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

Improper Payments Reporting

Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Improper Payments Assessment

March 14, 2013
OIG-AR-13-03

To: David Sena
Senior Vice President and Chief Financial Officer

From: Rebecca Sharek
Assistant Inspector General for Audits

Subject: Audit of Export-Import Bank's (Ex-Im Bank) Compliance with the Improper Payments Information Act of 2002 (IPIA) for Fiscal Year (FY) 2011

Date: March 14, 2013

This memorandum transmits Audit Report OIG-AR-13-03, "Improper Payments Reporting: Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Improper Payments Assessment." The audit was initiated to determine whether in FY 2011 Ex-Im Bank complied with IPIA, as amended by the Improper Payments Elimination and Recovery Act of 2010. We also evaluated the accuracy and completeness of Ex-Im Bank's improper payment reporting and efforts to reduce and recover improper payments in FY 2011.

The audit found that Ex-Im Bank complied with IPIA in that it reported required information based on the results of its FY 2011 improper payments assessment. However, Ex-Im Bank should improve its processes for identifying and measuring its risk of improper payments. We made five recommendations for corrective action. Management generally concurred with the recommendations and we consider management's proposed actions to be responsive. The recommendations will be closed upon completion and verification of the proposed actions.

We appreciate the courtesies and cooperation extended to us during the audit. If you have questions, please contact me at (202) 565-3169 or rebecca.sharek@exim.gov.

cc: Fred Hochberg, Chairman and President
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The Export-Import Bank of the United States (Ex-Im Bank) is the official export-credit agency of the United States. Ex-Im Bank is an independent, self-sustaining executive agency and a wholly-owned U.S. government corporation. Ex-Im Bank's mission is to support jobs in the United States by facilitating the export of U.S. goods and services. Ex-Im Bank provides competitive export financing and ensures a level playing field for U.S. exports in the global marketplace.

The Office of Inspector General, an independent office within Ex-Im Bank, was statutorily created in 2002 and organized in 2007. The mission of the Ex-Im Bank Office of Inspector General 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.

ACRONYMS

AFR	Agency Financial Report
FY	Fiscal Year
GAO	Government Accountability Office
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report

Executive Summary

Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Improper Payments Assessment
Audit Report OIG-AR-13-03
March 14, 2013

Why We Did This Audit

Improper payments are payments made in the wrong amount, to the wrong entity, or for the wrong reason. They can result from processing errors, a lack of information, or fraud. In accordance with the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Inspectors General are required to annually review their agency's compliance with improper payments legislation and evaluate agency efforts to assess, report, and reduce improper payments. As a result, we reviewed the Export-Import Bank's (Ex-Im Bank or the Bank) improper payments assessment and reporting activities for fiscal year (FY) 2011.

What We Recommended

To improve Ex-Im Bank's processes for identifying and assessing its risk of improper payments, we recommended that the Bank (1) revise its procedures to correctly calculate improper payments rates, (2) reconsider the results of its FY 2011 risk assessment, (3) modify its risk assessment scoring method, (4) include in its assessment insurance claims paid based on fraud or obtain Office of Management and Budget (OMB) written approval to continue excluding such payments, and (5) consider the cost effectiveness and value of conducting recapture audits and additional periodic testing for improper payments across all program areas. Management generally concurred with the recommendations, which will be closed upon completion and verification of corrective action.

What We Found

Ex-Im Bank complied with IPIA, as amended by IPERA, in that it reported all required information based on the results of its FY 2011 improper payments assessment. In addition, Ex-Im Bank has established a number of preventive and detective controls and due diligence requirements intended to minimize the possibility of improper payments. However, we identified the following concerns which we believe reduce the overall usefulness and reliability of Ex-Im Bank's improper payments assessment:

- The Office of the Chief Financial Officer (OCFO) incorrectly concluded that all returned or voided wire and check payments are inherently improper and, moreover, were the only improper payments made by Ex-Im Bank. This led to measuring the Bank's risk of improper payments against a list of transactions that were largely not improper as defined by IPIA, and supported the OCFO's decision not to test controls intended to prevent or detect improper payments.
- The OCFO relied on the results of a risk assessment questionnaire that may not have accurately reflected Ex-Im Bank's risk of improper payments.
- Although OMB recognizes that improper payments may include payments based on incomplete, inaccurate, or fraudulent information, the OCFO did not include in its improper payments assessment certain export credit insurance claims later determined to be fraudulent. In FY 2011 alone, the Office of Inspector General – Office of Investigations determined that such claims totaled $1.3 million.

Given (1) internal control weaknesses we have previously identified, including those in Ex-Im Bank's key information technology applications, some of which are used to process payments, and (2) the weaknesses we observed in the OCFO's FY 2011 improper payments assessment, we believe Ex-Im Bank's true risk of significant improper payments is unknown. As a result, its FY 2011 improper payments reporting may be inaccurate and incomplete, and its efforts to reduce and recover improper payments may be inadequate.

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

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INTRODUCTION

Background

Each year, the Federal Government wastes billions of taxpayer dollars on improper payments to individuals, organizations, and contractors.[1] According to the Office of Management and Budget (OMB), an improper payment is any payment that (1) should not have been made; (2) was made in an incorrect amount, to an ineligible recipient, for ineligible goods or services, or for goods or services not received; or (3) lacks sufficient documentation to determine whether it is proper.[2] Improper payments may result from inadequate recordkeeping, inaccurate eligibility determinations, inadvertant processing errors, lack of timely and reliable information to confirm payment accuracy, or fraud.

> The term "payment" means payment or transfer of Federal funds (including cash, loans, loan guarantees, and insurance subsidies) to any non-Federal person or entity made by or on behalf of a Federal agency, contractor, or grantee. For purposes of direct loan and loan guarantee programs, such as those administered by the Export-Import Bank, improper payments may include disbursements to borrowers, intermediaries, or third-parties for defaults, delinquencies, interest or other subsidies, or other payments based on incomplete, inaccurate, or fraudulent information.

To reduce improper payments, Congress passed the Improper Payments Information Act of 2002 (IPIA).[3] Congress amended IPIA by enacting the Improper Payments Elimination and Recovery Act of 2010 (IPERA).[4,5] As amended, IPIA requires agencies to review their programs and activities each fiscal year (FY) and identify those susceptible to significant improper payments.[6] Agencies must report in their annual Performance and Accountability Report (PAR) or Agency Financial Report (AFR) estimated significant improper payments and actions to reduce them. In addition, Inspectors General are required to (1) determine whether their respective agencies are compliant with IPIA and (2) evaluate the accuracy and completeness of agency reporting and performance in reducing and recapturing improper payments. To assist agencies and Inspectors General, OMB issued government-wide guidance in 2011.[7]

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[1] M-11-16, "Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123," April 14, 2011.

[2] OMB Circular A-123, "Management's Responsibility for Internal Control," Appendix C.

[3] Public Law 107-300, November 26, 2002.

[4] Public Law 111-204, July 22, 2010.

[5] From this point forward, "IPIA" will be used to refer to IPIA as amended by IPERA.

[6] "Significant improper payments" are gross annual improper payments in the program under review exceeding (1) both 2.5 percent of program outlays and $10 million of all program payments made during the fiscal year reported or (2) $100 million regardless of the improper payment percentage of total program outlays.

[7] M-11-16, "Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123," April 14, 2011.

OMB Guidance. According to OMB, there are four steps in determining whether an agency's risk of improper payments is significant and to provide valid annual estimates of significant improper payments. Unless an agency has specific written approval from OMB to deviate from these steps, agencies are required to follow them.

