



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

Fiscal Year 2008
Financial Statement Audit –
Management Letter Excerpt

OIG-AR-09-03



MICHAEL W. TANKERSLEY
INSPECTOR GENERAL

**EXPORT-IMPORT BANK
OF THE UNITED STATES**

January 22, 2009

This report presents a summary of certain matters that were identified by Deloitte & Touche LLP (Deloitte) in connection with their audit of the financial statements of the Export-Import Bank of the United States (Ex-Im Bank) as of and for the year ended September 30, 2008, on which Deloitte issued their report dated November 12, 2008. These findings and recommendations were communicated to Ex-Im Bank management in a letter dated January 12, 2009 (2008 Management Letter). Due to the limited distribution of the 2008 Management Letter, the Ex-Im Bank Office of Inspector General (OIG) does not include it here.

We engaged Deloitte to perform the FY 2008 audit under a contract monitored by this office. The contract required the audit to be conducted in accordance with: United States generally accepted government auditing standards; Office of Management and Budget audit guidance; and the Government Accountability Office/President's Council on Integrity and Efficiency *Financial Audit Manual*.

Deloitte issued an unqualified opinion on Ex-Im Bank's FY 2008 financial statements. Also, Deloitte reported that no internal control deficiencies were identified and no reportable noncompliance with laws and regulations was found. However, Deloitte noted certain control deficiencies related to Ex-Im Bank's internal control over financial reporting and other matters that Deloitte determined should be brought to management's attention. Deloitte's observations are summarized in this report, and Deloitte's recommendations and management's responses regarding such matters are included.

Deloitte is responsible for the observations and recommendations appearing in the 2008 Management Letter. We do not express an opinion on Ex-Im Bank's internal controls or conclusions regarding its compliance with laws and regulations.

A handwritten signature in cursive script that reads "Michael W. Tankersley".

Michael W. Tankersley
Inspector General

I. CONTROL DEFICIENCIES

1. Subsidy Re-Estimate Calculation and Review of Subsidy Calculation

Ex-Im Bank inaccurately performed its subsidy re-estimate calculation. During the substantive detailed test, Deloitte noted a formula error in the subsidy re-estimate cash flow calculation for loans, resulting in an understatement of assets and liabilities. In addition, Deloitte noted the cash flow model used to calculate subsidy for medium-term insurance inappropriately included the exposure fee in the amount authorized. This resulted in double counting of the exposure fee amount. Ex-Im Bank planned to perform the following internal controls twice a year: 1) an overall reasonableness check and 2) a detailed sample based recalculation of the subsidy. Ex-Im Bank's second semi-annual review for fiscal year 2008 was only performed after Deloitte noted a discrepancy in one of the subsidy calculations.

Recommendation 1

Ex-Im Bank should perform a detailed review of the cash flow models in advance of the time when the re-estimate calculation is performed. Once all cash flow models are reviewed, and all formulas are deemed appropriate, Ex-Im Bank should implement spreadsheet controls, such as password protection of the formulas, to avoid any inappropriate changes in the cash flow models.

Ex-Im Bank should ensure that internal control reviews of the initial subsidy calculation are performed semi-annually and that appropriate evidence of such review is maintained.

Management Response

Management agreed with the recommendation. The Office of the Treasurer will perform a review of the cash flow models used for the reserve re-estimate at the beginning of the fourth quarter and used password protection of the formulas to avoid changes to the models. In addition, internal control reviews over subsidy calculations will be performed after the first and third quarters.

2. CARDS System Update of Claims Payable

Deloitte noted a claim that was approved but not yet paid was improperly excluded from the claims payable balance. The CARDS (claims and recovery) system automatically recorded the claim as paid upon approval, whereas the actual payment by the Cash Control Department did not happen until a few days later. This was due to an improper system design. As a result, Ex-Im Bank posted an adjustment of approximately \$8.5 million as of September 30, 2008 to increase the understated claims payable balance.

Recommendation 2

Ex-Im Bank should correct the system design to record claims payable upon approval and reverse the claims payable once payment actually takes place and is confirmed by the Cash Control Department.

