OCFO: (1) compiled the results of risk assessment questionnaires completed by responsible bank officials for each payment type; (2) summarized the payment controls that helped prevent and detect improper payments; (3) compiled and analyzed the total amount of rejected payments for changes in activity from the prior year; (4) estimated insurance claim payments that may have involved fraud based on historical data;[4] (5) compiled a list of newly identified participants of Ex-Im Bank programs that committed fraud against the Bank to identify any potential improper payments; and (6) reviewed OIG reports focused on the payment processes.

In each year from FY2011 to FY 2014, the Bank assessed the risk of improper administrative payments, claim payments and loan disbursements to be low due to the internal controls in place, the nature of the disbursements and the results of the internal risk assessment questionnaires. As a result, the Bank determined it was not susceptible to significant improper payments and did not obtain or report valid statistical estimates of improper payments for these areas. For FY 2011 through FY 2013, the OIG's annual IPERA audits found the Bank to be in compliance with IPERA.

Planned Improvements to Ex-Im Bank's Improper Payment Review Process

While the OIG's previous IPERA audits found the Bank to be in compliance with IPERA, recommendations were made to improve the process including a recommendation that claim payments resulting from fraudulent transactions with unconditional guarantees should be considered improper. Management took the position that guarantee agreements require the Bank to make the claim payments even if fraudulent information was provided by the borrowers and therefore, the payments should not be considered "improper." The Bank informed the OMB of this rationale and the OIG obtained the OMB's informal verbal concurrence in October 2012. As a result, the OCFO continued with this position for their FY 2013 and FY 2014 improper payment reviews.

In October 2014, the OIG met with the OMB to discuss the revised improper payment guidance, which was in draft, and the Bank's position regarding the treatment of claim payments resulting from fraud. The OIG and OMB also discussed the treatment of other noncompliance on transactions with unconditional guarantees and the risks of improper payments resulting from inappropriate underwriting and approval decisions (authorizations). The OIG expressed concerns that the Bank was not properly considering these areas in its improper payment risk

[4] Starting in FY 2013, Ex-Im Bank estimated the amount of insurance claim payments that may have involved fraud to be zero.

assessment process. The OMB supported the OIG's positions but did not provide definitive guidance. Instead, the OMB advised the OIG to conduct benchmarking with OIGs of agencies with similar programs. Additionally, the OMB advised the OIG to further discuss the issues with the Bank and request a formal legal opinion from the OMB if necessary. The OIG conducted the benchmarking, which was supportive of the OIG's positions, and met with the Chief Financial Officer (CFO) to revisit the Bank's positions. Through these discussions, the CFO and OIG reached agreement that claim payments for fraudulent transactions or noncompliant transactions with unconditional guarantees and transactions with inappropriate underwriting and approval decisions could be considered improper payments.

While the Bank did not have time to revamp its entire review process for the FY 2014 reporting period, it did take steps to conduct an interim assessment on authorizations. This interim assessment focused on the controls to prevent fraudulent authorizations that could lead to future improper payment claims. Although, the interim assessment did not fulfill all of the IPERA requirements, we commend the Bank for recognizing the need to improve its assessment of this area.

Ex-Im Bank provided an outline of their improper payment review process for the next reporting cycle. Specifically, for its FY 2015 reporting, the Bank has committed to (1) having more stakeholders involved with the risk assessment questionnaire including underwriting management; (2) testing of sample authorizations to identify any improper authorizations for guarantees, loan, and insurance authorizations; and (3) reviewing insurance and guarantee claim payments, including those for unconditional guarantees deemed fraudulent that will be provided by the OIG. We believe these changes could significantly enhance the Bank's improper payment review process and help the Bank fully comply with the IPERA reporting requirements in future fiscal years.

Results

Ex-Im Bank was not fully compliant with the reporting requirements of IPERA for FY 2014. We found Ex-Im Bank properly reported its annual improper payment risk assessment in its FY 2014 AFR. We also found Ex-Im Bank addressed a prior year recommendation by noting in its AFR that efforts to reduce and recover improper payments were not cost effective. However, we found the Bank did not comply with one of the six reporting requirements of IPERA for FY 2014[5] and therefore, was not fully compliant with IPERA. The OMB provides specific guidance on what each agency Inspector General should review to determine if an agency is compliant with IPERA. Table 1 summarizes the six IPERA requirements and the results of our review of Ex-Im Bank's compliance. While Ex-Im Bank has made efforts to begin improving its improper payment review process for future fiscal years, per the OMB, "if an agency does not meet one or more of these requirements, then it is not compliant under IPERA.[6]"

[5] With OMB's approval, Ex-Im Bank performs its improper payments assessment one year in arrears, meaning the analysis for FY 2013 is performed in FY 2014 and reported in Ex-Im Bank's 2014 AFR.

