



**SEMIANNUAL**  
**REPORT TO CONGRESS**  
APRIL 1, 2015 TO SEPTEMBER 30, 2015







**EXPORT-IMPORT BANK OF THE UNITED STATES** (Ex-Im Bank or the 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 have been made available for the direct benefit of U.S. small businesses in recent years.

More information about Ex-Im Bank is at [www.exim.gov](http://www.exim.gov).

**THE OFFICE OF INSPECTOR GENERAL** (OIG), an independent office within Ex-Im Bank, was statutorily created in 2002 and organized in 2007. The mission of Ex-Im Bank OIG is to conduct and supervise audits, investigations, inspections, and evaluations related to agency programs and operations; provide leadership and coordination as well as recommend policies that will promote economy, efficiency, and effectiveness in such programs and operations; and prevent and detect fraud, waste, abuse, and mismanagement.

The OIG is dedicated to acting as an agent of positive change to help Ex-Im Bank improve its efficiency and effectiveness. It keeps Ex-Im Bank's Chairman and President and Congress fully informed about problems and deficiencies along with any positive developments relating to Ex-Im Bank administration and operations.

More information about the OIG including reports of audits, inspections, and evaluations is at [www.exim.gov/oig](http://www.exim.gov/oig). Information about inspectors general in the U.S. government is at [www.ignet.gov](http://www.ignet.gov).





## From the Inspector General

In the second half of Fiscal Year 2015, the Export-Import Bank Office of Inspector General continued its work in advising the management of the Export-Import Bank and the Congress on recommendations for improving Ex-Im Bank operations and detecting, preventing, and prosecuting fraud.

On June 30, 2015, the authority of Ex-Im Bank to incur new obligations expired pursuant to the terms of its Congressional charter. As of June 30, Ex-Im Bank had a portfolio of outstanding obligations totaling approximately \$107 billion in loans, loan guarantees, and credit insurance. Under the terms of the charter, upon expiration of authority to incur new obligations, Ex-Im Bank continues to manage its existing obligations in an orderly liquidation. Legislation to renew Ex-Im Bank's authority to enter into new transactions has been under consideration in Congress but had not been enacted as of October 31, 2015. The lapse in authorization and orderly liquidation process creates a significant management challenge for Ex-Im Bank, as described in the Major Management Challenges section of this report. During the lapse in authorization, the Office of Inspector General continues its statutorily mandated mission to identify waste, fraud, and abuse in the Bank's ongoing programs.

During this semiannual period, the OIG published four reports—two audit reports on improper payments and data reliability, and two inspection reports on economic impact analysis and the Sasan project in India. In addition, our office continued its focus on investigating fraud related to Ex-Im Bank transactions. In a significant investigation, a former Ex-Im Bank loan officer pled guilty to one count of bribery for his acceptance of \$78,000 in payments in exchange for recommending approval of unqualified loan transactions. We also obtained several convictions in fraud and money laundering schemes targeting Ex-Im Bank, and extradited a Brazilian defendant who was detained in the United Arab Emirates.

None of these accomplishments would be possible without the hard work, professionalism, and dedication of our excellent staff. In the coming months, we will continue to work professionally and collaboratively with Ex-Im Bank management and the Congress to address the issues facing the Ex-Im Bank.

**Michael T. McCarthy**

DEPUTY INSPECTOR GENERAL





## Highlights

The **Office of Audits** completed two audits and one review in response to a Congressional request:

### *Audit of the Export-Import Bank's Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2014 Reporting*

(OIG-AR-15-06, May 12, 2015)

We conducted this audit to determine if the Ex-Im 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 recommendations, and the Bank's effort to reduce and recover improper payments. We found that Ex-Im Bank did not fully comply with IPERA for FY 2014 reporting. Ex-Im Bank properly reported its annual improper payment risk assessment in its FY 2014 Annual Financial Report and addressed a prior year recommendation. However, the Bank only met five of the six IPERA reporting requirements and did not conduct a program specific risk assessment for each program or activity as required for compliance. 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 was incomplete and the true risk of significant improper payments was unknown. The report included three recommendations for corrective actions and management concurred with the recommendations.

### *Independent Auditor's Report on the Export-Import Bank's Data Reliability*

(OIG-AR-15-07, September 28, 2015)

Under a contract overseen by the Office of Audits, Cotton & Company LLP performed an audit to determine if the data recorded in the Ex-Im Bank Reporting System (ERS) were adequately supported by source documentation and were accurate, complete, and reliable. Cotton & Company determined the data recorded in ERS were generally supported by source documentation. Further, the recorded information was generally accurate and reliable and the fields were populated completely. In their review of 283 authorizations, Cotton & Company found 36 authorizations that had at least 1 data element recorded inaccurately for authorization amount, disbursement amount, repayment amount, small business amount, woman-owned amount, minority-owned amount, or primary supplier. Cotton & Company also encountered difficulties testing disbursement amounts for working capital guarantee authorizations and were unable to determine whether the assumed disbursements were recorded timely. Finally, Cotton & Company found that the Office of the Chief Financial Officer was unable to provide source documentation on a timely basis, which made it difficult to conduct an efficient audit and obtain sufficient, appropriate evidence to provide a basis for our audit conclusions. The report included four recommendations and management concurred with all four recommendations.

### *Review of Non-Career Official Involvement in the Export-Import Bank's Freedom of Information Act (FOIA) Process*

(August 25, 2015)

In response to a request from the Senate Committee on Homeland Security and Governmental Affairs, we analyzed the involvement of non-career officials in Ex-Im Bank's FOIA process for the period of January 2007 to August 2015. We also assessed if non-career officials' involvement resulted in any undue delay of a response to any FOIA request or the withholding of any document or portion of any document that would have otherwise been released. To respond to the request in a timely manner, we conducted a limited analysis based on interviews and a review of certain FOIA documentation. The analysis was not an audit and therefore, was not conducted in accordance with generally accepted government auditing standards. We found that non-career officials have limited involvement in the Bank's FOIA process and are generally involved only to the extent that (1) they were responsible for requested records, or (2) they were notified of the release of information as part of the standard process. Our analysis did not identify non-career official involvement in FOIA requests that resulted in undue delay of a response or the withholding of any document or portion of any document that would have otherwise been released.

The **Office of Inspections and Evaluations** (OIE) completed two inspection reports:

### *Follow-Up Report on Export-Import Bank's Economic Impact Procedures*

(OIG-EV-15-01, September 8, 2015)

The objective of the follow-up review was to determine whether Ex-Im Bank had taken appropriate actions to address the reported findings and recommendations made in the OIG's September 2010 evaluation report. The review found that Ex-Im Bank had made significant progress in implementing the recommendations and addressing the concerns identified in the September 2010 evaluation report. Specifically, OIG found that the Bank had completed corrective actions to address and close 15 of the 16 recommendations. With respect to the remaining recommendation to validate the results of its prior economic impact analyses, OIG closed and reformulated the recommendation, with a view to allow the Bank more flexibility in devising a methodology to verify the effectiveness of its economic impact procedures and methodological guidelines and to ensure they are being followed. Finally, in assessing the Bank's process for developing and publishing its current procedures for economic impact, OIG observed that the Bank does not have a formal policy statement on the engagement of external parties and the use of the notice and comment process in establishing procedures and guidance. A formal policy would provide a written framework and direction for Bank staff when engaging external parties and enhance transparency. The report outlined two recommendations for corrective action. Management agreed with both recommendations.