In Step 1, the agency must institute a systematic method to review all programs and activities and identify those that are susceptible to significant improper payments. This method can be a quantitative evaluation based on a statistical sample or it can take into account risk factors likely to contribute to significant improper payments. At a minimum, the risk factors should include:

- whether the program or activity is new to the agency;
- the complexity of the program or activity, particularly with respect to determining correct payment amounts;
- the volume of payments made annually;
- whether payments or payment eligibility decisions are made outside of the agency;
- recent major changes in program funding, authorities, practices, or procedures;
- the level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;
- significant deficiencies cited in audit reports of the agency, including the agency Inspector General or the Government Accountability Office (GAO); and
- results from prior improper payment work.

If no programs are identified in Step 1 as susceptible to significant improper payments (i.e., the improper payment rate of each program is determined to be less than $100 million or below both 2.5 percent of total program outlays and $10 million of all program payments made during the fiscal year), no further analysis is required. However, for each program identified as susceptible to significant improper payments, the agency must use an OMB-approved methodology in Step 2 to test a sample of transactions and obtain a statistically valid estimate of the annual amount of improper payments. Once testing is complete and the annual estimated amount of improper payments is derived, Step 3 requires the agency to develop and implement a corrective action plan that identifies root causes and establishes reduction targets as well as accountability for reducing improper payments. In Step 4, the agency must report in its annual PAR or AFR its estimated annual improper payments and its progress in reducing them.

According to OMB, improper payment rates established in Step 1 should be measures of dollars rather than occurrences. In other words, the improper payment rate should be the amount in improper payments divided by the amount in program outlays for a given program in a given fiscal year.

In addition to analyzing susceptibility to significant improper payments, IPIA requires agencies to conduct payment recapture audits for each program and activity that expends $1 million or more annually if conducting such audits would be cost effective. OMB defines a payment recapture audit as a review and analysis of an agency's or program's accounting and financial records, supporting documentation, and other pertinent information supporting its payments, that is specifically designed to identify overpayments.

Export-Import Bank's Process for Identifying and Measuring its Risk of Improper Payments. To identify and measure its risk of significant improper payments, the Export-Import Bank (Ex-Im Bank or the Bank) Office of the Chief Financial Officer (OCFO): (1) reviews the Bank's payment types, (2) compares the total amount of transactions captured on Ex-Im Bank's annual Improper Payment Log with IPIA thresholds for significant improper payments, (3) compiles the results of risk assessment questionnaires that assess each payment type, and (4) documents the internal controls that prevent and detect improper payments along with a summary of the assessment of the Bank's risk. With OMB's approval, Ex-Im Bank performs its improper payments assessment one year in arrears, meaning the analysis for FY 2011 is performed in FY 2012 and reported in Ex-Im Bank's FY 2012 AFR.

Review of Ex-Im Bank Payments. The OCFO reviewed Ex-Im Bank's FY 2011 payments, which totaled $2.7 billion, and identified three payment types: (1) Administrative Expenses, (2) Claim Payments, and (3) Loan Disbursements. Each payment type, which the OCFO defined as a program for the purposes of IPIA, is described below.

(1) *Administrative Expenses* – Ex-Im Bank has three categories of administrative expenses: compensation and benefits, rental payments on its Washington, D.C. Headquarters building, and contract and invoice payments. Ex-Im Bank's compensation and benefits are processed by the General Services Administration's Kansas City, Missouri payroll processing center. In addition, compensation, benefits, and rental payments are paid to the General Services Administration through the intra-government payment system. As intra-governmental transactions, these payments are excluded from the Bank's improper payments assessment. The remainder of Ex-Im Bank's 6,301 administrative disbursements were contract and invoice payments totaling $26.1 million. According to the OCFO, the two largest components of these payments were technology- and travel-related expenses.

(2) *Claim Payments* – Ex-Im Bank makes claim payments under its Loan Guarantee and Export Credit Insurance programs. Under the Loan Guarantee Program, the Bank guarantees to a lender that, in the event of a payment default by the borrower, Ex-Im Bank will pay to the lender the outstanding principal and interest on the loan. Specifically, the Bank's medium term guarantees provide unconditional coverage in the event of default. According to the OCFO, except in certain instances of noncompliance with the terms of the guarantee agreement between the Bank and the guaranteed party, Ex-Im Bank cannot deny payment of the claim even if the

borrower provided fraudulent information to obtain the underlying credit from the guaranteed lender. Therefore, the OCFO does not include such payments in its improper payments assessment.

Under the Export Credit Insurance Program, Ex-Im Bank insurance covers exporters' risk of buyer nonpayment for commercial and certain political reasons. In certain instances, Ex-Im Bank's insurance policies also provide unconditional coverage in the event of default. Otherwise, Ex-Im Bank insurance policies specifically state that if the insured makes knowingly false, misleading, or fraudulent statements, reports, or claims, the policy becomes void and all claims are forfeited. Therefore, payments for these export credit insurance claims that are later proven to be fraudulent meet the IPIA definition of improper payments.

The Claims and Recoveries Section of the Office of the Treasurer is responsible for processing requests for disbursements when paying claims on either loan guarantees or export credit insurance, expenses related to claims, and a participant's share of recoveries or related expenses. During FY 2011, Ex-Im Bank made 657 loan guarantee and export credit insurance claim payments totaling $118.5 million.

(3) *Loan Disbursements* – Ex-Im Bank offers fixed-rate loans directly to foreign buyers of U.S. goods and services. Once a loan transaction becomes legally operative, the Operations and Data Quality Division reviews supporting documentation prior to approving a disbursement request. After their review, Operations and Data Quality personnel sign the disbursement approval and send it and supporting documentation to the Program Accounting and Servicing Division. Program Accounting and Servicing staff apply the appropriate fees, print the disbursement voucher, and submit it to a certifying officer who signs the voucher and forwards it to the Cash Control Division for remittance of funds. Although Ex-Im Bank made fewer loan disbursements in FY 2011 than it did administrative or claim payments, due to the large amount of each transaction, loan disbursements comprised 95 percent of the value of the Bank's total payments for the year. Specifically, Ex-Im Bank made approximately 324 payments designated as loan disbursements worth about $2.6 billion, while total FY 2011 payments equaled $2.7 billion.

The following chart shows the value of Ex-Im Bank's FY 2011 payments by program area.

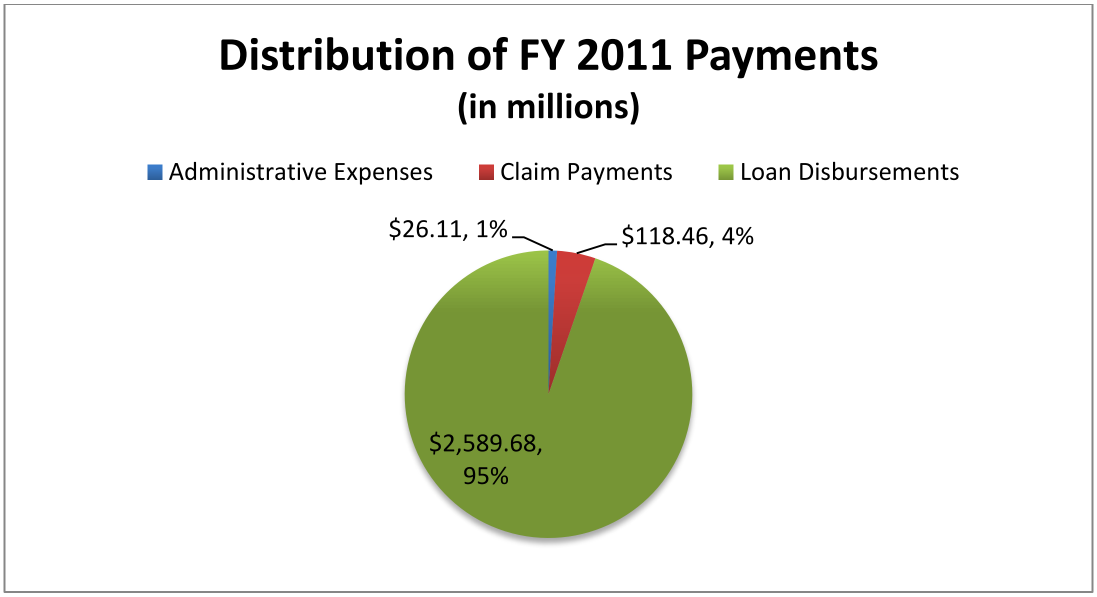

Chart 1. Ex-Im Bank's FY 2011 payments by program area.
Source: Office of Inspector General summary of data received from the Ex-Im Bank OCFO.