[6] OMB Appendix C to Circular No. A-123 Requirements for Effective Estimation and Remediation of Improper Payments M-15-02 dated October 20, 2014 Part II Section A (3).

Table 1. Summary of Ex-Im Bank's Compliance with IPERA Requirements

IPERA Requirement ***Did the agency…***	**Yes, No or Not Required**
Publish an AFR or PAR for the most recent fiscal year and post that report and any accompanying materials required by OMB on the agency website?	Yes[7]
Conduct a program-specific risk assessment for each program or activity?	No
Publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments as required?	Not Required based on the Ex-Im Bank Risk Assessment for FY 2014.
Publish programmatic corrective action plans in the PAR or AFR as required?	Not Required based on the Ex-Im Bank Risk Assessment for FY 2014.
Publish and met annual reduction targets for each program assessed to be at risk and measured for improper payments?	Not Required based on the Ex-Im Bank Risk Assessment for FY 2014.
Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR?	Not Required based on the Ex-Im Risk Assessment for FY 2014.

Finally, we found the Bank did not implement one of the two recommendations issued from our prior audit report on improper payments related to the Bank's risk assessment process. Specifically, the Bank did not properly document and maintain evidence of Ex-Im Bank management's approval of the risk assessment prior to reporting the results in the AFR. As a result, we are including a similar recommendation in this report.

We made three recommendations to correct the issues identified and management concurred with all three recommendations.

Finding: Ex-Im Bank Did Not Fully Comply with IPERA for FY 2014

Ex-Im Bank complied with five of the six reporting requirements of IPERA for its FY 2014 reporting. However, since it did not conduct a program specific risk assessment for each program or activity, it did not fully comply with IPERA for FY 2014. IPERA requires federal agencies review their programs and activities to identify those that are susceptible to significant improper payments – a process known as a risk assessment. Further, IPERA lists nine qualitative risk factors that agencies, at a minimum, must consider in their risk assessment. While Ex-Im Bank did develop a process for assessing improper payment risk, its assessment did not cover all activities or consider all risks to adequately determine whether the Bank had any programs or activities that were susceptible to significant improper payments. Specifically, (1) underwriting and approvals of Bank transactions including direct and guaranteed loans and insurance were not adequately assessed for improper payments according to the nine minimum risk factors; (2) the risk assessment did not consider claims on transactions with unconditional guarantees – an important risk factor; and (3) Ex-Im's risk assessment questionnaire was not sufficient to support its low risk determination for significant improper payments. Overall, we found Ex-Im Bank's risk assessment for FY 2014 reporting provided limited insight into the actual risk of significant improper payments. As a result, the Bank's improper payment reporting is incomplete and therefore, the true risk of significant improper payments is unknown.

[7] http://www.exim.gov/about/library/reports/annualreports/2014/.

Underwriting and Approval of Ex Im Bank Transactions Were Not Adequately Assessed for Improper Payment Risks

Ex-Im Bank's improper payment risk assessment for credit approvals or authorizations, including original eligibility and underwriting decisions, did not comply with IPERA requirements. Specifically, the risk assessment for authorizations did not consider all nine minimum risk factors required by OMB guidance issued in October 2014. The authorization risk assessment for this reporting cycle included four assessments: (1) a description of processes and procedures designed to prevent fraudulent authorizations, (2) the results of a recent internal audit on consistency and accuracy of the underwriting process of the Individual Delegated Authority, (3) a statement that all Bank transactions undergo Character, Reputational and Transactions Integrity checks, and (4) the results of audit reports prepared by the agency OIG and the financial audit by Deloitte & Touche. However, our review concluded the assessment was not in compliance as it did not address all nine minimum risk factors as shown in Table 2 below. The OMB guidance states agencies must institute a systematic method of reviewing and assessing their programs, which may take the form of either a quantitative analysis based on a statistical sample or a qualitative evaluation. At a minimum, the Bank was required to take into account the nine risk factors listed in Table 2.