## ***Report on the Project Financing of Sasan Power Limited***

(OIG-INS-15-02, September 28, 2015)

The Sasan Project involves the construction and operation of a 3,960 MW coal-fired power plant and a captive coal mine in the state of Madhya Pradesh, India. Ex-Im Bank provided a 16-year financing commitment of \$650 million for the export of US mining equipment and services and over \$150 million in local costs for the Project. Although the Project has achieved commercial operation, the Project experienced a \$1.45 billion cost overrun and did not meet certain affirmative covenants provided in the credit documentation. OIG's review of the Sasan Project found that certain legal risks were not vetted in the Board Memorandum, while other key risks may not have been correctly represented and aligned in the Risk Rating Worksheet used to determine the risk rating of the Sasan transaction. With respect to the Project's compliance with Ex-Im Bank's social and environmental policies, OIG found that while an independent monitor was engaged by Sasan to conduct quarterly monitoring of the Project's environmental and social performance as required by Ex-Im Bank, only 7 of 12 required monitoring visits and related reports had been completed during the period of review. OIG also noted that Ex-Im Bank's process for receiving, processing and tracking the resolution of complaints is more informal and lags best practices. Finally, our review found that Ex-Im Bank pro-actively monitored and restructured the Sasan transaction in response to the cost overruns and construction delays and continues its close and proactive management in light of the significant exposure and related risk. The report outlined six recommendations for corrective action. Management agreed with the six recommendations.

The **Office of Investigations** achieved the following:

### ***Employee Integrity Conviction***

In April 2015, former Ex-Im Bank loan officer Johnny Gutierrez pleaded guilty to one count of bribery of a public official for accepting more than \$78,000 in bribes in return for recommending the approval of unqualified loan applications to Ex-Im Bank, among other misconduct.

### ***Extradition in a Fraud Scheme***

Florida businessman Martin Slone was indicted on four counts of wire fraud based on an alleged scheme to defraud Miami-area lenders and Ex-Im Bank. Slone, who was living in Brazil at the time of the indictment, was arrested in Abu Dhabi, United Arab Emirates, based on an Interpol Red Notice and was returned to the United States to face charges.

### ***Indictments and Convictions in a Fraud Scheme***

Three family members were indicted for their alleged participation in a scheme to defraud Miami-area lenders and Ex-Im Bank. Guillermo M. Sanchez, Isabel

C. Sanchez, and Gustavo Giral are charged in the indictment with conspiracy to commit wire fraud, wire fraud, conspiracy to commit money laundering and money laundering. The defendants and their co-conspirators allegedly created false invoices and shipping documents to obtain a loan guaranteed by the Ex-Im Bank. Rather than acquiring, selling and shipping American-manufactured goods as required for Ex-Im Bank-guaranteed loans, the defendants allegedly used the loan proceeds to extend the fraudulent scheme by paying off other lenders, and split the remaining funds among themselves and other co-conspirators. Co-conspirators Fredy Moreno-Beltran, Ricardo Beato and Jorge Amad were separately charged, and each has pleaded guilty to participating in the scheme.

### *Shared Information with Ex-Im Bank to Prevent Fraud*

Investigative efforts produced 80 reports of investigative information to Ex-Im Bank concerning potential funds at risk to support enhanced due diligence efforts in approving, processing, and monitoring export credit loan guarantees and insurance policies.







# Ex-Im Bank Management Challenges

## Ex-Im Bank Management Challenges

Under the Government Performance and Results Act (GPRA) Modernization Act of 2010, Ex-Im Bank must prepare a performance plan to establish performance goals and indicators, describe how the goals will be achieved and measured, and describe major management challenges and plans to address such challenges. The law defines “major management challenges” as “programs or management functions...that have greater vulnerability to waste, fraud, abuse, and mismanagement (such as issues identified by an Inspector General) where failure to perform well could seriously affect the ability of an agency to achieve its mission or goals.” The Reports Consolidation Act of 2000 requires an annual summary of what the Inspector General considers to be the most serious management and performance challenges facing the agency and a brief assessment of the agency’s progress in addressing those challenges. Through our audits, inspections and investigations, we work with Bank management in recommending actions that best address those challenges. We have identified the following topics as the top management challenges facing the Bank at the beginning of FY 2016.

### Managing the Lapse in the Bank’s Authorization

As of June 30, 2015, the authority of the Export-Import Bank to incur new obligations lapsed pursuant to its charter, and at the end of FY 2015 this authority had not been renewed by Congress. As a result, at the beginning of FY 2016, Ex-Im Bank lacked the authority to enter into new transactions, but under its charter, must continue to fulfill existing commitments and manage its outstanding portfolio of more than \$100 billion. Legislation including an extension of the authorization of the Bank to make new commitments has been under consideration in Congress, with its prospects for eventual passage uncertain.

Managing the lapse in authorization and uncertainty about whether Congress will at some point renew the Bank’s authorization is the top management challenge facing the Bank. The lapse in authorization has required management to identify which functions of the Bank are legally permitted (or required) to be exercised under the charter after authorization has lapsed, and which activities are no longer legally authorized. These requirements must be communicated to the Bank’s employees, business partners, and customers, and the execution of the plan must be monitored to ensure compliance. The Ex-Im Bank charter requires that upon a lapse in authorization, the Bank enter into an “orderly liquidation.” Since this term is not defined, management must identify an appropriate plan to execute an orderly liquidation, which requires analysis of several factors, including how to best execute the obligations of the Bank to obtain maximum value for the United States, whether the Bank is authorized to transfer its obligations to other agencies, which functions of the Bank should be maintained during an orderly liquidation, and the current and projected future availability of administrative funding. Development of an orderly liquidation plan presents



considerable policy challenges, in addition to managing expectations of Congress, which are not readily ascertainable due to a range of views within Congress on the future of the Bank.

The lapse in authorization and uncertainty over the Bank's future creates significant challenges in maintaining relations with Ex-Im Bank business partners and customers. Ex-Im Bank's delegated authority loan programs rely on private sector partners to originate and service loans, which are guaranteed by Ex-Im Bank. Ex-Im Bank's guarantee loan programs also rely on private sector partners to fund and monitor loans for default.

The lapse in authorization and uncertainty about the Ex-Im Bank's future adds complications to managing human capital, which we have previously identified as a major management challenge. Despite a lapse in authorization, the Ex-Im Bank must maintain adequate staffing levels to manage the existing portfolio of approved transactions and conduct an orderly liquidation of the Ex-Im Bank as required in its charter.

The Ex-Im Bank faces challenges in employee recruitment, retention and morale. Ex-Im Bank competes not just with the private sector, but also with multilateral development agencies such as the World Bank and other federal financial agencies such as the Federal Reserve and the Securities and Exchange Commission, all of which offer a higher pay scale. During FY 2015, uncertainty about the Ex-Im Bank's reauthorization hindered the Bank's ability to recruit and retain personnel with the specialized skills needed for executing complex financial transactions. The lapse in the Ex-Im Bank's authority as of June 30, 2015 only exacerbated these difficulties.

During FY 2014, Ex-Im Bank added 59 positions to its staffing plan to address some of the challenges related to employee workload. During FY 2015, Ex-Im Bank hired 55 employees and lost 50 employees; resulting in a net gain of only 5 employees. Furthermore, key Ex-Im Bank functions such as the Office of the Chief Financial Officer (OCFO), Resource Management, and Export Finance experienced little or no net gain in staff when the number of hires is offset by the number of employees who left during FY 2015. The OCFO hired 14 employees and lost 10, Resource Management hired 10 employees and lost 12, and Export Finance hired 9 and lost 9. The difficulties in recruiting and retaining staff coupled with a lack of succession planning for key positions caused the Ex-Im Bank's human capital management to become a critical challenge for FY 2016.

Although the Ex-Im Bank has redeployed employees during the lapse in authorization from prohibited duties to permitted activities, a long-term lapse in authorization and extended liquidation period will likely require reductions in staffing levels. Managing these reductions while retaining and maintaining morale of essential employees and conducting sufficient portfolio monitoring will be a significant challenge for management.

## Managing Risk

We have reported on several challenges facing the Export-Import Bank in managing the risks inherent in its core business activities in a manner that reduces the risks of loss to the Treasury, and by extension, the taxpayer. The management challenge for Ex-Im Bank is to implement policies and practices that ensure credit and non-credit risks are assessed and priced accurately and that policy considerations are also fully considered. Key areas for consideration include the design and implementation of an agency-wide risk management framework that encompasses both credit and non-credit risks; improving the quality of underwriting (if authority to make new commitments is renewed); and improving internal controls to document compliance with clear policies and practices.

