



# SEMIANNUAL REPORT TO CONGRESS

APRIL 1, 2013 TO SEPTEMBER 30, 2013





**EXPORT-IMPORT BANK OF THE UNITED STATES** (Ex-Im Bank) is the official export credit agency of the United States. Ex-Im Bank supports the financing of U.S. goods and services in international markets, turning export opportunities into actual sales that help U.S. companies of all sizes to create and maintain jobs in the United States.

Ex-Im Bank assumes the credit and country risks that the private sector is unable or unwilling to accept. Ex-Im Bank also helps U.S. exporters remain competitive by countering the export financing provided by foreign governments on behalf of foreign companies. More than 80 percent of Ex-Im Bank's transactions have been made available for the direct benefit of U.S. small businesses in recent years.

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

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

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

More information about the OIG including reports of audits and evaluations is at [www.exim.gov/oig](http://www.exim.gov/oig).

Information about Inspectors General in the U.S. government is at [www.ignet.gov](http://www.ignet.gov).



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## From the Inspector General

We are pleased to report our last six months' work. Our office continues to enhance the viability, soundness, efficiency, and effectiveness of the Export-Import Bank of the United States (Ex-Im Bank) as an institution and lender of last resort. Ex-Im Bank has experienced significant asset growth over the past several years, specifically through its Direct Loan Program. The challenging economic environment, changes in the composition of its product portfolio, and Congressional interest led us to focus on this growth in the Direct Loan program as represented by two reports issued this period.

Our office issued an audit entitled Ex-Im Bank's Management of Direct Loans and Related Challenges. This audit recommended that Ex-Im Bank: (1) maintain additional documentation to support the need for Ex-Im Bank financing; (2) adopt key Office of Management and Budget and U.S. Department of Treasury policies by revising agency policies and procedures; (3) develop mechanisms to ensure compliance with Federal and agency credit program policies; and (4) evaluate recordkeeping practices and implement a plan to timely address deficiencies. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

The OIG also concluded an inspection of the Minera y Metalurica del Boleo S.A. (Boleo) mine project. Boleo was the recipient of a \$420 million Ex-Im Bank direct loan originally authorized by Ex-Im Bank for the extraction of copper-cobalt-zinc from the Boleo mine located in Mexico. Shortly after the authorization, the borrower informed Ex-Im Bank of a substantial cost overrun for the project. The Boleo project eventually entered into default and Ex-Im Bank successfully restructured the transaction at no cost to taxpayers. Currently, Ex-Im Bank has no direct exposure to the Boleo project.

In addition, our office continued its focus on investigating fraud related to Ex-Im Bank transactions and strengthening our ability to investigate and prosecute export fraud globally. Specifically, during this reporting period, the OIG obtained approximately \$54,370,505 in criminal restitution, forfeiture, and fines as the result of 13 criminal judgments arising out of investigations conducted by the OIG. Furthermore, during this reporting period, the OIG continued to enhance its investigative capabilities, investigative support, and outreach efforts by conducting several training and seminar sessions with commercial banks that participate in export finance activities.

All of these accomplishments would not be possible without the hard work, professionalism, and dedication of our excellent staff.

A handwritten signature in blue ink, appearing to read "Osvaldo L. Gratacós".

OSVALDO L. GRATACÓS





## Highlights

The **Inspector General** provided testimony at the June 13, 2013 Congressional hearing entitled “Assessing Reform at the Export-Import Bank”, U.S. House of Representatives, Committee on Financial Services, Subcommittee on Monetary Policy and Trade.<sup>1</sup> Other witnesses included Mathew Scire, Director of Financial Markets and Community Investment with the Government Accountability Office, and Fred Hochberg, Chairman and President of the Export-Import Bank.

