



SEMIANNUAL REPORT TO CONGRESS

October 1, 2007 – March 31, 2008
Second Semiannual Report
811 Vermont Avenue, NW, Suite 978
Washington, DC 20571

Telephone 202.565.3923
Facsimile 202.565.3988



Michael W. Tankersley
Inspector General

EXPORT-IMPORT BANK
of the UNITED STATES

April 30, 2008

I am pleased to present the second *Semiannual Report to Congress* of the Office of Inspector General (OIG) of the Export-Import Bank of the United States (ExIm Bank) covering the reporting period of October 1, 2007 to March 31, 2008. The ExIm Bank OIG has identified two strategic objectives for the 2008 fiscal year that are aligned with the Inspector General's central mission under the Inspector General Act of 1978:

- Improve the economy, efficiency and effectiveness of ExIm Bank export credit programs and operations.
- Promote integrity among all participants in ExIm Bank's export credit programs and operations.

These objectives were advanced during the reporting period by:

Initiating evaluations and investigations of pending and new credit fraud cases affecting ExIm Bank, as well as initial hotline referrals, with the assistance of a senior investigator detailed from the Federal Deposit Insurance Corporation OIG.

Working with ExIm Bank's Audit Committee and management to improve policies and procedures addressing the fraud risk associated with the ExIm Bank's export credit programs.

Working with management and ExIm Bank's Audit Committee to complete ExIm Bank's annual financial statement audit and submission of related documentation for government-wide reporting with the support of Small Business Administration OIG senior auditors.

Undertaking a detailed evaluation of ExIm Bank's economic impact procedures in response to a request from Congress, a Government Accountability Office report released in October 2007 and a request from ExIm Bank management.

The positions of Counsel to the Inspector General and Assistant Inspector General – Audit were filled shortly before the date of this letter, providing necessary expertise to support the expansion of the scope and quality of the work of this office in future periods. I look forward to providing future reports to Congress of the progress of this new office.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael W. Tankersley".

Michael W. Tankersley
Inspector General

Mission of Export-Import Bank and the Office of Inspector General

The Export-Import Bank of the United States (ExIm Bank) is the official export credit agency of the United States. ExIm Bank's mission is to assist in financing the export of U.S. goods and services to international markets. ExIm Bank enables U.S. companies — large and small — to turn export opportunities into sales that help to maintain and create U.S. jobs and contribute to a stronger national economy.

The Office of Inspector General (OIG) at ExIm Bank is an independent office within the ExIm Bank that seeks to support ExIm Bank's overall mission and goals while helping to protect it from fraud, waste and abuse. The Inspector General Act of 1978 (IG Act) states that the Inspector General is responsible for conducting audits, inspections and investigations and recommending policies and procedures that promote economic, efficient and effective use of ExIm Bank resources and programs that prevent fraud, waste, abuse and mismanagement. The IG Act also requires the Inspector General to keep the Chairman of ExIm Bank and Congress fully and currently informed about problems and deficiencies relating to the administration of ExIm Bank programs and operations and the necessity for corrective action.

This semiannual report describes the principal actions undertaken by the OIG during the reporting period of October 1, 2007 to March 31, 2008.

Initiation of ExIm OIG Operations

The OIG of ExIm Bank began its existence on August 6, 2007 with the swearing in of ExIm Bank's first Inspector General. During the reporting period, the ExIm Bank OIG's activities undertaken to support the commencement of the full range of operations required by the IG Act included:

- (i) Continuing work to develop an understanding of ExIm Bank's programs and systems through communications with the Board of Directors, senior management and staff;
- (ii) Continuing work with ExIm Bank staff as well as other government agencies to identify the particular program, operational and financial opportunities, challenges and risks facing ExIm Bank;
- (iii) Reaching out to members of the inspector general community for advice and support relative to organizing the ExIm OIG;
- (iv) Developing a financial plan for the ExIm Bank OIG as reflected in its budget request for the 2009 fiscal year, as well as to determine spending

requirements to support the audit, evaluation and investigative work required by ExIm Bank and the IG Act;