Management Response

Management agreed with the recommendation and has met with Information Management Technology (IMT) Office to initiate the system change. The system change should be implemented by March 31, 2009.

II. OTHER MATTERS

1. Accounting for a Self-Sustaining Entity

During fiscal year 2008, Ex-Im Bank received authority to become self-sustaining. As a result, there were several changes to the Ex-Im Bank accounting policies to reflect the self-sustaining authorization. Ex-Im Bank discussed its accounting policies with the Office of Management and Budget (OMB) and Department of Treasury Financial Management Service and did not receive any objections to its accounting, but Ex-Im Bank did not receive formal approval from those offices.

Recommendation 3

Ex-Im Bank should obtain formal approval from OMB with regard to its self-sustaining accounting treatment. Office of the Chief Financial Officer can initiate this request by writing to the Controller/Deputy Controller of OMB requesting formal guidance from the Office of Federal Financial Management.

Management Response

Management agreed with the recommendation and will request formal guidance from OFFM by the end of February 2009.

2. February 2008 Confirmation of Portfolio

As of February 29, 2008, Ex-Im Bank sent confirmations for 100 percent of its portfolio, excluding outstanding balances below \$20 million and rescheduled transactions. Deloitte noted two discrepancies in the Ex-Im Bank confirmations. These discrepancies were due to note amendments to interest rates or maturity dates on aircraft transactions. Because the lenders had not notified Ex-Im Bank in a timely manner of changes, the Loans and Guarantees Accounting system had not been updated for changes to the guarantee or insurance agreements.

Recommendation 4

Ex-Im Bank should complete their confirmation process prior to the date when audit confirmations are prepared and sent so that outstanding balances, maturity dates, interest

rates, etc., as well as contact information, are updated for any necessary corrections. Ex-Im Bank should develop improved processes and procedures to ensure Ex-Im Bank is timely notified of changes affecting Ex-Im Bank's guarantee and insurance portfolio, such as issuing an annual letter to the lenders requesting such information.

Management Response

The purpose of the February confirmation exercise is to compare, prior to the start of the financial audit, portfolio information in Ex-Im's accounting systems with information confirmed by guaranteed lenders. This would obviously include contact information. However, ongoing mergers, consolidations, and staff changes in the private sector financial community have made it increasingly difficult, especially for older credits, to identify a responsible contact person and obtain a response to our inquiries.

Management agreed with the recommendation to obtain a more complete response to the confirmations sent in February. For the February 2009 confirmation process, the Financial Reporting Office will work with the Asset Management and Transportation Portfolio Monitoring Divisions to confirm contact information prior to sending out the requests. All attempts will be made to obtain a response for every request sent out.

3. Updating the Accounting Manual of Policies and Procedures

Even though Ex-Im Bank reviews its accounting policies and procedures in a timely manner, the accounting policy and procedure manual is not updated to reflect such reviews. The last time Ex-Im Bank updated its accounting policy and procedure manual was April 1, 2003.

Recommendation 5

Ex-Im Bank should review and update its policy and procedure manual on a regular basis to reflect changes in operations and changes in policies and procedures. For instance, changes to the property, plant and equipment policy for capitalization and depreciation, as well as policies regarding self-sustaining accounting, should be included in the manual. The manual should be reviewed and updated at least once a year if there are no significant changes.

Management Response

Management agreed with the recommendation and will update its policies and procedures manual by June 30, 2009, as well as establish an annual review by the Office of the Controller in the third quarter of each fiscal year.

4. Reconciliation of Suspense Accounts – Cohort Allocation of Insurance Receipts

Although the insurance receipts were properly recorded for financial statement purposes, they had yet to be allocated to a cohort in the financing account. Currently, insurance

receipts are allocated manually, which is time consuming and has led to backlogs in allocating these receipts.

Recommendation 6

The process of allocating insurance receipts to the proper cohort in the financial account should be automated in order to reduce the number of unallocated items. The automated process could resemble the process currently used for allocation of loan and guarantee cash receipts.

Management Response

Management agreed with the recommendation. The Office of the Controller will work with Office of IMT to automate the insurance transactions by the end of the fiscal year.