Ex-Im Bank's Improper Payment Log. To determine whether Ex-Im Bank's risk of improper payments is significant, the OCFO creates and evaluates an Improper Payment Log and compares it to IPIA thresholds. As described in the Bank's internal guidance for identifying and assessing improper payments – "Ex-Im Bank Process and Procedures for Improper Payments" – the Improper Payment Log is produced by the Financial Reporting Office and maintained by the Cash Control Supervisor. Specifically, Financial Reporting Office personnel input on a spreadsheet titled "Improper Payment Log" those Ex-Im Bank wire and check payments that were returned by the U.S. Treasury or U.S. Post Office or were voided by the Bank during the fiscal year. According to the OCFO, all returned wires and returned or voided checks are improper payments as defined by IPIA and, moreover, represent the full population of actual improper payments made by Ex-Im Bank. Therefore, staff calculates the amount of returned wires and returned or voided checks as a percentage of all program outlays to determine if the total amount exceeds the IPIA threshold for significant improper payments. If the total amount of transactions from the Improper Payment Log does not exceed IPIA thresholds, the OCFO takes no further action to test internal controls or identify other possible improper payments. According to Ex-Im Bank's internal guidance, this approach "tests all payments, which is more robust than the sampling method allowed for in OMB Memorandum M-11-16."

To be considered significant, improper payments must exceed $100 million or both 2.5 percent of total program outlays and $10 million of all program payments made during the fiscal year.

For FY 2011, Ex-Im Bank's Improper Payment Log included 144 payments – 66 returned wires and 78 returned or voided checks – totaling $3.7 million. The OCFO determined that this amount did not exceed IPIA thresholds for significant improper payments. A summary of the FY 2011 Improper Log is included in Appendix B.

Ex-Im Bank's Improper Payments Risk Assessment Questionnaire. In addition to assessing the results of the Improper Payment Log, Ex-Im Bank's Financial Reporting Office asked key employees from each department involved in the Bank's disbursement process to complete a questionnaire based on FY 2011 disbursement activities. The questionnaire – which was developed by KPMG after an FY 2008 internal audit of Ex-Im Bank's improper payment processes and procedures – includes 60 questions that address each of the 5 widely accepted components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring).[8] The Financial Reporting Office distributed four copies of the questionnaire: one for administrative expenses, one for claim payments, and two for the loan disbursement process (one for the operations phase of the process and one for the servicing phase). After scoring the four responses received, the OCFO concluded that Ex-Im Bank has a low risk of improper payments in all three programs. Ex-Im Bank's risk assessment questionnaire is included in Appendix C.

Ex-Im Bank's Risk Assessment Summary. The OCFO also issued an FY 2011 risk assessment summary that described the cash disbursement process and documented the internal controls that prevent and detect improper payments. The summary stated that Ex-Im Bank "has a strong system of internal controls in place to help prevent improper payments and to detect them should they occur." In addition, the summary noted that all Ex-Im Bank FY 2011 risk assessment questionnaires showed that the risk of significant improper payments was low and "actual identified improper payments [from the FY 2011 Improper Payment Log] were approximately $3.7 million." The summary concluded that, "Because of the assessment of a low risk of improper payments and the small amount of known improper payments, the Bank has not established a formal recapture audit plan. However, the Bank does actively pursue recovery of any payment that has been identified as being made improperly. In FY 2011, 100% of the $3.7 million improper payments were recovered." As a result, the OCFO determined that no additional action was warranted to assess or reduce Ex-Im Bank's FY 2011 improper payments or test controls intended to prevent or detect such payments. The results of Ex-Im Bank's FY 2011 improper payments assessment were reported in the Bank's 2012 AFR, which reiterated the low risk of improper payments.

Objectives

Our objectives were to determine whether Ex-Im Bank was compliant with IPIA, as amended by IPERA, and to evaluate the accuracy and completeness of Ex-Im Bank's improper payment reporting and efforts to reduce and recover improper payments for FY 2011. See Appendix A for details of the audit's scope and methodology; our review of internal controls; applicable federal laws, regulations, policies, and guidance; and a description of prior audit coverage.

[8] "Export-Import Bank of the United States 2008 Internal Audit Report, Improper Payment Information Act (IPIA)," April 30, 2009 (KPMG LLP).

RESULTS

Finding: Ex-Im Bank Should Improve Its Processes for Identifying and Measuring Its Risk of Improper Payments

Ex-Im Bank complied with IPIA, as amended by IPERA, in that it reported all required information based on the results of its FY 2011 improper payments assessment. In addition, Ex-Im Bank has established a number of preventive and detective controls and due diligence requirements intended to minimize the possibility of improper payments. However, we identified the following concerns which we believe reduce the overall usefulness and reliability of Ex-Im Bank's assessment:

- The OCFO incorrectly concluded that all returned or voided wire and check payments are inherently improper and, moreover, were the only improper payments made by Ex-Im Bank. This led to measuring the Bank's risk of improper payments against a list of transactions that were largely not improper as defined by IPIA, and supported the OCFO's decision not to test controls intended to prevent or detect improper payments.

- The OCFO relied on the results of a risk assessment questionnaire that may not have accurately reflected Ex-Im Bank's risk of improper payments.

- Although OMB recognizes that improper payments may include payments based on incomplete, inaccurate, or fraudulent information, the OCFO did not include in its improper payments assessment certain export credit insurance claims later determined to be fraudulent. In FY 2011 alone, the Office of Inspector General (OIG) – Office of Investigations determined that such claims totaled $1.3 million.

Ex-Im Bank's FY 2011 improper payments risk assessment summary documented a number of controls intended to minimize the possibility of improper payments. Additionally, based on its assessment, the OCFO concluded that Ex-Im Bank's risk of improper payments was low and determined that it was not cost effective or necessary to conduct payment recapture audits, perform additional steps to identify or reduce improper payments, or test those internal controls intended to prevent or detect them. However, given (1) internal control weaknesses we have previously identified, including those in Ex-Im Bank's key information technology applications, some of which are used to process payments and applications for Ex-Im Bank products, and (2) the weaknesses we observed in the OCFO's FY 2011 improper payments assessment, we believe Ex-Im Bank's true risk of significant improper payments is unknown. As a result, its FY 2011 improper payments reporting may be inaccurate and incomplete, and its efforts to reduce and recover improper payments may be inadequate.

Ex-Im Bank Complied With IPIA Reporting Requirements

OMB provides specific guidance on what each agency Inspector General should review to determine if an agency is complaint with IPIA. The table below summarizes the IPIA requirements and the results of our review of Ex-Im Bank's compliance.