(v) Developing and launching the OIG's web presence and hotline at www.ExIm.gov/oig with the support of ExIm Bank information technology (IT) staff;

(vi) Meeting with the ExIm Bank's staff in small departmental gatherings to explain the responsibilities and objectives of the OIG and how ExIm Bank staff can assist and benefit from the operations of the OIG;

(vii) Developing position descriptions for counsel, audit and investigative senior OIG staff in view of the available resources and anticipated demands on this office and commencing recruitment efforts; and

(viii) Beginning to develop strategic plans, policies and procedures to support the operations of the OIG.

The ExIm OIG was required to respond to several statutory mandates during its initial months of operation, as well as responding to requests from Congress, hotline complaints and fraud investigation referrals from ExIm Bank staff. These are described below.

Audits and Evaluations

Completed Audits

2007 Financial Statement Audit. An independent accounting firm obtained by ExIm Bank performed the external audit of its financial statements for the 2007 fiscal year and issued an unqualified opinion. The ExIm Bank OIG, with support from staff of the Small Business Administration OIG, monitored the conduct of the audit and actively participated in completing the annual audit process and submitting ExIm Bank's financial statements and other mandated reports to the Treasury Department. However, due to the limited time and available OIG staff to perform the required oversight duties according to generally accepted government auditing standards, the OIG disclaimed an opinion on the 2007 financial statements.

Federal Information Security Management Act (FISMA) Audit. The OIG provided oversight to the audit of ExIm Bank's information security program and practices required by FISMA, which was completed by a contractor provided by the U.S. Department of the Treasury, Bureau of Public Debt. The objective of this audit was to evaluate the effectiveness of security controls and techniques for ExIm Bank information systems and to evaluate compliance by ExIm Bank with FISMA and related information security policies, procedures, standards and guidelines.

This audit concluded that the effectiveness of ExIm Bank controls and techniques evaluated was satisfactory or better in all categories.

Other Audit Activity

Audit of Medium Term Credit Programs. The OIG's assessment of ExIm Bank potential audit subjects and discussions with management and the Audit Committee resulted in the OIG determining to undertake a performance audit of ExIm Bank's medium term export credit insurance and guarantee programs (Medium Term Programs). The Medium Term Programs were identified by management and the Audit Committee as having incurred higher than expected losses in recent years. The Medium Term Programs were also the targets of significant fraud schemes that have resulted in multiple indictments and plea agreements during the reporting period.

The proposed audit is intended to produce detailed findings regarding the efficiency and effectiveness of all aspects of the Medium Term Programs and their IT platform, as well as specific recommendations to management to address deficiencies and opportunities for improvement. In order to obtain the benefits of relevant subject matter expertise and immediate staffing availability, the OIG plans to conduct this audit using a contractor, under the direction of the Assistant Inspector General for Audit and supported by a senior audit manager loaned by the U.S. Department of Agriculture OIG. The OIG anticipates completing this audit prior to September 30, 2008.

Relationship Between OIG and Audit Committee. ExIm Bank's Bylaws provide for an Audit Committee consisting of members of the Board of Directors other than the Chairman and Vice-Chairman. The Bylaws state that:

The Audit Committee, reporting to the Board of Directors, shall be responsible for providing assistance to the Board in fulfilling its accounting and reporting responsibilities, determining that ExIm Bank has adequate administrative and financial controls, reviewing the financial statements prepared by management for distribution to Congress and the public, and providing direction over the internal audit function and the independent accountants.