The **Office of Audits** completed one audit during the six months ending on September 30, 2013:

### *Ex-Im Bank’s Management of Direct Loans and Related Challenges*

(OIG-AR-13-05; September 26, 2013)

Between fiscal years 2007 and 2012, Ex-Im Bank’s exposure to direct loans tripled from 9 percent to 27 percent of the total portfolio. As a result, we reviewed Ex-Im Bank’s management of direct loan transactions, including its compliance with Federal and agency credit program policies. Our audit included a sample of 6 of the 40 direct loans authorized and managed by the Structured & Project Finance Division between fiscal years 2010 and 2012. These sampled loans were underwritten by approximately half of the division’s loan officers and equaled \$7.3 billion (or 33 percent) of the total \$22.4 billion in loans authorized during the period.

Generally, the audit found that as a result of inadequate recordkeeping, overreliance on institutional knowledge, and a lack of mechanisms necessary to ensure compliance with Federal and agency credit program policies, Ex-Im Bank loan officers and other personnel did not always document sufficient evidence for borrower statements regarding the need for Ex-Im Bank financing, or perform or document performance of other required tasks.

We recommended that Ex-Im Bank (1) maintain additional documentation to support the need for Ex-Im Bank financing; (2) adopt key Office of Management and Budget and U.S. Department of Treasury policies by revising agency policies and procedures; (3) develop mechanisms to ensure compliance with Federal and agency credit program policies; and (4) evaluate recordkeeping practices and implement a plan to timely address deficiencies found. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

### At a glance

- Direct loans
- Loans in Mexico
- Criminal judgments

<sup>1</sup> See: <http://financialservices.house.gov/calendar/eventsingle.aspx?EventID=337124> and [www.exim.gov/oig/reports/upload/06-13-13-M-P-Gratacos-Invite-Letter-and-Written-Statement-508b.pdf](http://www.exim.gov/oig/reports/upload/06-13-13-M-P-Gratacos-Invite-Letter-and-Written-Statement-508b.pdf)

The **Office of Inspections and Evaluations** completed one inspection report for the period ending September 30, 2013:

***Report on Minera y Metalurica del Boleo S.A.***

(OIG-INS-13-01; September 30, 2013)

Minera y Metalurica del Boleo (Boleo) was an approximately \$420 million direct loan originally authorized by Ex-Im Bank for the extraction of copper-cobalt-zinc from a mine located in Mexico. Shortly after the authorization, the borrower informed Ex-Im Bank of a substantial cost overrun for the project. The Boleo project eventually entered into default and Ex-Im Bank successfully restructured the transaction at no cost to taxpayers. Currently, Ex-Im Bank has no direct exposure to the Boleo project. A thorough inspection of the Boleo direct loan transaction conducted by the Office of Inspector General's Office of Inspections and Evaluations revealed that: the borrower failed to disclose significant cost overruns in a timely manner and provided inaccurate representations to Ex-Im Bank; there were allegations of fraud related to one of the project's local vendors; and Ex-Im Bank's current policies and procedures related to the reimbursement of local costs may not be sufficiently developed to guard against waste, fraud, and abuse by local suppliers. Moreover, in our estimation, Ex-Im Bank lacks the infrastructure and resources to effectively process the high volume of local cost disbursements associated with this project. Finally, we noted that Ex-Im Bank's character, reputational, and transaction integrity or Know Your Customer procedures for local cost vendors would benefit from a broader review of local public sources and more frequent application.

In general we made several recommendations, amongst them that Ex-Im Bank (1) review internal credit analysis and approval procedures with a view to improving its transaction risk assessment and Budget Cost Levels classification and to ensure the independence and objectivity of the credit evaluation process; (2) implement a risk-based approach to monitoring that specifically identifies and addresses the potential vulnerabilities of the transaction; (3) strengthen its Know Your Customer and local due diligence procedures by expanding its review of local public sources and conducting the analysis periodically throughout the life of the transaction; and (4) establish a streamlined, automated electronic invoice submittal system with a client web portal that seamlessly provides input for loan disbursement and data tracking control, review and processing purposes, covering both local costs and U.S. exports. With respect to Boleo, this approach would suggest a more pro-active focus on the performance of the engineering, procurement, and construction management contractor; budget revisions such as project change orders; and more "boots on the ground" inspections of the project. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.