- **Agency-wide risk management**

The OIG has stated that Ex-Im Bank should proactively manage portfolio risks in line with common practices of commercial and multilateral development banks. Ex-Im Bank has taken steps toward improving its risk management framework such as establishing the Chief Risk Officer position and an Enterprise Risk Committee and separating origination and risk management functions. Also, the Bank has conducted stress testing and monitoring of exposure levels. We recommend that management attention to risk management initiatives be sustained. In particular, Ex-Im Bank should assess whether the composition of the credit portfolio produces disproportionate exposure to certain regions, industry sectors, or single obligors. We also recommend that management further develop and implement key risk policies covering enterprise risk, operational risk and portfolio risk mitigation, as well as a formal policy governing the use and validation of financial models. This would also include ensuring the Bank has the requisite staff with sufficient experience and qualifications needed to analyze and manage portfolio risk.

- **Underwriting and due diligence**

Previous OIG reports identified weaknesses in Ex-Im Bank's due diligence process that have been addressed by new policies and practices. During FY 2014, Ex-Im Bank introduced due diligence standards for its partners, participants and policy holders, which required lenders to implement specific Know Your Customer (KYC) practices. Prior to introducing this new policy, Ex-Im Bank relied on the due diligence practices of those entities. During FY 2015, Ex-Im Bank introduced an enhanced Character, Reputational, and Transaction Integrity (CRTI) screening process. Improvements to the procedures included expanding the participant screening criteria and providing potential risk indicators and additional CRTI risk action steps to facilitate enhanced due diligence. Prior to implementation of the procedures, Ex-Im Bank provided training to staff that focused on the respective division's responsibilities during the screening process.



The OIG identified additional areas for improving the Bank's underwriting practices during FY 2015. Specifically, we identified that underwriting decisions for short-term multi-buyer insurance policies were not sufficiently documented and underwriters did not always comply with the Bank's policies and procedures. As a result, we recommended that Ex-Im Bank develop and implement procedures to ensure underwriting summaries clearly present the required credit standards and how they were met or mitigated and update policies to ensure required information is collected and documented during underwriting. These recommendations, however, will only be applicable if the Bank is reauthorized.

Ex-Im Bank's oversight of its underwriting processes can also be improved. Previous audits have identified the need for quality control programs and monitoring processes for performing post-authorization reviews of samples of transactions to ensure compliance and provide feedback to underwriters. Furthermore, a FY 2015 audit of the Bank's compliance with the Improper Payments Elimination and Recovery Act of 2010 found deficiencies in the Bank's improper payment risk assessment process pertaining to the review of underwriting. Specifically, the underwriting and approval of transactions were not adequately assessed for improper payments and the true risk of significant improper payments is unknown. As a result of these findings, the Bank is taking actions to improve its improper payment review process.

- **Internal controls**

We have reported that internal policies providing clear guidance to staff and establishing clear roles and authorities have not been prevalent at Ex-Im Bank. The management challenge for Ex-Im Bank is to set clear policies and controls to account for the risks in the Bank's operations and document compliance with those controls.

Previous audit work found that loan officers did not always document sufficient evidence of the borrower's need for Ex-Im Bank financing, ensure or document borrower eligibility and compliance with Ex-Im Bank credit policies and standards, and document that comprehensive due diligence reviews were completed prior to loan approval. These conditions occurred, in part, as a result of inadequate recordkeeping and reliance on institutional knowledge. In addition, prior inspections found that certain project documents including construction progress reports were not available for inspection and were missing from credit files.

During FY 2015, the Bank implemented a plan to improve its recordkeeping practices. Specifically, using the Transportation Division as a pilot, Ex-Im Bank developed a standard procedure for maintaining transaction records which explains the documentation that is required to be kept in the official file. This procedure is designed to be used by all divisions within the Bank with appropriate division-specific adjustments. Furthermore, each office has appointed a record liaison. Management should ensure that this recordkeeping procedure is adopted for all Ex-Im Bank divisions.

## Information Technology (IT) Management

We have previously reported that Ex-Im Bank used an ineffective, inefficient, and fragmented IT platform and infrastructure in several systems and databases. The ineffective IT platform compromises the ability of Ex-Im Bank to provide timely service, effectively manage and track its programs, measure progress, identify transaction patterns, conduct portfolio risk analysis, and increase productivity. To address the management challenges related to information technology, we have recommended that Ex-Im Bank develop, continuously update, and communicate formal data management policies and procedures to ensure complete and accurate participant and transaction data is captured and reported.

During FY 2015, Ex-Im Bank took action to improve its information technology management by hiring a new Chief Information Officer (CIO) and a new Director of IT Infrastructure Management and Operations. In addition, two new Director positions were established—a Director for IT Policy and Planning and a Director for Data, Reporting and Collaboration. During FY 2015, the CIO also established a Data Quality Board to enhance the quality and availability of business data. The CIO has taken actions to organize and improve IT project management. This includes standardized reporting templates for key projects and a weekly review process for all key projects with the CIO. The new director of IT Policy and Planning will also address opportunities for improvements in key IT processes.

Since 2012, Ex-Im Bank has engaged in an IT infrastructure modernization effort focused on replacing legacy systems and improving quality and access of its data. In the 2012 reauthorization, Ex-Im Bank was authorized to spend up to \$20 million from its surplus specifically to modernize its information technology systems. In FY 2015, Ex-Im Bank implemented a new comprehensive financial management system to improve its operations. In addition, in 2015, Ex-Im Bank completed the migration of its Asset Management System to a modern system and is currently replacing its long-term product case management system, both using the same architecture as Ex-Im Online. These application implementations will substantially reduce the number of technologies and databases deployed at the Bank and represent a major milestone in addressing this management challenge.

During FY 2015, we performed an audit of Ex-Im Bank's planning and implementation of the Bank's new financial management system. Our audit did not identify any significant issues or major risks that would prevent implementation. However, it found deficiencies in the planning and documentation of the implementation of the system. To ensure adequate planning and implementation of future systems, Ex-Im Bank must develop, centrally organize, and maintain planning, converting, testing and implementation documentation and develop and document contingencies for essential functions.



During FY 2015, we also conducted an audit of the reliability of data in the Ex-Im Bank Reporting System (ERS). We determined that the data recorded in ERS were generally supported by source documentation, accurate, reliable and complete. However, we found 36 authorizations that had at least one data element recorded inaccurately. Specifically, the Bank did not accurately record in ERS certain (1) authorization, disbursement and repayment amounts; (2) small business, women owned and minority owned amounts; and (3) primary suppliers. These errors represent increased risk to Ex-Im Bank's ability to use ERS data for reliable management analysis and accurate reporting. We also encountered difficulties testing disbursement amounts for working capital guarantee authorizations and were unable to determine whether the assumed disbursements were recorded timely. This raises questions as to whether Ex-Im Bank has sufficient processes to timely and accurately capture information in ERS or the source systems that feed into ERS.

Management should continue to improve its information technology management and upgrade its information technology infrastructure using the funding available for this purpose to improve data reliability and meet the business needs of Ex-Im Bank employees and customers.





# Office of Audits

The **Office of Audits** (OA) conducts and oversees independent and objective audits relating to Ex-Im Bank programs to improve Ex-Im Bank operations. All OIG audits are performed in accordance with generally accepted government auditing standards promulgated by the Comptroller General of the United States. Furthermore, OA refers irregularities and other suspicious conduct detected during audits to the Office of Investigations for investigative consideration.