The Inspector General and the Audit Committee devoted substantial time during the reporting period to evaluating and discussing effective ways for each of them to exercise their respective duties in accordance with applicable law for the benefit of ExIm Bank. The OIG and the Audit Committee addressed several matters of common interest in a mutually supportive manner intended to be consistent with the independence of the OIG and the working relationship principles for agencies and offices of inspector general developed by the President's Management Council, the President's Council on Integrity and

Efficiency and the Executive Council on Integrity and Efficiency. These projects included the Audit Committee's review of ExIm Bank's 2007 financial statements prepared by management, evaluation of ExIm Bank's outsourced internal auditing function and the selection of a new contractor to fulfill that requirement for 2008 and subsequent fiscal years.

Assessment of ExIm Bank Audit Universe. The OIG continued work, with advice and support from other members of the IG community and in consultation with ExIm Bank management and the Audit Committee, to identify and prioritize audit and evaluation subjects relative to ExIm Bank's operations and financial reporting that would assist ExIm Bank by (i) reducing risks and increasing integrity in ExIm Bank's export credit programs and operations; (ii) improving the efficiency and effectiveness in the delivery of ExIm Bank export credit programs; (iii) enhancing the ExIm Bank's internal controls; and (iv) improving transparency and accountability in ExIm Bank decision-making.

Evaluation

Report to Congress Regarding Trinidad Ethanol Project. In 2005 Congress directed that the ExIm Bank Inspector General "provide a written analysis to the Committees on Appropriations and other appropriate committees, including the Senate Finance Committee, within 90 days of appointment" addressing three questions:

- (1) Whether the medium-term credit insurance provided by ExIm Bank in support of the development of an ethanol plant in Trinidad and Tobago (Trinidad Project) met the conditions of Section 2(e)(4) or any other provision of the Export-Import Bank Act of 1945 (Charter);
- (2) Whether ExIm Bank routinely uses "value added" methodology to determine whether a proposed loan guarantee or export credit meets the statutory test of substantial injury, as specified in Section 2(e)(4) of the Charter.
- (3) Whether it is appropriate for ExIm Bank to use value added methodology in making determinations of substantial injury.

The Inspector General, with support from the FDIC OIG, commenced work on the requested analysis promptly after taking office on August 6, 2007 and delivered the requested analysis to the Congress on November 5, 2007. The analysis concluded:

- (1) As a legal matter, the Trinidad Project met the conditions of Section 2(e)(4) of the Charter and other related provisions pursuant to

procedures authorized by ExIm Bank and its Board of Directors in the exercise of their discretion.

- (2) Value added methodology is not routinely used by ExIm Bank to determine whether or not a proposed loan guarantee or export credit meets the statutory test found in Section 2(e)(4) of the Charter, and this methodology had not been relied upon in approving the Trinidad Project.
- (3) Based upon the limited procedures performed in support of the analysis, the Inspector General concluded that the use of value added methodology with respect to the Trinidad Project would not have been appropriate.

Further Review of Economic Impact Procedures. In view of the work undertaken by the OIG in preparing its report on the Trinidad Project described above, management requested that the ExIm Bank OIG undertake a further review of the recommendations made in a report prepared by the U.S. Government Accountability Office (GAO), *Export-Import Bank – Improvements Needed in Assessment of Economic Impact* (GAO-07-1071), and provide management with focused recommendations for improvements to ExIm Bank's economic impact review policies and procedures. This project was initiated during the reporting period and is expected to be completed prior to September 30, 2008.

Investigations and Hotline Activity

Investigation of Fraud Allegations and Support for Prosecutions. The ExIm Bank OIG, with the assistance of a senior investigator detailed from the FDIC OIG, has undertaken to work with ExIm Bank personnel and the U.S. Department of Justice (DOJ) to investigate allegations of fraud relative to ExIm Bank export credit insurance and guarantee transactions, including assisting in developing evidence to support civil and criminal fraud actions against the responsible parties. Actions taken in this regard during the reporting period include:

Obtaining and evaluating documentary evidence that has been forged or fraudulently modified in order to mislead ExIm Bank and its insured lenders and exporters regarding the quantity, description or value of goods claimed to have been shipped.