The **Office of Investigations** accomplished the following actions:

- Obtained 13 criminal judgments resulting in 130 months' imprisonment, 396 months' probation, and \$54,370,505 in criminal restitution, forfeiture, and fines.
- Obtained three administrative actions stemming from referrals of active investigative information resulting in \$110,000 in payments to Ex-Im Bank and a cost savings of \$750,000 by protecting U.S. taxpayer funds at risk.
- Obtained four plea agreements entered in court by subjects pursuant to ongoing investigative matters.
- Provided 37 reports of investigative information to Ex-Im Bank Office of General Counsel concerning potential funds at risk to support enhanced due diligence efforts in approving, processing, and monitoring export credit loan guarantees and insurance policies.
- Referred one investigative matter to the U.S. Department of Justice for prosecutive decision.
- Closed nine investigations after concluding all remaining actions and prosecutive results in those cases and, additionally, closed further investigative review of approximately \$29.5 million in suspected claims that had been under investigation.





## Office of Inspector General management initiatives

### International collaboration

The Office of Inspector General (OIG) participates in meetings with the Berne Union, the worldwide organization of export credit, insurance, and investment agencies. These meetings allowed the OIG to discuss areas of interest in the export credit field and to benchmark Ex-Im Bank’s practices with other export credit agencies.

Since the majority of OIG investigations and inspections are focused on international transactions, the OIG continually seeks to partner with international organizations to collaborate and exchange ideas and information on how to work together in identifying, preventing, and investigating fraud.

### Council of Inspectors General on Integrity and Efficiency

The OIG participates in the Professional Development Committee of the Council of Inspectors General on Integrity and Efficiency (CIGIE). The committee provides educational opportunities, supports the development of personnel, provides opportunities for training and development of OIG staff, and establishes training to meet continuing education requirements. The Office of Inspections and Evaluations participates in the CIGIE Inspection and Evaluation Committee, which leads the development of protocols for reviewing management issues that cut across departments and agencies, promotes the use of advanced program-evaluation techniques, and fosters awareness of evaluation and inspection practices in OIGs.

### Review of legislation and regulations

Pursuant to section 4(a)(2) of the Inspector General Act of 1978, as amended, the OIG reviews proposed and existing legislation and regulations related to Ex-Im Bank’s programs and operations.

President Policy Directive (PPD) 19: “Protecting Whistleblowers with Access to Classified Information”:

PPD-19 prohibits whistleblower retaliation against individuals holding security clearances and prohibits retaliation in accessing classified information. PPD-19 further instructed government agencies, including intelligence agencies, to develop policies and procedures implementing this policy directive. The policy directive provides for an Inspector General review panel to conduct independent reviews of agency decisions under this policy directive. The OIG is working with Ex-Im Bank to ensure that the policy they develop includes an Ex-Im Bank–wide policy and the processes required by the directive.





## Ex-Im Bank management challenges

Beginning in February 2012, under the Government Performance and Results Act (GPRA) Modernization Act of 2010, Ex-Im Bank must prepare a performance plan to establish performance goals and indicators, describe how the goals will be achieved and measured, and describe major management challenges and plans to address such challenges. The law defines “major management challenges” as “programs or management functions... that have greater vulnerability to waste, fraud, abuse, and mismanagement (such as issues identified by an Inspector General) where failure to perform well could seriously affect the ability of an agency to achieve its mission or goals.”

The OIG has identified several top management challenges. Addressing these challenges would provide Ex-Im Bank with a more efficient capability to meet its mission of creating and maintaining jobs in the U.S. through export financing. We will review and update these challenges semiannually.

**HUMAN CAPITAL.** The OIG has noted Ex-Im Bank’s low number of underwriters, asset managers, and compliance personnel relative to the increasing size of its asset exposure. During the past five years, Ex-Im Bank has witnessed significant asset growth to more than \$100 billion as of fiscal year (FY) 2012, with more than \$35 billion in authorizations in FY 2012 and approximately \$30 billion in FY 2013 alone. This increase in workload undertaken by the same level of staffing might contribute to diminished customer service, oversight, and due diligence. To better serve its customers and provide effective underwriting and oversight, Ex-Im Bank should reassess the assignment of resources, and review and adjust staffing levels and requisite in-house expertise to reflect the record growth in authorizations and asset portfolio management.