OA completed two audits and one review in response to a congressional request:

- Audit of the Export-Import Bank's Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2014 Reporting
- Independent Auditor's Report on the Export-Import Bank's Data Reliability
- Review of Non-Career Official Involvement in the Export-Import Bank's Freedom of Information Act (FOIA) Process

At the end of the reporting period, OA had five audits in progress:

- Audit of the Export-Import Bank of the United States Fiscal Year 2015 Financial Statements
- Audit of the Export-Import Bank's Compliance with the Federal Information Security Management Act of 2002 (FISMA)
- Audit of the Export-Import Bank's Contracting Practices
- Audit of the Export-Import Bank's Working Capital Guarantee Delegated Authority Lender Program
- Audit of the Export-Import Bank's Claims Processing for Short-Term Insurance

### Reports issued

#### *Audit of the Export-Import Bank's Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2014 Reporting*

(OIG-AR-15-06, May 12, 2015)

[http://exim.gov/sites/default/files/oig/whatnew/Audit%20of%20Ex-Im%20Improper%20Payment%20Reporting%20for%20Fiscal%20Year%202014\\_1.pdf](http://exim.gov/sites/default/files/oig/whatnew/Audit%20of%20Ex-Im%20Improper%20Payment%20Reporting%20for%20Fiscal%20Year%202014_1.pdf)

We conducted this audit to determine if Ex-Im Bank was in compliance with the reporting requirements of IPERA for FY 2014 reporting. We also assessed the accuracy and completeness of Ex-Im Bank's improper payment reporting, the Bank's implementation of prior year recommendations, and the Bank's effort to reduce and recover improper payments. We found that Ex-Im Bank did not fully comply with IPERA for FY 2014



reporting. Ex-Im Bank properly reported its annual improper payment risk assessment in its FY 2014 Annual Financial Report (AFR) and addressed a prior year recommendation. However, the Bank only met five of the six IPERA reporting requirements and did not conduct a program specific risk assessment for each program or activity as required for compliance. Specifically, (1) underwriting and approval of Bank transactions were not adequately assessed for improper payments; (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. 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 was incomplete and the true risk of significant improper payments was unknown.

The report included three recommendations to ensure (1) Ex-Im Bank’s procedures align with OMB requirements for conducting risk assessments to include the underwriting and approval of transactions and an estimate of claim payments for fraudulent or noncompliant transactions, as well as improper payment estimates, corrective action plans and reduction targets if authorizations and claim payments are deemed susceptible to significant improper payments; (2) the risk assessment questionnaire adequately addressed each program or activity at risk for improper payments; and (3) the risk assessment is reviewed and approved by management prior to the issuance of the AFR. Management concurred with the recommendations.

### ***Independent Auditor’s Report on the Export-Import Bank’s Data Reliability***

(OIG-AR-15-07, September 28, 2015)

[http://exim.gov/sites/default/files//oig/reports/FINAL%20DATA%20RELIABILITY%20FOR%20ISSUANCE%20092815\\_final.pdf](http://exim.gov/sites/default/files//oig/reports/FINAL%20DATA%20RELIABILITY%20FOR%20ISSUANCE%20092815_final.pdf)

Under a contract overseen by the Office of Audits, Cotton & Company LLP performed an audit to determine if the data recorded in the Ex-Im Bank Reporting System (ERS) were adequately supported by source documentation and were accurate, complete, and reliable. Cotton & Company determined the data recorded in ERS were generally supported by source documentation. Further, the recorded information was generally accurate and reliable and the fields were populated completely. Cotton & Company reviewed 23 data fields for each transaction in the sample, equating to 6,509 data elements being tested. Of these 6,509 data elements, Cotton & Company identified 44 elements from 8 different fields that were inaccurately recorded. They did not identify errors in the other 15 fields they tested. In their review of 283 authorizations for Long-Term direct loans, Medium-Term and Long-Term guarantees, working capital guarantees, and Global Credit Express loans combined, Cotton & Company found 36 authorizations that had at least 1 data element recorded inaccurately for authorization amount, disbursement amount, repayment amount, small business amount, woman-owned amount, minority-owned amount, or primary supplier.

Cotton & Company also encountered difficulties testing disbursement amounts for working capital guarantee authorizations and were unable to determine whether the assumed disbursements were recorded timely. Finally, Cotton & Company found that the Office of the Chief Financial Officer was unable to provide source documentation on a timely basis, which made it difficult to conduct an efficient audit and obtain sufficient, appropriate evidence to provide a basis for our audit conclusions.

The report included four recommendations for Ex-Im Bank to (1) review the process for recording and reviewing certain fields in ERS to determine how specific errors occurred, correct the errors, and review the process; (2) conduct a comprehensive review using source documentation to determine whether the currently-recorded ERS data are accurate and supported and make necessary corrections in the population of certain fields; (3) communicate to staff the importance of providing data on a timely basis and take actions to manage concurrent priorities and consistently adhere to deadlines and audit milestones; and (4) review the procedures for storing and retrieving data so that data are readily retrievable for both management needs and review by auditors. Management concurred with all four recommendations.

### ***Review of Non-Career Official Involvement in the Export-Import Bank's Freedom of Information Act (FOIA) Process***

(August 25, 2015)

<http://exim.gov/sites/default/files//oig/reports/EXIM%20OIG%20Office%20of%20Audit%20Congressional%20Response%20signed%20%208-25-2015.pdf>

In response to a request from the Senate Committee on Homeland Security and Governmental Affairs, we analyzed the involvement of non-career officials in Ex-Im Bank's FOIA process for the period of January 2007 to August 2015. We also assessed if non-career officials' involvement resulted in any undue delay of a response to any FOIA request or the withholding of any document or portion of any document that would have otherwise been released. To respond to the request in a timely manner, we conducted a limited analysis based on interviews and a review of certain FOIA documentation. The analysis was not an audit and therefore, was not conducted in accordance with generally accepted government auditing standards.

We found that non-career officials have limited involvement in the Bank's FOIA process. For six of the seven processed FOIA requests we reviewed, non-career officials were involved only to the extent that (1) they were responsible for requested records, or (2) they were notified of the release of information as part of the standard process. For these six FOIA requests, we did not find evidence that the non-career official involvement resulted in any undue delay of a response or the withholding of any document or portion of any document that would have otherwise been released. For the last FOIA request in our sample, we determined that a non-career official was more heavily involved but did not find evidence that his involvement resulted in any undue delay of a response or the withholding of any document or portion of any document that would have otherwise been released.



During the course of our review, we also became aware of a FOIA request that had received recent media attention because the Chief of Staff, a non-career official, was unable to produce the requested text messages as they were deleted from his Ex-Im Bank issued cell phone. Ex-Im Bank provided the requested information for the other Ex-Im Bank officials but was unable to provide the text messages of the Chief of Staff. In lieu of the missing text messages, the Bank provided an affidavit from the Chief of Staff stating under the penalty of perjury, he mistakenly deleted the messages for the period in question. Subsequent to the release of the information and the affidavit, the Bank acquired software that permitted the retrieval of the deleted text messages. The messages were provided approximately two months after the others had been provided. While the circumstances of this case caused a delay in providing a complete response, the delay was caused by an error by a non-career official in maintaining his own records, not improper involvement with the FOIA process.

### **Ongoing audits**

#### ***Audit of the Export-Import Bank of the United States Fiscal Year 2015 Financial Statements***

An independent public accountant, working under OIG supervision, is conducting an audit to issue an opinion on the accuracy and completeness of Ex-Im Bank's financial statements for FY 2015. The management letter report will be issued in the semiannual period ending March 31, 2016.

#### ***Audit of the Export-Import Bank's Compliance with the Federal Information Security Management Act of 2002 (FISMA)***

Under a contract overseen by the Office of Audits, an independent public accounting firm is conducting an audit to determine whether Ex-Im Bank developed adequate and effective information security policies, procedures, and practices in compliance with FISMA. The report will be issued in the semiannual period ending March 31, 2016.