Table 2 Ex-Im Bank's Authorization Risk Assessment Compared to Required Risk Factors

Nine Qualitative Factors[8]	**Risk Assessment Process Addressing the Risk Factor**
1. Whether the program or activity reviewed is new to the agency	Not addressed
2. The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts	Not addressed
3. The volume of payments made annually	Not addressed
4. Whether payments or payment eligibility decisions are made outside of the agency	Partially addressed
5. Recent major changes in program funding, authorities, practices, or procedures	Not addressed
6. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate	Not addressed
7. Inherent risks of improper payments due to the nature of agency programs or operations	Partially addressed
8. Significant deficiencies in the audit reports of the agency including but not limited to the agency Inspector General or the Government Accountability Office report audit findings or other relevant management findings that might hinder accurate payment certification	Partially addressed
9. Results from prior improper payment work	Not Applicable

Previously, Ex-Im Bank did not include a risk assessment for authorizations because the Bank did not recognize an improper eligibility or underwriting decision could be considered an

[8] Office of Management and Budget's Appendix C to Circular No A-123, Requirements for Effective Estimation and Remediation of Improper Payments, M-15-02, dated October 20, 2014.

improper payment. Federal regulations[9] for IPERA state an improper payment includes a commitment for a future payment, such as loans, loan guarantees and insurance subsidies. For this reporting cycle, Bank officials did recognize the need to include authorizations in their risk assessment process, but did not have the time to fully complete this assessment. While we found the risk assessment for authorizations was not in compliance with IPERA for FY 2014, the Bank has recognized the importance of including its risk assessment plan for the next reporting cycle.

Conducting a risk assessment that encompasses the eligibility and underwriting of transactions is important based on the dollar amount of Ex-Im Bank authorizations. In FY 2013, Ex-Im Bank authorized $27 billion in direct loans, loan guarantees and insurance policies. With this level of authorizations, it is possible this area could be susceptible to significant improper payments as the OMB defines "significant" as $100 million regardless of the improper payment percentage of total program outlay.[10]

Risk Assessment of Claims on Transactions with Unconditional Guarantees Could be Improved

In the FY 2011 audit of Ex-Im Bank's compliance with IPERA[11], we reported the Bank did not include required claim payments resulting from fraudulent transactions with unconditional guarantees and made the recommendation to do so. However, the Bank took the position that under the terms of a guarantee agreement, Ex-Im Bank was legally required to make the claim payment to the guaranteed lender even if the applicant obtained the underlying credit or insurance by providing fraudulent information and; thus, these payments could not be considered improper. The Bank informed the OMB of this rationale, and the OIG obtained the OMB's verbal concurrence. As a result, Ex-Im Bank continued with their interpretation of IPERA guidance for their FY 2013 and FY 2014 reviews and did not include any required claim payments resulting from fraudulent transactions with unconditional guarantees as improper payments in its risk assessment for FY 2014.

In October 2014, the OIG met with the OMB to discuss the revised improper payment guidance which was in draft and the Bank's position regarding the treatment of claim payments resulting from fraud. The OIG and OMB also discussed the treatment of other noncompliance on transactions with unconditional guarantees and the risks of improper payments resulting from inappropriate underwriting and approval decisions (authorizations). The OIG expressed concerns that the Bank was not properly considering these areas in its improper payment risk assessment process. The OMB supported the OIG's positions but did not provide definitive guidance. Instead, the OMB advised the OIG to conduct benchmarking with OIGs of agencies with similar programs. Additionally, the OMB advised the OIG to further discuss the issues with the Bank before requesting a formal legal opinion from the OMB. The OIG conducted the

[9] Improper Payments Elimination and Recovery Act of 2010 (IPERA).

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

[11] Evaluation of Ex-Im Bank's Compliance with the Improper Payments Elimination and Recovery Act of 2010 (OIG-ev-12-01, March 12, 2012.

benchmarking, which was supportive of the OIG's positions, and met with the CFO to revisit the Bank's positions. Through these discussions, the CFO and OIG reached agreement that claim payments for fraudulent transactions or noncompliant transactions with unconditional guarantees and transactions with inappropriate underwriting and approval decisions could be considered improper payments.

The OMB guidance defines an improper payment as any disbursement (including commitments for future payments such as loans, loan guarantees, and insurance subsidies) that is based on incomplete, inaccurate, or fraudulent information. By omitting such claim payments from the risk assessment, Ex-Im Bank's improper payment reporting was incomplete and not in compliance with IPERA

While we found the claim payment risk assessment for FY 2014 was not complete, we are encouraged by the Bank's agreement to improve its process. The Bank provided an outline for the Improper Payment Risk Assessment for the next reporting cycle which includes a review of unconditional claim payments, including those that may be deemed fraudulent, for improper payments.