**INFORMATION TECHNOLOGY (IT) MANAGEMENT.** Ex-Im Bank uses an ineffective, inefficient, and fragmented IT platform and infrastructure in several systems and databases. These systems and databases do not effectively and accurately interface—compromising data integrity, producing duplicative information, and creating unreliable files. These systems make data mining burdensome and time-consuming. This ineffective IT platform compromises the ability of Ex-Im Bank to provide timely service, effectively manage and track its programs, measure progress, identify transaction patterns, and increase productivity.

Ex-Im Bank is currently working on designing, developing, and implementing a new comprehensive IT infrastructure to improve its operations.

**STRATEGIC AND PERFORMANCE PLANNING.** Under the GPRA Modernization Act of 2010, Ex-Im Bank was required to produce a strategic plan, an annual performance plan

**Challenges**

- Human capital
- IT management
- Strategic and performance planning
- Risk management
- Customer service
- Credit underwriting
- Due diligence
- Governance, processes and control
- Energy
- Small business

## Ex-Im Bank management challenges

(APP), and an annual performance report by February 2013. Although Ex-Im Bank issued a five-year strategic plan in 2010, in our opinion, it has not developed a comprehensive APP in accordance with Office of Management and Budget guidance to quantify the effect and success of its program and operations properly. An effective strategic plan describes goals the agency aims to achieve, what actions the agency will take to realize those goals, and how the agency will deal with challenges and risks that may hinder achieving results. An APP offers a framework to measure the costs, benefits, results, and outcomes of its products, programs, and initiatives.

**RISK MANAGEMENT.** Given Ex-Im Bank’s position as a “lender of last resort”, its authorizations have grown in record numbers to support U.S. exports as private lending has contracted or plateaued. Ex-Im Bank’s significant asset growth during the past five years, however, presents a continual risk management challenge—how to allocate reserves to cover potential losses in its credit portfolio so that taxpayers are not affected by unforeseen events.

Lessons learned from the most recent financial crisis include the inadequacy of overreliance on historical, quantitative market data and the need for more robust scenario analysis and stress testing. Different theories have emerged to supplement traditional risk-management models. They encourage supplementing quantitative data with contextual qualitative data and the testing of worst-case scenarios to determine whether institutions have the requisite reserves to withstand exogenous shocks.

Reports by our office and the Government Accountability Office (GAO) have looked into Ex-Im Bank’s loss reserve and risk management policies, and risk mitigation practices. The need for a comprehensive review of these policies and practices is driven largely by Ex-Im Bank’s significant asset growth, the economy, and changes in the composition of Ex-Im Bank’s product portfolio.

As of the time of publication, Ex-Im Bank has implemented some, but not all, of the recommendations issued by the OIG report.<sup>2</sup> The OIG continues to closely collaborate with Ex-Im Bank staff on this matter.

**CUSTOMER SERVICE.** President Obama’s April 27, 2011 Executive Order 13571 highlighted the importance of federal agency customer service, instructing federal agencies (including independent agencies) to develop a customer service plan to streamline service delivery and improve customer experience. In the past, some Ex-Im Bank participants have complained

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<sup>2</sup> Office of the Inspector General, Export-Import Bank of the United States; *Report on Portfolio Risk and Loss Reserve Allocation Policies*; OIG-INS-12-02; September 2012. See: [www.exim.gov/oig/upload/Final-20Report-20Complete-20Portfolio-20Risk-20120928-1.pdf](http://www.exim.gov/oig/upload/Final-20Report-20Complete-20Portfolio-20Risk-20120928-1.pdf)



about transactional approval times and processes. Reducing the time it takes to approve transactions would allow U.S. exporters to develop better relationships with clients and customers, encourage borrowers and sellers to use Ex-Im Bank, and improve the services Ex-Im Bank provides. Ex-Im Bank has taken several steps to address this challenge, amongst them, Ex-Im Bank hired a VP for Customer Relations to develop customer relations strategies and to obtain customer experience feedback from Ex-Im Bank users.