#### ***Audit of the Export-Import Bank's Contracting Practices***

Agencies across the government are increasingly reliant on contractors to execute their missions. Effective contract oversight, which includes effective internal controls throughout the contracting process, is essential to protecting government and taxpayer interests. The objective of the audit is to determine whether Ex-Im Bank's contracting processes are in compliance with federal regulations and guidance, and the Bank's contract administration policy. The report will be issued in the semiannual period ending March 31, 2016.

#### ***Audit of the Export-Import Bank's Working Capital Guarantee Delegated Authority Lender Program***

Ex-Im Bank's working capital guarantees assist U.S. exporters in obtaining loans that support the raw material, labor, and overhead costs of manufacturing an export item or providing a service to an international buyer. Approximately 80 percent of Ex-Im Bank's working capital guarantees are made by delegated authority lenders. Given the reliance on these delegated authority lenders for the success of the program, effective management

and monitoring of the delegated authority lenders by Ex-Im Bank is critical. The Business Credit Division of Ex-Im Bank conducts periodic examinations of the delegated authority lenders to review on-going transactions and lender compliance with the program. The objective of the audit is to determine if Ex-Im Bank's oversight of delegated authority lenders is effective to ensure lenders are complying with program guidance. The report will be issued in the semiannual period ending March 31, 2016.

### ***Audit of the Export-Import Bank's Claims Processing for Short-Term Insurance***

The Claims Processing Group (CPG) within Ex-Im Bank's Asset Management Division is responsible for processing insurance and guarantee claim requests that are made to the Bank. All insurance products are highly conditional. The CPG reviews the documents and examines compliance once the claim is filed. A claim may be denied or partially approved if the requirements of the given policy have not been fulfilled by the insured. Under a contract overseen by the Office of Audits, an independent public accounting firm is conducting an audit to determine if (1) claims filed in fiscal years 2014 and 2015 for short-term insurance (to include approved, denied, and appealed, and reconsidered claims) were processed in compliance with the Bank's policies and procedures, (2) the design of short-term insurance claims processing controls are sufficient to provide reasonable assurance that improper claim approvals, denials, and appeals are prevented or timely detected, and (3) identified short-term insurance claims processing controls are operating effectively.







# Office of Inspections and Evaluations

The **Office of Inspections and Evaluations** (OIE) conducts independent inspections and policy evaluations to assess the efficiency and effectiveness of Ex-Im Bank's programs, operations, and transactions. All OIE assignments are performed in accordance with Council of Inspectors General on Integrity and Efficiency guidelines and standards including the 2010 Quality Standards for Inspections and Evaluations. OIE works in tandem with the Office of Audit and the Office of Investigations whenever appropriate. Moreover, OIE refers irregularities and other suspicious conduct detected during its reviews to the Office of Investigations for investigative consideration.

During the second half of FY 2015, OIE completed two inspection reports:

- Follow-Up Report on Export-Import Bank's Economic Impact Procedures
- Report on the Project Financing of Sasan Power Limited

In addition, at the end of the reporting period, OIE had two reports in progress:

- Follow-up Report on Ex-Im Bank Loss Reserve and Portfolio Risk Management Practices
- Inspection Report on Jabiru Satellite Ltd.

## Reports issued

### *Follow-Up Report on Export-Import Bank's Economic Impact Procedures*

(OIG-EV-15-01, September 8, 2015)

[www.exim.gov/sites/default/files/oig/reports/Follow-Up%20Report%20on%20Economic%20Impact%20%28OIG-EV-15-01%29%20-%20Final%2009082015.pdf](http://www.exim.gov/sites/default/files/oig/reports/Follow-Up%20Report%20on%20Economic%20Impact%20%28OIG-EV-15-01%29%20-%20Final%2009082015.pdf)

Ex-Im Bank's economic impact procedures are intended to provide a methodological framework to assure that that Ex-Im Bank's projects do not have an adverse impact on U.S. industry. First introduced to Ex-Im Bank's Charter in 1968, the procedures have been the subject of Congressional scrutiny and public interest. In prior years, both the OIG and the Government Accountability Office (GAO) have identified opportunities for improvement in Ex-Im Bank's economic impact procedures. In 2010, OIG published a report titled Evaluation Report Relating to Economic Impact Procedures which made fifteen recommendations. The procedures have been revised since the issuance of this report and in response to a mandate in the 2010 reauthorization legislation. The most recent version of the procedures was approved by Ex-Im Bank's Board of Directors on November 19, 2012, and took effect April 1, 2013.

Our follow-up report found that Ex-Im Bank had made significant progress in implementing the recommendations and addressing the concerns identified in the September 2010 evaluation report. Specifically, OIG found that the Bank had completed corrective actions to address and close 15 of the 16 recommendations. With respect to the remaining



recommendation to validate the results of its prior economic impact analyses, OIG closed and reformulated recommendation with a view to allow the Bank more flexibility in devising a methodology to verify the effectiveness of its economic impact procedures and methodological guidelines and ensure they are being followed.

Finally, in assessing the Bank's process for developing and publishing its current procedures for economic impact, OIG observed that while the Bank received input and considered the views of multiple parties, the Bank does not have a formal policy statement on the engagement of external parties and the use of the notice and comment process in establishing procedures and guidance. A formal policy would provide a written framework and direction for Bank staff when engaging external parties and enhance transparency. The Bank does not have a formal policy statement on the engagement of external parties and the use of the notice and comment process in establishing procedures and guidance. A formal policy would provide a written framework and direction for Bank staff when engaging external parties and enhance transparency.

The report included two recommendations for Ex-Im Bank to (1) devise a methodology to periodically verify the effectiveness of its economic impact procedures and methodological guidelines and Bank compliance with those procedures and guidelines and (2) issue a formal policy statement with respect to the engagement of external parties and the use of the notice and comment process in establishing procedures and guidelines. Ex-Im Bank agreed with both recommendations.

### ***Report on the Project Financing of Sasan Power Limited***

(OIG-INS-15-02, September 28, 2015)

[www.exim.gov/sites/default/files//oig/reports/Final%20Sasan%20Report%20-%20Redacted.pdf](http://www.exim.gov/sites/default/files//oig/reports/Final%20Sasan%20Report%20-%20Redacted.pdf)

The Sasan Project involves the construction and operation of a 3,960 MW coal-fired power plant and a captive coal mine in the state of Madhya Pradesh, India. Ex-Im Bank provided a 16-year financing commitment of \$650 million for the export of U.S. mining equipment and services and local costs for the Project. Although Sasan is nearing completion, the Project experienced a \$1.45 billion cost overrun, financed with additional equity and debt from other lenders. The Project did not meet certain affirmative covenants provided in the credit documentation including various financial and environmental reporting requirements. OIG's review, however, found that the Bank pro-actively monitored and restructured the Sasan transaction, effectively shifting repayment risk to the Sponsor, Reliance Power. Finally, the Borrower made the first loan payment of \$28.4 million in March, 2015.

With respect to the level of due diligence completed by Ex-Im Bank, OIG noted that certain legal risks associated with co-lending with local banks in India under the SARFAESI Act were not evaluated in the Board Memo, nor accounted for in the risk rating analysis of the transaction. Further, the risk rating of the Sasan transaction did not adequately address the risks of foreign currency exchange fluctuations in its financial projections on which it relied

to make its credit determination and risk rating. In addition, we found that several project risks described in the 2010 Board Memo were not adequately reflected in the Risk Rating Worksheet used to determine the risk rating of the transaction. We also found that the Bank's Loan Manual and Risk Rating Worksheet in use at the time did not provide sufficient criteria for rating a transaction's project and country risk factors. Although the Bank revised the risk assessment process outlined in the Loan Manual in April 2015 and requires the Loan Officer to document the supporting rationale for evaluating specific risks, the revisions do not provide criteria and guidance in determining the final rating level.

Finally, OIG found that while an independent monitor was engaged by Sasan to conduct quarterly monitoring of the Project's environmental and social performance as required by Ex-Im Bank, only 7 of 12 required monitoring visits and related reports had been completed during the period of review. Further, notifications of health and safety incidents by the Project were untimely. We also note that Ex-Im Bank's process for receiving, processing and tracking the resolution of complaints is more informal and lags best practices.