IPIA Requirement *Did the agency . . .*	**Yes/No/Not Applicable**	**Comments**
Publish a PAR or AFR for the most recent fiscal year and post that report and any accompanying materials required by OMB on the agency website?	Yes	Ex-Im Bank's FY 2012 AFR can be accessed at: http://www.exim.gov/about/library/reports/annualreports/2012/
Conduct a program-specific risk assessment for each program or activity?	Yes	
Publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments as required?	Not Applicable	Ex-Im Bank did not identify any programs as susceptible to significant improper payments.
Publish programmatic corrective action plans in the PAR or AFR as required?	Not Applicable	Ex-Im Bank did not identify any programs as susceptible to significant improper payments.
Publish and meet annual reduction targets for each program assessed to be at risk and measured for improper payments?	Not Applicable	Ex-Im Bank did not identify any programs as susceptible to significant improper payments.
Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR?	Not Applicable	Ex-Im Bank did not identify any programs as susceptible to significant improper payments.
Report information on its efforts to recapture improper payments?	Not Applicable	Ex-Im Bank does not conduct recapture audits and reported in its FY 2012 AFR that, based on its assessment, no further action was required under IPIA.

Table 1. Summary of Ex-Im Bank's compliance with IPIA reporting requirements.
Source: OMB Circular A-123, "Management's Responsibility for Internal Control," Appendix C and OIG analysis.

Although Ex-Im Bank complied with IPIA reporting requirements, we identified specific concerns related to the Bank's improper payments assessment.

Payments Were Incorrectly Identified as Improper

The FY 2011 Improper Payment Log was a central component of Ex-Im Bank's improper payments assessment. The OCFO concluded that all payments included on the Log after being returned by the U.S. Treasury or U.S. Post Office or being voided by Ex-Im Bank were inherently improper and, moreover, represented the full population of improper payments made by the Bank. Although IPIA and OMB specifically define when a payment is considered improper, OCFO staff did not consider the reason the wires and checks were returned or voided when making their determination. Instead, staff compared the total amount of payments from the Improper Payment Log with the total amount of program outlays for the fiscal year. Because the amount of transactions from the Log – $3.7 million –

Improper Payments are Payments That:	
	Should not have been made,
	Were made in an incorrect amount,
	Were made to an ineligible recipient,
	Were for ineligible goods or services or eligible goods or services not received, or
	Lack sufficient documentation to determine if they are proper.

Table 2. Definition of improper payments.
Source: Public Law 107-300, November 26, 2002; and OMB Circular A-123, "Management's Responsibility for Internal Control," Appendix C.

did not exceed the IPIA threshold for significant improper payments in FY 2011, the OCFO determined that it was not cost effective or necessary to take additional action to identify other possible improper payments or calculate improper payment rates, as required by OMB. Furthermore, because all payments on the Improper Payment Log were returned to or voided by Ex-Im Bank, the OCFO reported that it successfully recovered all FY 2011 improper payments, which supported the decision not to conduct payment recapture audits or test controls intended to prevent or detect improper payments.

However, we determined that the Improper Payment Log largely represented a list of transactions that were not improper as defined by IPIA. Specifically, 61 of the 66 wire payments on the Log were returned because the payee account number or other payment information was incorrect, therefore, the payments could not be processed. In addition, 71 of the 78 checks on the Log were returned or voided because the payee address was incorrect and the checks were undeliverable or never received by the payee. In these instances, Ex-Im Bank issued replacement checks and voided the original, missing checks, deeming them improper payments.

We reviewed supporting documentation for 25 payments from the Improper Payment Log and verified that only 3 met the IPIA definition for improper payments.[9] Specifically, in two

[9] Appendix A describes our sampling methodology.

instances, payments were returned because Ex-Im Bank paid the wrong vendors. The remaining payment was improper because there was insufficient documentation to determine whether it was proper. The other 22 payments included in our review were incorrectly classified as improper because, in each instance, Ex-Im Bank was obligated to make the payment and was paying the correct amount to eligible recipients for eligible goods or services received. For example, Ex-Im Bank deemed two checks improper because they were returned by the U.S. Post Office as undeliverable due to incorrect payee addresses. In another instance, a vendor who received an Ex-Im Bank check requested to be paid by wire instead. So Ex-Im Bank voided the check, recorded it as an improper payment, and then paid the vendor with a wire. When seven other checks were never received by the payees, Ex-Im Bank voided the checks, classified them as improper, and then replaced them with new checks. The 12 remaining payments in our sample were wire payments that were returned to Ex-Im Bank and deemed improper by the OCFO because the Bank used outdated routing transit numbers and, therefore, the payments could not be processed.

OCFO personnel told us that they considered missing checks or payments sent to the wrong address improper because they could have been intercepted by the wrong recipient and cashed. In addition, they believed that inclusion of such payments on the Improper Payment Log merely overstated Ex-Im Bank's improper payments, making the true risk of significant improper payments even lower than reported because they reasoned that, if those payments were not improper, then the Bank did not make any improper payments. However, the OCFO has never conducted testing to identify other possible improper payments or calculate improper payment rates. Although payment processing errors were made resulting in returned or voided payments, most of the payments on the Improper Payment Log were not truly improper. However, as a result of flawed methodology or a lack of understanding, the OCFO incorrectly categorized payments as improper then used the total of those payments to measure Ex-Im Bank's risk of significant improper payments and to determine that additional actions were not warranted.

Appendix B summarizes all 144 payments included on the FY 2011 Improper Payment Log.

Risk Assessment Questionnaire May Not Have Accurately Reflected Risk

The OCFO's conclusion of low risk and decision not to conduct additional quantitative tests or calculate improper payment rates beyond what was captured on the Improper Payment Log was corroborated by the results of Ex-Im Bank's risk assessment questionnaires. To assess the risk in Ex-Im Bank's programs, the Financial Reporting Office requested and received four responses to its questionnaire: one for administrative expenses, one for claim payments, and two for the loan disbursement process (one for the operations phase of the process and one for the servicing phase).[10] Although the FY 2011 improper payments risk

[10] Once a loan becomes legally operative, the Operations and Data Quality Division reviews supporting documentation prior to approving a disbursement request. Operations and Data Quality personnel send the signed disbursement approval and supporting documentation to Program Accounting and Servicing staff, who apply appropriate fees and print the disbursement voucher for review by a certifying officer prior to remittance of funds.

assessment summary states that all questionnaires provided evidence of "strong internal controls" and showed that Ex-Im Bank's risk of significant improper payments was low, we noted that the risk assessment questionnaire for the operations phase of the loan disbursement process disclosed that almost half of the controls assessed (27 out of 60) and intended to prevent or detect improper payments were either weak or were not applicable.

Specifically, the completed questionnaire indicated elevated risk for 9 questions and responses of "Not Applicable" for an additional 18 questions. These 27 questions related to key controls regarding Ex-Im Bank's internal control environment, and risk assessment, internal control, information and communication, and monitoring activities. For example, responses that suggested elevated risk indicated that:

- there is an emphasis on expediting payments within the process;
- there are anticipated changes in the program;
- there are no mechanisms in place to ensure that personnel understand the purpose of internal control activities; and
- there are risks from business process redesign, disruption of information systems processing, and a lack of backup systems.

Also, controls deemed not applicable included but were not limited to those for assessing risks arising from changing needs, new legislation, downsizing, and a lack of training; monitoring of sub-recipients; automated systems; and addressing prior audit findings.

However, the OCFO did not eliminate the 18 items reported as "Not Applicable" when it scored the questionnaire. Instead, staff scored the 9 responses that indicated elevated risk out of a total of 60 questions (or 15 percent), resulting in a score of low risk according to the OCFO's scoring method.[11] Had staff removed from the calculation the 18 factors that did not apply, they would have scored the 9 responses that indicated elevated risk out of a total of 42 questions (or 21 percent), thereby recognizing medium risk of improper payments occurring in the operations phase of the loan disbursement process.