Last year, the OIG issued a report with the results of a survey of Ex-Im Bank customers and users.<sup>3</sup> We recommend that Ex-Im Bank routinely conduct and utilize customer surveys to validate customer priorities and bank performance.

**CREDIT UNDERWRITING AND DUE DILIGENCE PRACTICES.** Ex-Im Bank uses a decentralized under-writing process and a risk-based due diligence model. Given the lessons learned from incidences of fraud in the Medium-Term program<sup>4</sup>, the surge in the number of transactions, and insufficient credit information and history from borrowers in some regions, it is vital that Ex-Im Bank enhances credit underwriting and due diligence practices in order to identify and prevent fraud.

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In July 2010, Ex-Im Bank's Board of Directors issued an Individual Delegated Authority (IDA) resolution authorizing certain individual Ex-Im Bank officers to approve loans, guarantees, and insurance up to \$10 million. Prior to this delegated authority, Ex-Im Bank approved these transactions through a credit committee. The IDA decentralized underwriting and decision-making authority. However, absent strong policies and procedures, decentralized underwriting and due diligence practices may cause inconsistent criteria to be applied in different programs.

Ex-Im Bank needs to develop effective policies, procedures, and compliance practices to ensure the IDA works effectively. These policies should address:

- Uniform credit and underwriting standards.
- Frequent use of security interest and sporadic inspections in order to better mitigate risks in programs and regions where defaults and fraud have been high.
- Use of financial statements in programs in which defaults and fraud are high; in particular, independently audited financial statements in regions where Ex-Im Bank has limited or unfavorable experience.

<sup>3</sup> Office of the Inspector General, Export-Import Bank of the United States; *Customer Experience Survey Report*; OIG-INS-12-03; September 28, 2012. See: [www.exim.gov/oig/upload/Official-Final-Customer-Survey-Report-120928-20Summary-1.pdf](http://www.exim.gov/oig/upload/Official-Final-Customer-Survey-Report-120928-20Summary-1.pdf)

<sup>4</sup> Office of the Inspector General, Export-Import Bank of the United States; *Medium Term Export Credit Program—Credit and Fraud Risk Management Business Process Improvement*; OIG-AR-09-04; March 30, 2009. See: [www.exim.gov/oig/loader.cfm?csModule=security/getfile&pageid=13560](http://www.exim.gov/oig/loader.cfm?csModule=security/getfile&pageid=13560).

## Ex-Im Bank management challenges

The lack of due diligence efforts by lenders, specifically lenders with a history of defaulted transactions in certain products, is a pattern the OIG has observed. Even though Ex-Im Bank expects such efforts from participating lenders, due diligence is not required in all lender agreements.

The OIG has anecdotal evidence of institutions' loan officers expressing that the lender would not devote resources on due diligence efforts when there is a government guarantee and Ex-Im Bank does not require such efforts. Although the OIG cannot state that all lenders demonstrate this behavior, we can state that this "moral hazard" issue is prevalent in fraud cases involving multiple transactions. Ex-Im Bank should collaborate with lender-partners and participants to encourage industry-standard due diligence on government guarantees and insurance transactions. Effective implementation of Know Your Customer practices by lenders could help minimize or prevent fraudulent activity.

**CORPORATE GOVERNANCE, BUSINESS PROCESSES, AND INTERNAL CONTROL POLICIES AND PRACTICES.** One of the consistent observations arising out of audits, evaluations, and investigations conducted by the OIG are weaknesses in governance and internal controls for business operations. Internal policies providing clear guidance to staff and establishing clear roles and authorities are not prevalent at Ex-Im Bank. These areas need to be addressed as part of creating a better corporate governance culture.

Each OIG audit, evaluation, and inspection will review applicable governance and internal controls and make recommendations to strengthen such controls.

**RENEWABLE ENERGY PRODUCTS AND CLEAN ENERGY EXPORT OPPORTUNITIES.** Ex-Im Bank has a renewable-energy mandate of ten percent of all authorizations every year. Ex-Im Bank has not met this mandate and recorded a significant drop in authorizations between 2011 and 2012. Nonetheless, Ex-Im Bank has taken a proactive approach in developing renewable energy specific products such as Solar Express and in reaching out to local wind and solar manufacturers.