The report made six recommendations to address issues concerning the vetting and disclosure of legal risks arising in host countries, the evaluation of foreign exchange exposure risks during construction and operation, the proper alignment of project risks with the transaction risk rating, the monitoring of a project's compliance with the bank's environmental and social policies and the reporting of potential violations, and the analysis of economic trends and the borrower's financial performance. Ex-Im Bank agreed with all six recommendations.

### Ongoing assignments

#### *Follow-up Report on Ex-Im Bank Loss Reserve and Portfolio Risk Management Practices*

In separate reports, both OIG and GAO have identified opportunities for Ex-Im Bank to strengthen its loss reserve and risk management practices. In September 2012, OIG issued a report titled Report on Portfolio Risk and Loss Reserve Allocation Policies, which made seven recommendations. OIE's follow-up report seeks to assess Ex-Im Bank's progress to date on the various recommendations put forth in the report and to benchmark the bank's current risk management policies with best practices. We expect to issue this report in the semiannual period ending March, 31, 2016.

#### *Inspection Report on Jabiru Satellite Ltd.*

OIG seeks to assess the level of due diligence, credit analysis and monitoring conducted by Ex-Im Bank for this transaction. In addition, OIG will validate compliance with Ex-Im Bank's policies and procedures. OIE expects to complete its evaluation in the semiannual period ending March 31, 2016.







# Office of Investigations

The **Office of Investigations** (OI) conducts and coordinates investigations relating to alleged or suspected violations of laws, rules, or regulations occurring in Ex-Im Bank programs and operations. The subjects of OI investigations can be program participants, contractors, Ex-Im Bank management or employees. OI Special Agents investigate suspected violations of Federal laws, rules, or regulations which may result in criminal or civil prosecution and/or administrative sanctions. OI's investigations are supported by Investigative and Financial Analysts who conduct tactical and strategic intelligence analysis in support of OI's investigations.

OI evaluates all reports of possible fraud or illegality affecting Ex-Im Bank programs and activities. Such reports are received from a variety of sources including 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.

Activity	Investigations
Open as of April 1, 2015	31
Opened during period	8
Closed during period	8
Open as of September 30, 2015	31

Of the 31 current open investigations, the following table depicts the category of Ex-Im Bank program affected by the investigation based on the allegations received:

Program	Number of investigations
Export Credit Insurance	14
Loan Guarantee	8
Working Capital Guarantee	3
Program Integrity	4
Employee Integrity	1
Other	1



## Summary of investigative results

The Office of Investigations obtained the following investigative actions during this reporting semiannual period.

Description	OIG	Joint activities*	Total
Matters referred for prosecution consideration	3	1	4
Criminal indictments, informations, complaints	3	7	10
Pleas entered	0	5	5
Criminal judgments	1	5	6
Civil recoveries	0	0	0
Prison time (months)	0	113	113
Probation (months)	36	168	204
Court-ordered fines, restitution, and forfeiture	\$1,474,099	\$22,642,826	\$24,116,925
Administrative actions**	0	0	0
Administrative employee actions***	1	0	1
Administrative cost savings and repayments	\$0	\$0	\$0

\* Joint investigations with other law enforcement agencies.

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

\*\*\* Administrative employee actions are responses by Ex-Im Bank to terminate or discipline Ex-Im Bank employees based upon investigative findings.

## Investigations

### Export-Import Bank Employee & Program Integrity

OI conducts investigations involving allegations of criminal activity or serious misconduct by Ex-Im Bank employees that could threaten its reputation, the quality or validity of executive decisions, the security of personnel or business information entrusted to Ex-Im Bank, or result in financial loss.

Successful investigative efforts within the employee integrity area during this semiannual period include:

Former Ex-Im Bank loan officer Johnny Gutierrez pleaded guilty to one count of bribery of a public official for accepting more than \$78,000 in bribes in return for recommending the approval of unqualified loan applications to Ex-Im Bank, among other misconduct. According to his plea agreement, as an Ex-Im Bank loan officer, Gutierrez was responsible for conducting credit underwriting reviews for companies and lenders submitting financing applications to the Ex-Im Bank. As part of his guilty plea, Gutierrez admitted that on 19 separate occasions between June 2006 and December 2013, he accepted bribes

totaling more than \$78,000 in return for recommending the approval of unqualified loan applications and improperly expediting other applications. Specifically, Gutierrez admitted that he intentionally ignored the fact that one company had previously defaulted in 10 previous transactions guaranteed by the Ex-Im Bank, causing the Ex-Im Bank to lose almost \$20 million. Despite these defaults, Gutierrez accepted bribes to continue to recommend the approval of the company's loan applications. Additionally, Gutierrez admitted that he accepted bribes from a financing broker to expedite applications submitted by the broker, and that he privately assisted the broker to improve its applications before submission to the bank. In exchange, Gutierrez was to receive half of the broker's profit on the transactions financed by the Ex-Im Bank. Further, Gutierrez disclosed to the broker inside information about financing applications submitted to the Ex-Im Bank, so that the broker could solicit the applicants as clients.

Based on a referral from Ex-Im Bank, OI investigated an allegation that an Ex-Im Bank employee had improperly released business confidential information. The investigation substantiated that an Ex-Im Bank employee had disclosed technical information to a relative with expertise in the relevant field. The Ex-Im Bank employee admitted disclosing the information and stated that the purpose of the disclosure was to obtain technical advice from the relative. The investigation did not develop evidence that the information was further disseminated or otherwise misused. OI referred its findings to the Ex-Im Bank for appropriate administrative action. Ex-Im Bank management removed the employee from employment, based on the OIG findings and other findings.

### **Export Credit Insurance & Loan Guarantee Program**

Ex-Im Bank's export credit insurance and guarantee programs have been susceptible to fraud schemes by foreign borrowers, U.S. based exporters, and other transaction participants. One fraudulent scheme to exploit these programs involves the falsification of shipping records to convince Ex-Im Bank that the described goods have been shipped when in fact they have not. Other fraud schemes involve 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.

Successful investigative efforts within the export credit insurance and guarantee programs during this semiannual period include the following:

Florida businessman Martin Slone was indicted on four counts of wire fraud based on an alleged scheme to defraud Miami-area lenders and Ex-Im Bank. Slone, who was living in Brazil at the time of the indictment, was arrested in Abu Dhabi, United Arab Emirates, in



June 2015 based on an Interpol Red Notice and was returned to the United States to face charges. According to the indictment, Slone owned and operated an aircraft brokerage and export business in Florida called Woolie Enterprises Inc. In September 2007, he sought and received an insurance policy from Ex-Im Bank to insure aircraft sales from Woolie to purported buyers in Brazil. Slone allegedly submitted false information regarding Woolie's export activity to the lending bank and Ex-Im Bank. The indictment also alleges that Slone created fake invoices and documents falsely claiming that foreign buyers had purchased aircraft and parts from Woolie, and then falsely reported that those foreign buyers had defaulted on payments.

In July 2015, three family members were indicted for their alleged participation in a scheme to defraud Miami-area lenders and Ex-Im Bank. Guillermo M. Sanchez, Isabel C. Sanchez, and Gustavo Giral were charged in the indictment with conspiracy to commit wire fraud, wire fraud, conspiracy to commit money laundering and money laundering. According to allegations in the indictment, from 2007 through 2012, the defendants utilized companies they controlled to create fictitious invoices for sales of merchandise that never occurred. To perpetuate the fraud, the defendants allegedly transferred the proceeds through numerous bank accounts under their control and, in a Ponzi-style scheme, used a portion of the funds to pay off other factored invoices. The defendants and their co-conspirators allegedly created false invoices and shipping documents to obtain a loan guaranteed by the Ex-Im Bank. Rather than acquiring, selling and shipping American-manufactured goods as required for Ex-Im Bank-guaranteed loans, the defendants allegedly used the loan proceeds to extend the fraudulent scheme by paying off other lenders, and split the remaining funds among themselves and other co-conspirators. Co-conspirators Fredy Moreno-Beltran, Ricardo Beato and Jorge Amad were separately charged, and each has pleaded guilty to participating in the scheme. In connection with their guilty pleas, Beato, Amad and Moreno admitted that the invoices provided to Ex-Im Bank were false. The alleged scheme caused approximately \$8 million in losses to the private lenders and nearly \$2 million in losses to the United States.

