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United States Senate

COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6250

March 25, 2014

The Honorable Osvaldo L. Gratacós
Inspector General
Export-Import Bank of the United States
811 Vermont Ave, NW
Washington, DC 20571

Dear Mr. Gratacós:

We are writing to invite you to testify before the Subcommittee on Financial and Contracting Oversight at a hearing entitled, "Oversight of Small Agencies." The hearing will be held on Thursday, April 10, 2014 at 10:00 A.M. in Room SD-342 of the Dirksen Senate Office Building.

Vigorous oversight by an independent inspector general is one of the federal government's most important tools to prevent and detect waste, fraud, and abuse of taxpayer dollars. The purpose of the hearing is to review the processes and mechanisms by which small agencies and other federal entities without statutory inspectors general receive oversight. The hearing will examine the process by which small agencies contract with independent inspectors general for services. The hearing will also explore the role of the Council of Inspectors General for Integrity and Efficiency (CIGIE) in ensuring that small agencies have adequate oversight. Finally, the hearing will examine potential legislative actions to improve the oversight of small agencies.

Your testimony should discuss your experience in standing up a new inspector general office, including developing an oversight relationship with the Export-Import Bank, creating a work plan, and any administrative challenges you encountered during the process. Your testimony should also address the unique challenges faced by smaller inspector general offices and best practices for efficient and comprehensive oversight of smaller agencies. In addition, your testimony should address how smaller inspector general offices participate in CIGIE.

The Subcommittee requests that you summarize your testimony in 5 minutes, although a longer written statement may be submitted for the official record. This will allow adequate time for you to engage in questions and answers with members of the Subcommittee. **Subcommittee rules require that your testimony be submitted by no later than 10:00 A.M. on Tuesday April 8, 2014.** Please send an electronic copy of your written statement and a brief one page biography to Subcommittee Clerk, Kelsey Stroud, at Kelsey_Stroud@hsgac.senate.gov.

The jurisdiction of the Subcommittee on Contracting Oversight is set forth in Senate Rule XXV clause 1(k); Senate Resolution 445 section 101 (108th Congress); and Senate Resolution 64 (113th Congress).

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We look forward to your participation. Please contact Sarah Garcia with Senator McCaskill's Subcommittee staff at (202) 224-1014 or Mike Howell with Senator Johnson's Subcommittee staff at (202) 228-0653 with any questions.

Sincerely,



Claire McCaskill
Chairman
Subcommittee on Financial and
Contracting Oversight



Ron Johnson
Ranking Member
Subcommittee on Financial and
Contracting Oversight

Statement of the Honorable Osvaldo Luis Gratacós
Inspector General
Export-Import Bank of the United States
before the
United States Senate
Committee on Homeland Security and Government Affairs
Subcommittee on Financial & Contracting Oversight
April 10, 2014 at 10:00 am

Good morning Madam Chair, Ranking Member Johnson, and distinguished members of the Subcommittee.

Thank you for the invitation and opportunity to testify before you today about the oversight of small federal agencies, specifically, the challenges small agency Offices of Inspector General (OIGs) face when fulfilling their missions. As the Inspector General at the Export-Import Bank (Ex-Im Bank), I have experienced some of these challenges first hand. During my testimony, I would like to summarize Ex-Im Bank's mission, present a short history of the Ex-Im Bank OIG, and describe some of the challenges this office has faced since its inception. Before I continue, I would like to thank the Almighty for this opportunity, my family, and the members of the Ex-Im OIG staff for their hard work.

I. Ex-Im Bank

Ex-Im Bank is the official export credit agency (ECA) of the United States. It 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 create and maintain jobs in the United States. Ex-Im Bank has programs to address short, medium, and long-term needs of exporters; assuming 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. At the same time, Ex-Im Bank must safeguard taxpayer resources by determining that there is a reasonable likelihood of repayment with respect to each of its transactions.

In fiscal years 2012 and 2013, Ex-Im Bank approved over \$60 billion in export transactions - this is in addition to \$32 billion in FY 2011. Ex-Im Bank's portfolio has increased by 94.8% since 2008 (\$58.4 billion in FY 2008 vs. \$113.8 billion in FY 2013). In the current Charter, Ex-Im Bank has authority to approve up to \$140 billion in export transactions.

II. Ex-Im OIG

Ex-Im Bank OIG was statutorily created in 2002¹, but the Inspector General did not officially take office until August 2007. The OIG has achieved noticeable success in performing its statutory duties. Specifically, since FY 2009, the OIG has issued over forty (40) audit, inspections and special reports containing one hundred and seventy (170) findings, recommendations, and suggestions for improving Ex-Im Bank programs and operations. Our investigative efforts have resulted in a number of law enforcement actions, including: over seventy (70) indictments and informations; forty-five (45) convictions; forty (40) guilty pleas entered in court; over four hundred (400) management referrals for enhanced due diligence actions; and approximately \$300 million in court imposed restitution, forfeitures, repayments, and cost savings efforts. All of this has been accomplished with a very modest budget starting at approximately \$1 million and gradually rising to about \$5 million in FY 2014.