When considering the overall risk to the loan disbursement process, medium risk in the operations phase would likely be mitigated to some degree by the low risk documented on the questionnaire for the servicing phase. However, potential elevated risk of improper loan disbursements is significant because loan disbursements comprised 95 percent, or $2.6 billion, of Ex-Im Bank's FY 2011 payments. As a result, we question whether the loan disbursement program and, therefore, overall agency risk of improper payments is truly low.

[11] According to the OCFO's scoring method, if no more than 18 percent of all questions answered indicate elevated risk, the overall risk of improper payments is low. A score between 20 percent and 47 percent of all questions answered equals medium risk. A score of 48 percent or more of all questions answered equals high risk.

Appendix C includes Ex-Im Bank's improper payment risk assessment questionnaire and further explains how the OCFO scored the questionnaires to determine risk.

Improper Payments Assessment Did Not Include Export Credit Insurance Claims Later Determined to Be Fraudulent

According to OMB, improper payments can result from fraud. In addition, certain Ex-Im Bank export credit insurance policies are void and all claims are forfeited in the event of fraud. For example, while Ex-Im Bank may be obligated to provide unconditional coverage to commercial lenders who have fulfilled Ex-Im Bank's due diligence requirements, policies are void and all claims are forfeited in certain instances when the beneficiary is an exporter who has committed fraud. However, the OCFO did not include such claims in its improper payments assessment. In fact, the FY 2011 improper payments risk assessment summary stated that, "In FY 2011, Ex-Im [Bank] did not identify any fraudulent payments."

Beginning with the semiannual report for the period ended September 30, 2009, the OIG has reported to Ex-Im Bank management the increased risk of fraud in the Bank's Export Credit Insurance Program.[12] Each semiannual report, which is transmitted to Bank management and Congress and made publicly available, explains that the Export Credit Insurance Program is particularly susceptible to fraud schemes by foreign borrowers, U.S.-based exporters, and other transaction participants. Specifically, criminal activity exploits certain processes within the Program in order to induce Ex-Im Bank to approve insurance coverage. In addition to describing these risks, the semiannual reports for the period between April 1, 2010 and September 30, 2012 – covering the FY 2011 period assessed by the OCFO – describe the successful efforts of the OIG Office of Investigations in investigating specific fraudulent claims paid by the Export Credit Insurance Program. For FY 2011 alone, the Office of Investigations identified $1,324,073 in fraudulent insurance claims paid.

Export Credit Insurance Program. This Program offers protection in the form of several different insurance policy types to U.S. exporters and their lenders against non-payment by foreign buyers due to commercial and political risks. Export credit insurance allows exporters to increase export sales by limiting international repayment risk, offering credit to international buyers, and enabling exporters to access working capital funds. One fraudulent scheme to exploit the Program involves the falsification of shipping records to convince Ex-Im Bank that the described goods have been shipped when in fact they have not.

When asked why they did not include in Ex-Im Bank's improper payments assessment those insurance claims paid and later identified as fraudulent, OCFO personnel stated that it would be difficult to accurately measure and report such claims within the framework of the improper payments assessment cycle. Specifically, they noted that IPIA requires assessing and reporting improper payments within one fiscal year yet a claim may be paid and then determined to be fraudulent years later. In addition, Claims and Recoveries

[12] OIG semiannual reports can be accessed at: http://www.exim.gov/oig/reports/semiannual-reports-and-testimony.cfm.

personnel stated that Ex-Im Bank does not track the amount of fraud within a given program, making it difficult to measure for the purposes of the improper payments assessment.

While we recognize the difficulty of accurately matching claims authorized, paid, and proven fraudulent from year to year, we believe Ex-Im Bank should make reasonable efforts to include fraudulent insurance claims in its improper payment assessment. At a minimum, including in the Bank's improper payments analysis the information made publicly available and resulting from OIG investigations would provide a more accurate and complete estimate of the risk of fraudulent, improper payments so that corrective actions, if warranted, can be implemented.

Prior Year Recommendation. As part of our FY 2010 evaluation of Ex-Im Bank's compliance with improper payments legislation, we reported that the Bank did not include in its assessment claim payments that were later determined to have been based on fraudulent information.[13] As a result, we recommended that Ex-Im Bank include in its improper payments risk assessment claim payments based on fraudulent information and determine whether additional steps should be taken in accordance with OMB guidance. Management did not concur with the recommendation and noted that Ex-Im Bank guarantees provide unconditional coverage in the event of default. Further, management stated that, under the term of a guarantee agreement, Ex-Im Bank is required to make the claim payment even if the borrower obtained the underlying credit from the guaranteed lender by providing fraudulent information and/or documentation to the lender. Management provided OMB the rationale for excluding fraudulent claims paid in association with loan guarantees and obtained OMB's verbal concurrence. However, the issue of whether to include in Ex-Im Bank's improper payments assessment those insurance claims paid based on fraud remains unresolved.

Ex-Im's Risk of Significant Improper Payments is Unknown

During the audit, OCFO personnel cited the existence of strong internal controls as a factor in Ex-Im Bank's assessment of its risk of significant improper payments. The FY 2011 improper payments risk assessment summary documents those preventive and detective controls and due diligence requirements that the OCFO believes minimize the possibility of improper payments. In addition, the summary states that, as part of Ex-Im Bank's annual financial statement audit, the independent public accountant samples and tests all categories of payments and, although the purpose of this testing is to judge the accuracy of the financial statements and not compliance with IPIA, testing has not revealed material improper payments over the years.

[13] "Evaluation of Ex-Im Bank's Compliance with the Improper Payments Elimination and Recovery Act of 2010" (OIG-EV-12-01, March 12, 2012). The report can be accessed at: www.exim.gov/oig/upload/Final-Report-Complete-120312.pdf.

> *"My Administration is committed to reducing payment errors and eliminating waste, fraud, and abuse in Federal programs . . . agencies should use every tool available to identify and subsequently reclaim the funds associated with improper payments."*
>
> – President Obama, Memorandum of March 10, 2010, "Finding and Recapturing Improper Payments," Federal Register, Vol. 75, No. 49.

However, we determined that the independent public accountant responsible for the most recent (FY 2012) annual financial statement audit did not test for improper payments. Also, recent OIG audits have cited internal controls weaknesses likely to increase losses due to errors or fraud. These include weaknesses in controls related to (1) key information technology applications, including those used to process payments and applications for Ex-Im Bank products, and (2) the Export Credit Insurance Program, including weaknesses that could increase the risk of financial loss through claims or issuance of insurance policies based on erroneous and potentially fraudulent information.[14,15] Given these internal control weaknesses and the weaknesses we observed in the OCFO's FY 2011 improper payments assessment, we believe Ex-Im Bank's true risk of significant improper payments is unknown. As a result, its FY 2011 improper payments reporting may be inaccurate and incomplete, and its efforts to reduce and recover improper payments may be inadequate.

Recommendations, Management's Response, and Evaluation of Management's Response

To improve Ex-Im Bank's processes for identifying and assessing its risk of improper payments and to more fully comply with the intent of improper payments legislation, we recommended that the OCFO:

1. Revise its procedures to ensure that Ex-Im Bank's improper payments assessment correctly calculates improper payment rates based on those payments that should not have been made; were for incorrect amounts, to ineligible recipients, for ineligible goods or services, or for goods or services not received; or that are otherwise improper payments as defined by IPIA.