In July 2015, Carlos Hernan Del Valle was arrested and charged with one count of grand theft and one count of wire fraud for his alleged role in a scheme to defraud a Miami bank and Ex-Im Bank of \$750,000. Del Valle was arrested by Broward County Sheriff's Deputies and Special Agents of Ex-Im Bank OIG on a Miami-Dade County warrant. The indictment alleges that Del Valle, through his company Lion Trading Corporation, represented that he sold and shipped meat products to nine businesses in the Dominican Republic from November 17, 2011, through January 23, 2012. To facilitate his export business, Del Valle applied for and received a line of credit insured by Ex-Im Bank. The indictment alleges that Del Valle submitted fraudulent sales and shipping documents purporting to support exports that never occurred in order to receive the funds. It is believed Del Valle used the fraudulently obtained funds to pay off earlier loans.

On June 3, 2015, a superseding indictment was filed against defendants who had previously been arrested in an investigation of bank fraud and money laundering led by the IRS and FBI. The superseding indictment added allegations that the defendants had defrauded Ex-Im Bank in addition to the initial charges of defrauding a commercial bank and factoring companies. On February 18, 2015, Stefano Guido Vitale, Alan Leschyshyn, and Bree Ann Davis were arrested following the return of a federal indictment alleging a conspiracy to commit wire fraud and a conspiracy to commit money laundering. The indictment alleges the scheme produced approximately \$2.5 million in fraudulently obtained proceeds which the defendants agreed to launder through various bank accounts. The defendants are accused of using and establishing various business entities during their scheme to sell, at a discount, nonexistent commercial accounts receivable. They allegedly approached factoring companies as sellers of customized gaming vault bundles and presented fabricated invoices as evidence the defendants were owed a certain amount of money for goods provided to another one of their business entities. To establish creditworthiness of these companies and to convince the factoring company the credit risk was minimal, documents were fabricated and/or altered and provided to the factoring company by the defendants, according to the charges.

On May 22, 2015, Julian Martin Gaspar Vazquez of Mexico was sentenced to forty-one months imprisonment, to be followed by five years of supervised release for executing a \$4 million dollar bank fraud scheme. Gaspar was also ordered to pay \$4,488,000 in restitution. In addition, the Court imposed a \$4 million forfeiture money judgment against Gaspar. The indictment and guilty plea of Gaspar were reported in the previous semiannual report.

On September 10, 2015, Fernando Pascual-Jimenez of Mexico pled guilty to one count of conspiracy to defraud the United States and was sentenced to 46 months imprisonment, followed by 2 years of supervised release. Pascual was also ordered to pay \$3,516,154.40 in restitution and a \$100 special assessment fee. A \$2,674,000 forfeiture money judgment was also imposed. The indictment and arrest of Pascual were reported in the previous semiannual report.

### Other investigative results

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



During this reporting period, OI communicated with Ex-Im Bank management to enhance the monitoring of existing transactions and due diligence reviews of proposed transactions based on developed investigative leads. OI shared active law enforcement intelligence with OGC on several matters concerning suspected criminal activity by participants involved in active policies or transactions under review.

OI made 80 referrals of investigative information to OGC concerning potential fraud and funds at risk for enhanced due diligence by Ex-Im Bank.

These efforts are part of the OI objective to expeditiously protect funds at risk concurrent with monitoring, oversight, and collection efforts involving transactions in which fraud is uncovered.

## Hotline activity

The Ex-Im Bank OIG maintains a hotline to receive reports of fraud, waste, and abuse in Ex-Im Bank programs and operations. Hotline reports are evaluated by our investigative team and, based on the available evidence, may result in the initiation of an investigation, audit, referral to other law enforcement authorities having jurisdiction, or referral to management for administrative action.

The OIG received fourteen hotline reports during the reporting period. Three were referred for investigations, four were referred to OIG Audit/Evaluations, three were resolved and closed by the hotline and four were referred outside the OIG.

### Hotline reports can be made by any of the following methods:

- Phone at 1-888-OIG-EXIM (1-888-644-3946)
- E-mail to [IGhotline@exim.gov](mailto:IGhotline@exim.gov)
- In person or mail/delivery service to Ex-Im Bank OIG Hotline,

Office of Inspector General, 811 Vermont Avenue 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 IG determines such disclosure is unavoidable during the course of an investigation.





# Office of Inspector General Management Initiatives

## Fraud awareness training and outreach

As part of the OIG's mission to prevent and detect fraudulent activity, efforts have been made to meet with and educate stakeholders about the various risks and fraud scenarios most commonly seen in trade finance, export credit fraud, and money laundering cases. OIG participates in the Bank's mandatory new employee orientation program to educate new Bank federal employees on their responsibilities and how to spot indicators of fraud.

During this reporting period, OI representatives conducted a briefing on common fraud scenarios and money laundering patterns with representatives from the Machinery Dealers National Association.

## International and domestic collaboration

The OIG participates in meetings with the Berne Union, the worldwide organization of export credit, insurance, and investment agencies. These meetings allow the OIG to discuss areas of interest in the export credit field and to benchmark Ex-Im Bank's practices with other export credit agencies. Since the majority of OIG investigations and inspections are focused on international transactions, the OIG continually seeks to partner with international organizations to collaborate and exchange ideas and information on how to work together in identifying, preventing, and investigating fraud.

## Council of Inspectors General on Integrity and Efficiency

The OIG participates in the activities of the Council of Inspectors General on Integrity and Efficiency (CIGIE), including the Legislation Committee and the CIGIE Inspection and Evaluation Committee, as well as the Council of Counsels to the Inspectors General.

## Review of legislation and regulations

Pursuant to section 4(a)(2) of the Inspector General Act of 1978, as amended, the OIG reviews proposed and existing legislation and regulations related to Ex-Im Bank's programs and operations. During the reporting period, the OIG worked through the CIGIE Legislation Committee to monitor and comment on proposed legislation on Inspector General reforms. The OIG also provided technical assistance on Ex-Im Bank reauthorization legislation.

## Government Accountability Office

The Inspector General (IG) Act states that each IG 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 the reporting



period, the OIG shared information with GAO and met with GAO officials to discuss ongoing and planned work. GAO issued one testimony and one report during the reporting period that addressed Ex-Im Bank procedures or mission.

### ***Status of Actions to Address GAO Recommendations Since the Bank's 2012 Reauthorization***

(GAO-15-557T, April 15, 2015)

This testimony summarized the findings and recommendations in six recent GAO reports, and provided updated information on the status of Ex-Im Bank's actions taken to address their recommendations. To update the status of its recommendations, GAO reviewed Ex-Im Bank's modified and updated procedures and documentation and interviewed Ex-Im Bank officials. GAO did not make any new recommendations in the testimony.

In six reports on Ex-Im Bank issued since March 2013, GAO presented findings and made 16 recommendations to improve Ex-Im Bank operations in three broad areas: (1) risk management, (2) underwriting and fraud prevention, and (3) forecasting its exposure and reporting on its estimates of its impact on U.S. jobs. Six of GAO's recommendations focused on Ex-Im Bank's management of risks related to its overall portfolio and Ex-Im Bank had implemented all six recommendations. As of the date of the testimony, Ex-Im Bank had also implemented four of the six recommendations from GAO's September 2014 report on its underwriting processes. It had not implemented two recommendations concerning assessing collateral on certain transactions and verifying that applicants are not delinquent on federal debt. As part of its ongoing dual use review, at the time of the testimony, GAO was reviewing the status of Ex-Im Bank's actions to address documentation weaknesses on transactions involving exports with potential dual military and civilian uses. Finally, Ex-Im Bank had fully implemented three recommendations related to how it forecasts its aggregate outstanding amount of financing and how it reports estimates of its impact on U.S. jobs.