Interviewing shippers and other parties providing logistical services for ExIm Bank supported credit transactions to confirm their actions and statements relative to transactions having potential fraud indicators.

Meeting with senior DOJ officials to discuss case development strategies and support for their prosecution of specific charges.

Working with ExIm Bank staff and counsel to identify potentially fraudulent transactions during the application and underwriting process before commitments are issued or losses incurred.

Working with ExIm Bank staff, counsel and personnel associated with Global Recovery Group (GRG), ExIm Bank's collections contractor, to develop evidence supporting ongoing fraud investigations.

Issuing Inspector General subpoenas to shippers, forwarders, finders, brokers, exporters and lenders to obtain documentary evidence in ExIm Bank transactions where fraud is suspected.

Meeting with senior investigators at Immigration and Customs Enforcement (ICE) to discuss cooperation and joint case development strategies.

ExIm Bank OIG commenced investigative efforts on 9 discreet fraud referrals during the reporting period, representing 25 individual transactions involving losses. The loss associated with each individual transaction ranged between \$10,000 to more than \$5 million. All matters remained pending as of the end of the reporting period. One matter involving five direct transactions and representing a loss to ExIm Bank of approximately \$8 million was referred to DOJ by the OIG during the reporting period.

Hotline Referrals. The ExIm OIG Hotline email address and phone number for delivering confidential reports of fraud, waste and abuse became functional in January 2008. During the months of January, February and March of 2008, the ExIm OIG received and responded to three hotline calls. Resolution of matters raised in these calls remained pending as of the end of the reporting period.

Other Actions. The ExIm OIG undertook two additional investigative matters during the reporting period. One involved an allegation of misconduct by an ExIm Bank employee received as a referral from another federal OIG. The second was a disputed claim with respect to a completed ExIm Bank export credit transaction referred to the ExIm OIG by the Chairman of ExIm Bank following his receipt of questions about the transaction by a member of Congress. Both matters remained pending as of the end of the reporting period.

Regulatory Review

The OIG did not undertake any reviews of proposed legislation, rules or ExIm Bank policies during the reporting period.

Statistical Data

The statistical data required to be included in the Office of Inspector General Semiannual Reports by the IG Act is omitted due to the recent initiation of operations of the ExIm Bank OIG. Based upon the audit, evaluation and investigative matters described above during the current reporting period, statistical reporting will commence with the Semiannual Report for the period ending September 30, 2008.

**CROSS-REFERENCE TO REPORTING REQUIREMENTS
OF THE INSPECTOR GENERAL ACT**

Set forth below are cross-references of the reporting requirements prescribed by the identified sections of the IG Act to the specific pages in this Semiannual Report where they are addressed.

CITATION	REPORTING REQUIREMENTS	PAGE
Section 4(a)(2)	Review of legislation and regulations	7
Section 5(a)(1)	Significant problems, abuses and deficiencies	None
Section 5(a)(2)	Recommendations with respect to significant problems, abuses and deficiencies	None
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed	None
Section 5(a)(4)	Matters referred to prosecutorial authorities	7
Section 5(a)(5)	Summary of instances in which information was refused	None
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs and recommendations that funds be put to better use	3-4
Section 5(a)(7)	Summary of each particularly significant report	3, 5-6
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs	None
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	None
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by end of reporting period	None
Section 5(a)(11)	Significant revised management decisions	None
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees	None

**If you suspect fraud, waste, abuse, or other misconduct at the
Export-Import Bank of the United States, contact us.**



**The OIG Hotline is available 24 hours per day.
The caller can remain anonymous. Federal employees
are protected from reprisal under the provisions of the
Whistleblower Protection Act of 1989. For more information,
see the MSPB publication "Questions and Answers About
Whistleblower Appeals."**

If you prefer, you may send written complaints to:

**IGHotline@exim.gov or
Export-Import Bank of the United States
Office of Inspector General
Room 978
811 Vermont Avenue, N.W.
Washington, DC 20571**