   Management's Response. Management agrees with the recommendation. For the FY 2011 improper payment analysis, Ex-Im Bank utilized three separate tools to assess the risk of improper payments. Ex-Im Bank will expand the analysis and utilize six separate tools in future analysis to assess the risk of improper payments. The Bank will enhance the improper payment analysis by reviewing the existing procedures and expanding the methodology as follows:

[14] "Audit of Information Technology Support for Export-Import Bank's Mission," January 24, 2012 (OIG-AR-12-04). The report can be accessed at: http://www.exim.gov/oig/loader.cfm?csModule=security/getfile&pageid=13558.

[15] "Audit of Export-Import Bank's Short-Term Insurance Program," September 28, 2012 (OIG-AR-12-05). The report can be accessed at: http://www.exim.gov/oig/upload/Official-20Final-20Report-20-20Audit-20of-20ST-20Ins-20Program-20120928-1.pdf.

(1) Continue using the risk assessment questionnaire but conduct a more thorough review of the answers provided, especially those identified as "Not Applicable;"

(2) Continue a qualitative risk assessment review of the payment controls surrounding each of the programs;

(3) Maintain a list of payments returned to Ex-Im Bank. If there is a significant number or dollar amount of returned items, then investigate further the reason for the returned payments;

(4) As recommended, the Bank will develop a methodology to factor into the analysis an estimate of insurance claim payments that may have involved fraud;

(5) The Financial Reporting Office will meet with the Asset Management Division, the Office of the General Counsel, and the OIG to compile a list of newly identified participants of the Bank's programs that have committed fraud against the Bank. The list will be checked against payments made during the period of analysis to determine if payments were made to any of these participants;

(6) The Financial Reporting Office will review OIG reports issued since the last improper payment analysis with a focus on issues identified surrounding the payment process.

If the analysis of the information gathered from the above indicates a significant risk of improper payment in any of the Bank's programs, additional steps will be performed as required by OMB guidance. The recommendation will be implemented for the analysis of the FY 2012 improper payments.

Evaluation of Management's Response. Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions. However, as stated in Recommendation 5, reconsideration of quantitative testing and payment recapture audits in light of the deficiencies we found in Ex-Im Bank's processes for identifying and measuring its risk for improper payments would further strengthen the Bank's improper payments assessment.

2. Reconsider the results of its FY 2011 risk assessment given the response for the operations phase of the loan disbursement process and document either (a) a plan to timely address the potential elevated risk of improper loan disbursements, or (b) management's acceptance of the risk.

   Management's Response. Ex-Im Bank's conclusion of low risk in the direct loan disbursement process was based on the qualitative risk assessment review of the payment controls surrounding loan disbursements, the risk assessment questionnaires completed by Operations and Data Quality and the Loan and Guarantee Servicing Office, and a review of the returned payment log. With the analysis of all of the data taken together, management believes that the loan disbursement process does not indicate a significant risk of improper payment. In addition, since the FY 2011 analysis there has been no evidence that any of the loan disbursements made during the FY 2011 period were improper.

Evaluation of Management's Response. We agree that there may not be a risk of significant improper payments, as defined by IPIA, within the loan disbursement program. However, as stated in the report, one of the two loan disbursement risk assessment questionnaire responses did not support a "low" risk rating and indicated the potential for elevated risk. Additionally, as stated in the report, we question the value of using returned payments – most of which were not improper – to measure risk of improper payments, particularly in the absence of quantitative testing or payment recapture audits that would detect improper payments in the roughly 7,000 payments that were not returned. However, management is responsible for assessing and accepting its risk. Therefore, the recommendation is resolved and closed for reporting purposes.

3. Modify the method used to score improper payments risk assessment questionnaires to ensure that factors that are not applicable are accurately reflected in the future.

   Management's Response. Management agrees that the responses to the questionnaires require more in depth analysis after the questionnaire is completed. The questionnaires will be more thoroughly reviewed, especially the "Not Applicable" responses. The recommendation will be implemented for the analysis of the FY 2012 improper payments.

   Evaluation of Management's Response. Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions.

4. Either formulate and include in future improper payments risk assessments, at a minimum, a reasonable estimate of fraudulent insurance claim payments based on historical information, or obtain OMB's written approval to continue excluding such payments from its improper payments assessment.

   Management's Response. Management agrees with the recommendation. Staff has begun reviewing data on cases closed by the OIG that involved fraud. The OCFO will develop a methodology that factors into the improper payment analysis an estimate of insurance claim payments made during the analysis period that may be fraudulent and therefore improper. The recommendation will be implemented for the analysis of the FY 2012 improper payments.

Evaluation of Management's Response. Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions.

5. Consider the cost effectiveness and value of conducting payment recapture audits and additional periodic testing to prevent and detect improper payments in all program areas throughout each fiscal year.

   Management's Response. Management agrees with the recommendation. If a risk assessment shows an increase in the risk of improper payments in any of the Bank's programs or if there is a substantial increase in the amount of improper payments, the Bank will consider engaging a private sector firm to look at the Bank's payment processes and procedures and determine if it is beneficial to develop a formal payment recapture audit plan.

   Evaluation of Management's Response. As stated in the report, agencies are required to conduct payment recapture audits for each program and activity that expends $1 million or more annually if conducting such audits would be cost effective. While we support management's plan to monitor the need for payment recapture audits in the future, we reiterate that management's decision not perform such audits was based, in part, on what the OCFO incorrectly identified in its internal guidance – "Ex-Im Bank Process and Procedures for Improper Payments" –as a historically "low amount and volume of improper payments." Furthermore, prior to our audit, the OCFO reported that recapture audits were unnecessary because "Ex-Im [Bank] typically recovers 100% of improper payments." However, our review demonstrated the payments in question were largely those returned to the Bank by the U.S. Post Office and the U.S. Treasury due to incorrect payee addresses or routing numbers and, in FY 2011, were not improper as defined by IPIA.

   OMB memorandum M-11-16, "Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123," April 14, 2011, requires agencies to notify OMB and the agency's Inspector General of the decision not to conduct payment recapture audits and include any analysis used by the agency to reach this decision. In addition, agencies must report in their annual PAR or AFR the justification and analysis used to determine that conducting payment recapture audits is not cost effective. Because management has decided not to conduct payment recapture audits in the near-term and to allow the agreed-to corrective actions to take effect, the recommendation is resolved but will remain open pending the OIG's review of Ex-Im Bank's FY 2012 improper payments assessment and reporting activities.

APPENDIX A

Scope and Methodology

We performed this audit from November 2012 through March 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our objectives were to determine whether Ex-Im Bank was compliant with IPIA, as amended by IPERA, and to evaluate the accuracy and completeness of Ex-Im Bank's improper payment reporting and efforts to reduce and recover improper payments for FY 2011. To determine whether Ex-Im Bank identified, reported, and reduced improper payments in accordance with IPIA, we reviewed applicable laws, regulations, Bank procedures, and guidance issued by the Council of Inspectors General on Integrity and Efficiency. In addition, we interviewed Claims and Recoveries staff as well as OCFO personnel, including personnel in the Office of the Treasurer. We also reviewed Ex-Im Bank's FY 2012 AFR, responses to its FY 2011 risk assessment questionnaire, and the FY 2011 Improper Payment Log and supporting documentation, including a list of all FY 2011 payments produced by the OCFO. We also performed the following tasks:

- Judgmentally selected and reviewed a sample of 25 of 144 payments reported by Ex-Im Bank as improper in FY 2011. Our sample totaled $2.7 million, or 73 percent of the total $3.7 million reported as improper, and included (where possible) at least one returned wire or returned or voided check from each month in FY 2011, as reported on the Bank's Improper Payment Log. We interviewed the Cash Control Supervisor and reviewed supporting documentation for the 25 payments to determine whether the payments were correctly classified as improper.