### ***Export-Import Bank—Dual-Use Export Monitoring Guidance Revised and Implemented***

(GAO-15-611, June 25, 2015)

The Consolidated and Further Continuing Appropriations Act of 2015 extended a provision for GAO to report annually on the end uses of dual-use exports financed by Ex-Im Bank during the second preceding fiscal year. This report (1) examined how Ex-Im Bank addressed weaknesses in monitoring the end uses of the dual-use exports it financed and (2) identified what dual-use exports, if any, Ex-Im Bank reported it financed in fiscal year 2014. GAO found that Ex-Im Bank addressed weaknesses in monitoring the end use of exported dual use items by revising and implementing its guidance for monitoring these items, as GAO recommended in August 2014. As a result, GAO found that Ex-Im Bank received in a timely manner all documents required since its last report. Ex-Im Bank did not finance any new exports under its dual-use authority in fiscal year 2014, according to Ex-Im Bank authorizations data and Ex-Im Bank officials.

## Peer review reporting

The Ex-Im Bank OIG audit function last passed peer review on September 24, 2014, and all recommendations have been fully implemented. The Ex-Im Bank OIG investigations function last passed peer review on May 22, 2014, and all recommendations have been fully implemented. The next peer reviews are scheduled for 2017.

The Ex-Im Bank OIG is scheduled to complete a peer review of the audit function of the Government Printing Office (GPO) OIG by December 2016.







# Appendix A

## Open Recommendations From Prior Reporting Periods April 1, 2015–September 30, 2015

This table shows that 35 recommendations from 14 reports issued up to March 31, 2015, remain open. Eighteen open recommendations are from reports from the first half of FY 2015. The remaining 17 are from reports issued from FY 2012 to FY 2014. Prior reports are no longer listed when recommendations are closed. Due to the lapse in the Bank’s authorization (June 30, 2015), we have identified 10 open recommendations that pertain only to activities the Bank is no longer authorized to perform, such as underwriting new transactions. Therefore, implementation of these recommendations is not currently necessary or authorized.

Report date	Report title	Recommendations				Latest target closure date
		Total	Open	Closed	Unresolved	
Last Period (10/1/14—3/31/15)						
Audits						
OIG-AR-15-05 31 Mar 2015	Audit of Ex-Im Bank’s Planning and Implementation of FMS-NG	7	6	1	0	3/31/16
OIG-AR-15-04 23 Mar 2015	Audit of Ex-Im Bank’s Short-Term Multi-buyer Insurance Program	7	6*	1	0	N/A Prohibited activities
OIG-AR-15-03 9 Feb 2015	FY 2014 Information Security Program and Practices Audit	3	2	1	0	9/30/15
OIG-AR-15-02 14 Jan 2015	FY 2014 Financial Statement Management Letter	5	2	3	0	9/30/15
Inspections and evaluations						
OIG-INS-15-01 31 Mar 2015	Report on Ghana Credits: Ridge Hospital Complex & Kumawu-Mampong Water Treatment Works	5	2	2	1	12/31/15
Prior periods (prior to 10/1/14)						
Audits		0	0	0	0	
OIG-AR-14-03 26 Mar 2014	FY 2013 Information Security Program and Practices Audit	6	2	4	0	9/30/15
OIG-AR-14-01 11 Dec 2013	Audit of Ex-Im Bank’s Content Policy	3	3	0	0	N/A Prohibited activities
OIG-AR-13-05 26 Sept 2013	Audit of Ex-Im Bank’s Management of the Direct Loan Program	4	1	3	0	N/A Prohibited activities
OIG-AR-12-05 28 Sep 2012	Audit of Export-Import Bank’s Short-Term Insurance Program	10	4	6	0	N/A Prohibited activities
OIG-AR-12-04 24 Jan 2012	Audit of Information Technology Support for Export-Import Bank’s Mission	11	1	10	0	9/30/15
Inspections and evaluations						
OIG-INS-14-02 24 Sept 2014	Report on Punj Lloyd Solar Power, LTD	3	1	2	0	12/31/15
OIG-INS-14-01 18 June 2014	Report on PNG LNG Project Financing	3	2	1	0	12/31/15
OIG-INS-13-01 30 Sep 2013	Inspection Report on Minera y Metalurgica del Boleo S.A.	7	2	5	0	12/31/15
OIG-INS-12-02 28 Sep 2012	Report on Portfolio Risk and Loss Reserve Allocation Policies	7	1	5	1	12/31/15
<b>TOTALS</b>		<b>81</b>	<b>35</b>	<b>44</b>	<b>2</b>	

\* One open recommendation from this report included \$118,000 of unsupported questioned costs.





# Appendix B

## Audit and Inspection Reports Issued From April 1, 2015–September 30, 2015

	Report No./Date	Report title	Management decisions reached on recommendation	Total questioned costs	Unsupported costs	Funds for better use	Disallowed costs
1	OIG-AR-15-06 12 May 2015	IPERA for FY 2014	3/3	0	0	0	0
2	OIG-AR-15-07 28 Sept 2015	Audit of Ex-Im Bank's Data Reliability	4/4	0	0	0	0
3	OIG-EV-15-01 8 Sept 2015	Follow-up on Economic Impact Procedures	2/2	0	0	0	0
4	OIG-INS-15-02 28 Sept 2015	Inspection of the Project Finance of Sasan	6/6	0	0	0	0
<b>TOTALS</b>				\$0	\$0	0	0





# Appendix C

## Inspector General Act Reporting Requirements

Inspector General Act citation	Requirement definition	Page
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	5-8
Section 5(a)(2)	Recommendations for Corrective Actions	20-23; 28-30
Section 5(a)(3)	Prior Significant Audit Recommendations Yet to Be Implemented	None
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	35
Sections 5(a)(5) and 6(b)(2)	Summary of Refusals to Provide Information	None
Section 5(a)(6)	Audit Products Issued Including Total Dollar Values of Questioned Costs, Unsupported Costs, and Recommendations that Funds Be Put to Better Use	49
Section 5(a)(7)	Summary of Particularly Significant Reports	5-8; 20-30
Section 5(a)(8)	Total Number of Reports and Total Dollar Value for Audits with Questioned Costs	47; 49
Section 5(a)(9)	Total Number of Reports and Total Dollar Value for Audits with Recommendations that Funds Be Put to Better Use	None
Section 5(a)(10)	Summary of Prior Audit Products for which No Management Decision Has Been Made	None
Section 5(a)(11)	Description and Explanation of Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions with which the Inspector General Disagreed	None
Section 5(a)(13)	Reporting in Accordance with Section 5(b) of the Federal Financial Management Improvement Act of 1996 Remediation Plan	None



## How to report 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, or regulations, or 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. You may submit your complaint or information by these methods:

### In person

Office of Inspector General  
Export-Import Bank of the U.S.  
811 Vermont Avenue NW  
Washington, D.C. 20571

### Telephone

1- 888-OIG-EXIM  
(1-888-644-3946)

### Mail

Office of Inspector General Hotline  
Export-Import Bank of the U.S.  
811 Vermont Avenue, NW  
Washington, D.C. 20571

### E-mail

[IGHotline@exim.gov](mailto:IGHotline@exim.gov)



OFFICE OF INSPECTOR GENERAL  
Export-Import Bank of the United States  
811 Vermont Avenue, NW  
Washington, D.C. 20571

Telephone 202.565.3908  
Facsimile 202.565.3988

[www.Ex-Im.gov/oig](http://www.Ex-Im.gov/oig)