III. Operational Challenges

All of the OIGs face operational challenges in fulfilling their mission. These challenges are more pronounced in smaller agency settings. In order for the OIGs to effectively detect fraud, waste, abuse and to enhance their ability to improve efficiency of agency operations, small agency OIGs need the proper administrative support and funding. Because of limited resources, small agency

¹ Export-Import Bank Reauthorization Act of 2002, P.L. 107-189, Sec 22 (June 14, 2002).

OIGs often must rely on the agencies they oversee to provide essential support functions like information technology, personnel management, and financial management. As a small agency OIG, I have experienced first-hand some of the limitations, challenges and frustrations that accompany the dynamics of small agency oversight. Some of the most important observations and challenges related to OIG operations, as I experienced them as part of my role at Ex-Im Bank, are:

- *Information Technology (IT) Support.* Ex-Im Bank still uses an ineffective, inefficient, and fragmented IT platform and infrastructure composed of several legacy systems and databases. These systems and databases do not effectively and accurately interface with each other – compromising data integrity, creating duplicative information, and creating unreliable files. Further, these systems make data mining burdensome and time consuming. Since 2012, Ex-Im Bank is engaging in an IT infrastructure modernization effort focused on replacing legacy systems and improving quality and access of its data.

In essence, when requesting computer acquisition and IT support in order to perform its mission, OIGs place some burden on the hosting agency. Inevitably, this interaction leads to a dependency relationship between agency senior management and the OIG. More troublesome, however, is the potential access to OIG systems, emails, and databases that that agency senior IT managers may have.

- *Human Resources Support.* One of the most important factors for the OIGs in maintaining their independence is the ability to hire their staff without obstruction or undue influence from the hosting agency. Given the size of small OIGs, OIGs have to rely on the agency for HR support. By slowing down the hiring process, OIGs are hindered in their ability to effectively bring talent onboard to pursue audits, investigations or inspections of susceptible areas. In my experience, HR support clearly impairs OIG independence and has a serious effect on the effectiveness of the office. During my time at Ex-Im Bank, we have experienced delays of six to ninth months before hiring OIG staff. This is more significant during times when OIG and senior management have competing hiring strategies.

- Office Space. In my experience, access to adequate space, as required by the IG Act, has proven to be one of the most limiting and hindering factors in our ability to build capabilities needed to provide adequate oversight of Ex-Im Bank. Office space is limited in our current building which has limited our growth. Further, funds appropriated are not enough to hire subject matter experts while covering rent for adequate space. For the first time since our office started, the President's budget for fiscal year 2015 contains funds to address our space limitation. Adequate space is crucial to recruit qualified staff, build up moral, to improve productivity and to develop synergies within the team. When managing space limitation issues, support from the head of the agency is crucial.
- Access to Information. As a new OIG, one of our challenges was to understand how the Ex-Im Bank maintained the information that we needed to conduct our audits, inspections, and investigations, and negotiate timely access to that information. Although the IG Act clearly provides that the Inspector General has access to all books and records of the agency, agencies that have not previously had an Inspector General may not have a culture of sharing information. It is essential that agency leadership emphasize that agency employees must cooperate with information requests from the OIG. Although many of the issues regarding access to information within the Ex-Im Bank have been resolved, we still encounter issues in receiving information from outside parties involved in Bank transactions, and have recommended that the Bank's contracts and agreements specify the rights of the OIG to access information from outside parties related to Bank transactions.

IV. Possible Solutions

This Subcommittee is meeting today to discuss possible solutions to some of the challenges previously described. Although it is difficult to find a "one-size-fits-all" solution to all of these challenges, this Subcommittee should consider several possible alternatives or a combination thereof. Specifically,

- Create one OIG to provide oversight services to agencies with similar missions.
- Develop shared services agreement between OIGs.

- Centralize administrative support services for different small agencies OIGs through larger OIGs, the Office of Personnel Management, or the Council of the Inspectors General on Integrity and Efficiency.
- Place smaller agencies without OIGs under the purview of larger OIGs.

V. Conclusion

All of the OIGs in the federal government face similar challenges when fulfilling their oversight mandate. At small agencies OIGs these challenges are particularly burdensome and more pronounced. Rest assured that my fellow IGs are honored to represent American taxpayers and take pride on the work they do every day. Nonetheless, additional support in addressing challenges would only enhance their ability to provide more effective oversight.

Madam Chair, Ranking Member Johnson, and members of this honorable Subcommittee, thank you once again for the opportunity to testify before you today. I would be pleased to respond to any questions you may have.