- Reviewed the population of FY 2011 payments (7,282 transactions totaling $2.7 billion) to identify possible indicators of improper payments and determine whether Ex-Im Bank's reported improper payments exceeded IPIA thresholds.

- Cross-checked Ex-Im Bank's spreadsheets of FY 2011 proper and improper payments to test for data reliability and ensure that payments were reported only once.

- Reviewed prior OIG reports and supporting workpapers, including those from the "Audit of Information Technology Support for Export-Import Bank's Mission," (OIG-AR-04, January 24, 2012) and "Audit of Export-Import Bank's Short-Term Insurance Program" (OIG-AR-12-05, September 28, 2012) to identify previously reported internal control weaknesses that could impact Ex-Im Bank's risk of improper payments.

- Reviewed prior OIG semiannual reports and information provided by the OIG's Office of Investigations to identify cases of known fraud in the Export Credit Insurance Program and determine whether fraudulent insurance claim payments identified in FY 2011 were included in Ex-Im Bank's improper payments assessment.

Review of Internal Controls

We reviewed and evaluated the internal controls associated with Ex-Im Bank's identification and reporting of improper payments. We found internal control deficiencies as discussed in this report. Our recommendations, if implemented, should correct the weaknesses we identified.

Federal Laws, Regulations, Policies, and Guidance

We reviewed the following in the course of our audit work:

- Public Law 107-300, Improper Payments Information Act of 2002;
- Public Law 111-204, Improper Payments Elimination and Recovery Act of 2010;
- Executive Order 13520, "Reducing Improper Payments," November 2009;
- OMB Circular No. A-136 (Revised), "Financial Reporting Requirements," October 27, 2011;
- OMB Memorandum M-11-04, "Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits," November 16, 2010;
- OMB Memorandum M-11-16, "Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123," April 14, 2011; and
- "Ex-Im Bank Process and Procedures for Improper Payments."

Prior Coverage

During the last 5 years, the Ex-Im Bank OIG and GAO have issued five reports of particular relevance to the subject of this report. Unrestricted reports can be accessed over the

Internet at http://www.exim.gov/oig/reports/audits-and-evaluations.cfm (Ex-Im Bank OIG) and http://www.gao.gov (GAO).

Ex-Im Bank OIG:

- "Evaluation of Ex-Im Bank's Compliance with the Improper Payments Elimination and Recovery Act of 2010" (OIG-EV-12-01, March 12, 2012)

GAO:

- "Improper Payments: Remaining Challenges and Strategies for Governmentwide Reduction Efforts" (GAO-12-573T, March 28, 2012)
- "Improper Payments: Moving Forward with Governmentwide Reduction Strategies" (GAO-12-405T, February 7, 2012)
- "Improper Payments: Recent Efforts to Address Improper Payments and Remaining Challenges" (GAO-11-575T, April 15, 2011)
- "Improper Payments: Progress Made but Challenges Remain in Estimating and Reducing Improper Payments" (GAO-09-628T, April 22, 2009)

In addition, Ex-Im Bank management engaged KPMG LLP to perform an internal audit of improper payments in FY 2008, prior to the passage of IPERA. The overall objective of the internal audit was to consider the adequacy of the Bank's improper payments risk assessment, compliance with IPIA, and to identify any improvement opportunities. In its report dated April 30, 2009, KPMG recommended that Ex-Im Bank strengthen its formal risk assessment for compliance with IPIA. Management concurred with the recommendation.

APPENDIX B

Analysis of Ex-Im Bank's FY 2011 Improper Payment Log

As shown in the table below, the OCFO determined that 61 wires and 71 checks (or 92 percent of the 144 payments included on Ex-Im Bank's FY 2011 Improper Payment Log) were improper because the Bank used incorrect payee addresses, account numbers, or other payment information, which prevented the payments from being delivered or processed. Only nine payments were sent to the wrong vendor, were for incorrect amounts, or were duplicate payments and, therefore, were correctly categorized as improper payments as defined by IPIA.

Number of Transactions	Reason Categorized as Improper	Amount
Returned Wires		
61	Incorrect account number or other payment information	$3,059,652
1	Cancelled for incorrect amount	$236,755
2	Incorrect vendor*	$84,729
2	Duplicate payment*	$5,036
Returned or Voided Checks		
71	Check returned due to incorrect address/Payee never received check/Payment could not be processed	$243,507
1	Incorrect vendor*	$64,261
1	Check voided because vendor preferred a wire payment	$25,000
2	Duplicate payment*	$2,500
2	Incorrect amount or no payment due*	$1,704
1	Check voided because payee was under investigation for fraud	$500
Total: 144		*$3,723,644*

Table 3. Analysis of Ex-Im Bank's FY 2011 Improper Payment Log.
Source: OIG summary of data received from the Ex-Im Bank OCFO.
*Payments correctly classified as improper.

APPENDIX C

Ex-Im Bank's Improper Payment Risk Assessment Questionnaire

No.	Risk Assessment Question	Yes	No	N/A
INTERNAL CONTROL ENVIRONMENT				
1	Do program management and staff adhere to applicable laws and regulations?			
2	Are employees encouraged to bring internal control problems to management's attention?			
3	Does employee training include an emphasis on controls?			
4	Do program management and staff have appropriate levels of competence and experience to administer the program?			
5	Are policy and procedures manuals up to date and accessible to the appropriate staff?			
6	Is there an emphasis on expediting payments?			
7	Has the majority of the staff been with the payment type more than 1 year?			
RISK ASSESSMENT				
8	Are policy considerations analyzed for their impact on this payment type?			
9	Are risks considered arising from changing needs/expectations of Congress, agency officials, and the public?			
10	Are there any anticipated changes in the payment environment, e.g., program growth, staffing and/or funding cuts etc.			
11	Are there risks caused by new legislation or regulations?			
12	Are there unmitigated risks associated with major suppliers and contracts?			
13	Are there risks resulting from downsizing of agency operations and personnel?			
14	Are there risks resulting from business process reengineering or redesign of operating processes?			
15	Is the program in its first year of operation?			
16	Is the program in its last year of operation?			
17	Are there risks posed by disruption of information systems processing?			
18	Are there risks caused by a lack of backup systems availability?			
19	Are there risks due to highly decentralized program operations?			
20	If there is a heavy reliance on contractors to perform critical agency operations, have the risks been mitigated?			
21	Are risks considered that result from the lack of training received by staff?			
22	Is the computer system used to administer the payment type less than 2 years old? (A new system may not have encountered every possible transaction/event.)			
23	Has the computer system used to administer the payment type been modified within the past 2 years? (A modified system may not have encountered every possible transaction/event.)			