The Bank's risk assessment process to determine if claim payments for FY 2014 reporting were susceptible to significant improper payments included a review of insurance and guarantee claim payments provided by the OIG. The Bank reviewed the OIG listing of 36 insurance and guarantee claim payments totaling $18.2 million that occurred in FY 2012, FY 2013 and FY 2014. The Bank determined that eight of these claims totaling $7.9 million resulted in fraudulent transactions. However, the Bank did not consider these claims in its risk assessment because the claims were paid before fraud was identified. Based on the OMB definition of an improper payment, the claims paid on these fraudulent transactions should have been considered in Ex-Im Bank's risk assessment.

Ex-Im Bank's Risk Assessment Questionnaire Was Insufficient to Support its Low Risk Determination for Significant Improper Payments

Ex-Im Bank's Improper Payment Risk Assessment Questionnaire needs to be strengthened to ensure the improper payments risk level determination is based on reliable information. The questionnaire was written by KPMG, LLP to measure the level of risk of improper payments based on the quality of internal controls. The questionnaire was based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework. The Bank began using the questionnaire in 2008 to identify programs susceptible to improper payments; however, it has not been updated to reflect the needs and requirements of IPERA. Specifically, there was no Bank requirement that questionnaires have documentation to support the responses, as required by the OMB, and no weight was given to risk factors with greater impact. The OMB guidance states the agency is responsible for maintaining documentation to demonstrate all IPERA requirements were met which would include documentation to support the Bank's low risk determination for significant improper payments.

We reviewed all six risk assessment questionnaires and the process for completing them. The questionnaire consisted of 60 closed-ended questions grouped by the five components of internal

control (control environment, risk assessment, control activities, information and communication). The questionnaire was completed by six Bank officials for four different types of payments made at the bank:

1. Claims and/or Vouchers
2. Contract Payments and/or Invoices
3. Direct Loans/guarantees/Insurance (Servicing)
4. Loan guarantees

The questionnaire itself contained no instructions and there was minimal guidance provided to bank personnel on how to complete the questionnaire. Furthermore, all six individuals who completed the questionnaire relied on their professional knowledge to respond to the questions, and only one person maintained documentation to explain their rationale for each response. Without documentation supporting the responses, there is no way to verify whether the questionnaire is completed with a thorough understanding of the purpose of IPERA.

In addition, the equal weighting to all questions suggested each risk factor had the same impact on every payment type. A low risk score is 0-11, a medium risk score is 12-28 and a high risk score is 29 or greater. The average score for the five completed questionnaires was eight; however, the scores did not account for the impact each risk has on the specific program area under review. IPERA requires the agency assess nine risk factors plus any risk factors that are specific to the program. However, many of the 60 listed risk factors on the questionnaire were not specific to an improper payment program and were either too general in nature, lacked context or were not applicable to all business units completing the questionnaire. For example, there were questions about employees bringing problems to management's attention, the accessibility of policies and procedures and whether the program was in its last year of operation. None of these questions were relevant to an improper payment review.

Once all the questionnaires were completed, the scores were reviewed to determine if any had an elevated risk (medium or high). The questionnaire risk level was corroborated with the remaining steps of the Bank's risk assessment process to determine whether a statistically valid estimate of improper payments was required. For any programs with an elevated risk level, the Bank would obtain a valid estimate of annual improper payments. However, since the improper payment risk assessment questionnaire was not effective to identify risks, the current risk level of improper payments is unknown. Therefore, the Bank's decision not to obtain a statistically valid estimate of improper payments may have been incorrect and based on unreliable information.

Conclusion

Overall we found the Bank complied with five of the six reporting requirements of IPERA for its FY 2014 reporting. However, since the Bank did not conduct a program specific risk assessment for each program or activity, it did not fully comply with IPERA for FY 2014. Specifically, the risk of improper payments was not adequately assessed for the underwriting and approval of direct and guaranteed loans and insurance policies. Additionally, the Bank's improper payment risk assessment did not consider claims paid on unconditional guarantees and the risk assessment questionnaire was not sufficient to support the Bank's low risk determination for significant

improper payments. As a result, we concluded the Bank's improper payment reporting is incomplete and therefore, the true risk of significant improper payments is unknown. We are making three recommendations we believe will correct the deficiencies identified in this report.

Recommendations, Management Comments and OIG Response

To comply with IPERA and to improve Ex-Im's Bank's processes for identifying and assessing its risk of improper payments, we recommend the Office of the Chief Financial Officer ensure:

1. *Ex-Im Bank's Process and Procedures for Improper Payments* align with OMB requirements, including,
    a) Incorporating the underwriting and approval of Ex-Im Bank transactions into the risk assessment process to determine if these areas are susceptible to significant improper payments,
    b) Incorporating estimates of claim payments for fraudulent or noncompliant transactions in the risk assessment process, and
    c) Developing improper payment estimates, corrective action plans; and annual reduction targets in accordance with IPERA guidelines, if a determination is made that authorizations and/or claim payments are susceptible to significant improper payments.

    Management Comments
    Management concurred with the recommendation. The Bank submitted an outline of an updated *Process and Procedures for Improper Payments* to the OIG in March 2015 which included: (1) an analysis of the credit underwriting process at authorization and (2) an estimate of claim payments for fraudulent transactions that includes conditional and unconditional claim payments. Further, the Bank stated if a corrective action plan and annual reduction rates were determined necessary, the Bank would comply.

    OIG Response
    Management's proposed actions are responsive to the recommendation and the OIG will follow up with the Bank concerning the target date for completing an updated version of their *Process and Procedures for Improper Payments*. The recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

2. The Improper Payment Risk Assessment Questionnaire adequately addresses each program or activity at risk for improper payments by addressing the nine required risk factors plus any risk factors that are specific to the program and that the questionnaire responses are documented to support the Bank's risk determination.

    Management Comments
    Management concurred with this recommendation. The Bank will improve the questionnaire to address the deficiencies identified by this report.

OIG Response
Management's proposed actions are responsive to the recommendation and the OIG will follow up with the Bank concerning the target date for completing the improvements to the questionnaire. The recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

3. The Improper Payment Risk Assessment is reviewed and approved by management prior to the issuance of the Annual Financial Report and a copy of the review and approval are maintained.

Management Comments
Management concurred with this recommendation. The Bank will formally date and sign off on the *Improper Payment Risk Assessment* prior to the issuance of the Annual Financial Report. The Bank will draft this step into the *Bank's Process and Procedures for Improper Payments* by June 1, 2015.

OIG Response
Management's proposed actions are responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

Management's comments are included in their entirety in Appendix II.

Appendix I: Scope and Methodology

The objective of the audit was to determine whether the Export- Import Bank was in compliance with the reporting requirements of IPERA for FY 2014. In addition, we assessed the accuracy and completeness of Ex-Im Bank's improper payment reporting, the Bank's implementation of prior year audit recommendations and the Bank's effort to reduce and recover improper payments.

To answer our objectives, we reviewed the OCFO procedure document for implementing IPERA entitled, *Ex-Im Bank Process and Procedures for Improper Payments*; Office of Management and Budget's Appendix C to Circular No A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*; and the Government Accountability Office's *Standards for Internal Control in the Federal Government.* In addition, we reviewed prior OIG audit reports relevant to our audit objectives and consulted with our Office of Investigation and Office of Inspections and Evaluations.

To determine whether Ex-Im Bank was in compliance with IPERA for the FY 2014 reporting period, we interviewed personnel from the Office of the Chief Financial Officer and the Office of the Controller responsible for Ex-Im Bank's compliance with IPERA and the risk assessment process. Additionally, we reviewed FY 2013 Improper Payments information reported in the Bank's Annual Financial Report for 2014 to determine the compliance with the Improper Payment Elimination and Recovery Act of 2010 (IPERA).

To determine if the Bank's risk assessment addressed the OMB's nine qualitative risk factors, we analyzed the *Ex-Im Bank Risk Assessment for Improper Payments FY 2013* and related documentation. This analysis included a review of the six tools Ex-Im Bank uses to assess the risk of improper payments. We reviewed the Bank's process of compiling and analyzing a log of returned payments and the process for estimating potentially fraudulent insurance claim payments based on historic data. We also reviewed the Bank's process for ensuring improper payments were not made to newly identified participants that have committed fraud against the Bank and the process for reviewing prior OIG audit reports to identify issues around the payment processes.

Additionally, we reviewed the *Improper Payment Risk Assessment Questionnaires* to determine if the Bank's low risk rating was sufficiently supported. We reviewed the questionnaire completion process and supporting documentation to identify potential weaknesses and to determine whether the risk assessment promotes an accurate and complete process for reporting improper payments.