No.	Risk Assessment Question	Yes	No	N/A
24	Are the criteria simple for manually computing payments?			
25	Is the payment type simple to administer?			
INTERNAL CONTROL ACTIVITIES				
26	Are strong internal controls (IC) in place that would prevent or detect an improper payment or an erroneous element in the payment process?			
27	Are routine audits/reviews made of the payment type over an appropriate threshold amount?			
28	Is access to data, files and programs appropriately controlled?			
29	Has the payment type been administered under time-tested/established regulations?			
30	Are transaction documents properly authorized?			
31	Is there an appropriate level of segregation of duties? (Different individuals handle different aspects of payment transactions?)			
32	Are payments made according to provisions in contracts and grant agreements?			
33	Are there methods to ensure that the control activities described in policy and procedures manuals are actually applied and applied properly?			
34	Has the payment type operated under the appropriate legislation or other major program administration for less than 1 year?			
35	Do payment controls ensure that goods/services were received/delivered prior to payment?			
36	Do appropriate checks and certifications of payment documents ensure that payment information is correct prior to payment, e.g. amount, payee?			
37	Do properly authorized transaction documents have multiple signatures where appropriate?			
38	Are there limits on single individual authorizations, e.g., authorized to approve transactions that are ≤$5,000?			
39	Does more than 10% of the total number of transactions in this payment type exceed $5,000?			
40	Does the program have a strong system for monitoring sub recipients (if applicable)?			
41	Are built-in system edits a part of comprehensive controls on automated systems, e.g. prepayment and claims processing edits?			
42	Are edit reports designed to display questionable transactions or accounts according to predefined or ad hoc indicators?			
43	Do data file restrictions on automated systems effectively segregate duties?			
44	Are specific user profiles a part of the controls on automated systems?			
45	Does appropriate system security exist on automated systems as required by the Federal Information Security Management Act of 2002?			
46	Do comprehensive controls on automated systems include accounts receivable subsystems?			
47	Do comprehensive controls on automated systems include fraud tracking systems?			
INFORMATION AND COMMUNICATION				
48	Are there mechanisms in place to ensure that supervisors and employees understand the purpose of internal control activities?			
49	Are all legislative changes, regulatory developments, political or economic changes related to the program reported to management?			

No.	Risk Assessment Question	Yes	No	N/A
50	Is information on all payment discrepancies available on a timely basis to allow effective monitoring of transactions and to allow prompt reaction?			
51	Is operational information provided to managers so that they may determine whether their programs comply with applicable laws and regulations?			
52	Does management communicate frequently with internal oversight groups, such as senior management councils, and keep them informed of performance risks, any other significant events?			
MONITORING				
53	Are control activities regularly evaluated to ensure that they are still appropriate and working as intended?			
54	Have prior audit findings requiring corrective actions been resolved?			
55	Are any payments made to incorrect payees or ineligible recipients?			
56	Are there existing internal control deficiencies (including material weaknesses) in the payment type?			
57	Have contract audits identified any questioned costs?			
58	Have contract audits identified any improper payments $\geq$\$10,000?			
59	Are contract audits performed either internally or by an external organization?			
60	Are routine audits and/or reviews performed on the specific payment type controls?			

Response Totals	**TOTAL SCORE FROM ANSWERS ABOVE**					
Risk Assessment Results	**If Total Score** is 0 through 11 = **LOW RISK**	**If Total Score** is 12 through 28 = **MEDIUM RISK**	**If Total Score** is 29 and Greater = **HIGH RISK**			
Reviewed By:		**Title:**		**Phone:**		
Signature:				**Date:**		

Ex-Im Bank's Risk Assessment Scoring Method. Each yes or no response that indicates elevated risk is counted towards the total risk assessment score. As shown above, if the total number of such responses is between 0 and 11 (or no more than 18 percent of all 60 questions on the questionnaire), the OCFO rates the overall risk of improper payments as low. A score between 12 and 28 (or between 20 percent and 47 percent of all 60 questions) equals medium risk. And a score of 29 or greater (or 48 percent or more of all 60 questions) equals high risk. The OCFO does not eliminate or adjust for responses of "Not Applicable" when scoring the questionnaire.

APPENDIX D

Management Comments

March 8, 2013

To: Rebecca L. Sharek
Assistant Inspector General for Audits

From: David M. Sena DMS
SVP and Chief Financial Officer

Re: Management Response to OIG Report on Improper Payment Analysis

Please find attached management's response to the Office of Inspector General report on the Bank's Improper Payment Analysis. We appreciate the recommendations made in this report and recognize the need for ongoing improvement to better identify and recover improperly made payments as defined by the IPIA. All of the recommendations will be implemented for the analysis of FY 2012 improper payments.

1. Recommendation

   Revise its procedures to ensure that Ex-Im Bank's improper payments assessment correctly calculates improper payment rates based on those payments that should not have been made; were for incorrect amounts, to ineligible recipients, for ineligible goods or services, or for goods or services not received; or that are otherwise improper payments as defined by IPIA.

   Management Response

   Management agrees with the recommendation. For the FY 2011 improper payment analysis, Ex-Im utilized three separate tools to assess the risk of improper payments. Ex-Im will expand the analysis and utilize six separate tools in future analysis to assess the risk of improper payments. The Bank will enhance the improper payment analysis by reviewing the existing procedures and expanding the methodology as follows:

   1. Continue using the risk assessment questionnaire but conduct a more thorough review of the answers provided, especially those identified as "Not Applicable";
   2. Continue a qualitative risk assessment review of the payment controls surrounding each of the programs;

3. Maintain a list of payments returned to Ex-Im. If there is a significant number or dollar amount of returned items, then investigate further the reason for the returned payments;
4. As recommended, the Bank will develop a methodology to factor into the analysis an estimate of insurance claim payments that may have involved fraud;
5. The Financial Reporting Office will meet with the Asset Management Division, the Office of the General Counsel, and the Office of Inspector General to compile a list of newly identified participants of the Bank's programs that have committed fraud against the Bank. The list will be checked against payments made during the period of analysis to determine if payments were made to any of these participants;
6. The Financial Reporting Office will review OIG reports issued since the last improper payment analysis with a focus on issues identified surrounding the payment process.

If the analysis of the information gathered from the above indicates a significant risk of improper payment in any of the Bank's programs, additional steps will be performed as required by OMB guidance.

2. Recommendation

Reconsider the results of its FY 2011 risk assessment given the response for the operations phase of the loan disbursement process and document either (a) a plan to timely address the potential elevated risk of improper loan disbursements, or (b) management's acceptance of the risk.

Management Response

Ex-Im's conclusion of low risk in the direct loan disbursement process was based on the qualitative risk assessment review of the payment controls surrounding loan disbursements, the risk assessment questionnaires completed by Operations and Data Quality and the Loan and Guarantee Servicing Office, and a review of the returned payment log. With the analysis of all of the data taken together, management believes that the loan disbursement process does not indicate a significant risk of improper payment. In addition, since the FY 2011 analysis there has been no evidence that any of the loan disbursements made during the FY 2011 period were improper.

3. Recommendation
   Modify the method used to score improper payments risk assessment questionnaires to ensure that factors that are not applicable are accurately reflected in the future.

   Management Response
   Management agrees that the responses to the questionnaires require more in depth analysis after the questionnaire is completed. The questionnaires will be more thoroughly reviewed, especially the "Not Applicable" responses.

4. Recommendation
   Either formulate and include in future improper payments risk assessments, at a minimum, a reasonable estimate of fraudulent insurance claim payments based on historical information, or obtain OMB's written approval to continue excluding such payments from its improper payments assessment.

   Management Response
   Management agrees with the recommendation. Staff has begun reviewing data on cases closed by the OIG that involved fraud. OCFO will develop a methodology that factors into the improper payment analysis an estimate of insurance claim payments made during the analysis period that may be fraudulent and therefore improper.

5. Recommendation
   Consider the cost effectiveness and value of conducting payment recapture audits and additional periodic testing to prevent and detect improper payments in all program areas throughout each fiscal year.

   Management Response
   Management agrees with the recommendation. If a risk assessment shows an increase in the risk of improper payments in any of the Bank's programs or if there is a substantial increase in the amount of improper payments, the Bank will consider engaging a private sector firm to look at the Bank's payment processes and procedures and determine if it is beneficial to develop a formal payment recapture audit plan.

cc: Fred Hochberg
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Acknowledgements

Key contributors to this report were Maria Tse, Auditor, and Julie Wong, Independent Referencer.

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