In FY 2014 the Bank expanded its improper payment analysis to include a risk assessment on authorizations. We analyzed the risk assessment steps on authorizations for compliance with OMB guidance.

We conducted this performance audit from December 2014 through April 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for

our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Review of Internal Controls

We reviewed and evaluated the internal controls associated with Ex-Im Bank's Improper Payment Risk Assessment Process. We found improvements can be made to ensure the efficiency and effectiveness of the risk assessment process for determining risk of significant improper payment. Our recommendations, if implemented, should correct the weaknesses we identified.

Prior Audit Review

We reviewed the following prior audits conducted by the Office of Inspector General and assessed the status of the recommendations and identified relevant information on improper payments:

- *Evaluation of Export-Import Bank of the United States' Compliance with the Improper Payments Elimination and Recovery Act of 2010* issued March 12, 2012 (OIG-EV-12-01);
- *Improper Payments Reporting: Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Risk Assessment Process* issued March 13, 2013 (OIG-AR-13-03);
- *Improper Payments Reporting: Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Risk Assessment Process* issued April 15, 2014 (OIG-AR-14-06);
- *Audit of the Export-Import Bank's Short-Term Multi-Buyer Insurance Program*, issued March 23, 2015 (OIG-AR-15-04).

Appendix II: Management Comments

EXPORT-IMPORT BANK
OF THE UNITED STATES

May 7, 2015

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

Dear Deputy Inspector General McCarthy,

Thank you for providing the Export-Import Bank of the United States ("Ex-Im Bank" or "the Bank") management with the Office of the Inspector General's (OIG) "Audit of the Export-Import Bank's Compliance with the Improper Payments Elimination Act of 2010" (April 2015) ("IPERA"). Management continues to support the OIG's work, which complements the Bank's efforts to continually improve its processes. Ex-Im Bank is proud of the strong and cooperative relationship it has with the OIG.

The Bank is committed to full cooperation with the OIG and will work with staff on implementing all three recommendations that resulted from this audit. Additionally, the Bank appreciates that in this audit report the OIG commends "the Bank's efforts to improve its improper payment process" despite the Bank not having sufficient time to revamp its entire review process to comply with the most recent OMB guidance (October 2014), and is "encouraged by the Bank's agreement to improve its process."

Recommendation 1: We recommend that Ex-Im Bank's Process and Procedures for Improper Payment align with OMB requirements, including,

a) Incorporating the underwriting and approval of Ex-Im Bank transactions into the risk assessment process to determine if these areas are susceptible to significant improper payments,
b) Incorporating estimates of claim payments for fraudulent or noncompliant transactions in the risk assessment process, and
c) Developing improper payment estimates, corrective action plans; and annual reduction targets in accordance with IPERA guidelines, if a determination is made that authorizations and/or claim payments are susceptible to significant improper payments.

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Management Response: The Bank agrees with this recommendation and submitted an updated Process and Procedures for Improper Payments to the OIG in March 2015 that outlines Ex-Im Bank's intent to incorporate an analysis of the credit underwriting process at authorization and an estimate of claim payments for fraudulent transactions, to include conditional and non-conditional claim payments. Additionally, if a corrective action plan and annual reduction targets are determined to be necessary, Ex-Im Bank will act in accordance with IPERA guidelines.

Recommendation 2: We recommend that the Improper Payment Risk Assessment Questionnaire adequately addresses each program or activity at risk for improper payments by addressing the nine required risk factors plus any risk factors that are specific to the program and that the questionnaire responses are documented to support the Bank's risk determination.

Management Response: The Bank agrees with this recommendation and will review its current Improper Payment Risk Questionnaire to focus on methods of improving the questionnaire so that it addresses deficiencies highlighted by the OIG. The updated Risk Questionnaire will have a refreshed scoring system that will ensure accuracy.

Recommendation 3: We recommend that the Improper Payment Risk Assessment is reviewed and approved by management prior to the issuance of the Annual Financial Report and a copy of the review and approval are maintained.

Management Response: The Bank agrees with this recommendation. In addition to the existing review and approval process, the Chief Financial Officer and Controller will formally date and sign off the Improper Payment Risk Assessment before the final sign off of the Financial Statement Audit. This step will be included in the Bank's Process and Procedures for Improper Payments by June 1, 2015.

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

Sincerely,

Charles J. Hall
Executive Vice President and Chief Risk Officer
Export-Import Bank of the United States

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