In July 2010, GAO issued a report<sup>5</sup> on Ex-Im Bank's environmentally beneficial exports. It found that although some of the challenges to reach the target may be outside its control, Ex-Im Bank should develop a strategy for meeting the target that is integrated into a broader strategy for Ex-Im Bank. It specifically recommended that Ex-Im Bank improve the tracking, reporting, and planning of its exports strategy to determine the resources required to meet its target.

We continue to monitor Ex-Im Bank's progress in this area.

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<sup>5</sup> U.S. Government Accountability Office; *Export-Import Bank: Reaching New Targets for Environmentally Beneficial Exports Presents Major Challenges for Bank*; GAO-10-682; July 2010. See: [www.gao.gov/new.items/d10682.pdf](http://www.gao.gov/new.items/d10682.pdf)



**SMALL BUSINESS PARTICIPATION.** Since the 1980s, Congress and the Executive Branch have prioritized the expansion of exports by small businesses. Since 2002, Ex-Im Bank’s charter has established a 20 percent small business participation requirement of all aggregate authorizations every fiscal year. Ex-Im Bank exceeded this mandate in prior years.<sup>6</sup> However, in FYs 2011, 2012, and 2013, Ex-Im Bank has not reached the 20 percent target. Although it reached a record of \$6 billion and \$6.1 billion in small business export financing in FYs 2011 and 2012, respectively, these amounts fell short of the required 20 percent in financing. In fact, Ex-Im Bank acknowledged to the GAO that it did not anticipate reaching the 20 percent small business target in FY 2013 and FY 2014.<sup>8</sup>

GAO has reported on several aspects of Ex-Im Bank’s financing for small business exports, including the performance standards that Ex-Im Bank established for assessing its small business financing efforts. GAO found that Ex-Im Bank had developed performance standards in most but not all the areas specified by Congress, ranging from providing excellent customer service to increasing outreach. They also found that some measures for monitoring progress against the standards lacked targets and time frames, and that Ex-Im Bank was just beginning to compile and use the small business information it was collecting to improve operations.<sup>7</sup>

We continue to monitor progress.

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<sup>6</sup> U.S. Government Accountability Office; Export Promotion: *Export-Import Bank has Met Target for Small Business Financing Share*; GAO-08-419T; January 17, 2008. See: [www.gao.gov/products/GAO-08-419T](http://www.gao.gov/products/GAO-08-419T)

<sup>7</sup> U.S. Government Accountability Office; *Export-Import Bank: Performance Standards for Small Business Assistance are in Place but Ex-Im is in the Early Stages of Measuring Their Effectiveness*; GAO-08-915; July 2008. See: [www.gao.gov/products/GAO-08-915](http://www.gao.gov/products/GAO-08-915)

<sup>8</sup> U.S. Government Accountability Office; *Export-Import Bank: Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources*; GAO-13-620; May 2013; [www.gao.gov/assets/660/654925.pdf](http://www.gao.gov/assets/660/654925.pdf)





## Government Accountability Office

The Inspector General (IG) Act states that each IG shall give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and ensuring effective coordination and cooperation. The Government Accountability Office (GAO) issued the following reports and Congressional testimony related to Ex-Im Bank activities during the reporting period:

### ***Export-Import Bank: More Detailed Information about Its Jobs Calculation Methodology Could Improve Transparency***

GAO-13-446, May 23, 2013; [www.gao.gov/products/GAO-13-446](http://www.gao.gov/products/GAO-13-446)

In 2012, Congress passed the Export-Import Bank Reauthorization Act of 2012. The act required GAO to report on the process and methodology used by Ex-Im Bank to calculate the effects of export financing on U.S. employment. This report (1) describes the methodology and processes Ex-Im Bank uses to calculate the effects of its financing on U.S. employment and (2) examines the limitations of Ex-Im Bank's approach and how Ex-Im Bank reports on its methodology, and provides additional related information. To address these objectives, GAO reviewed relevant Ex-Im Bank documents, obtained and reviewed the data Ex-Im Bank uses for its calculations, and interviewed agency officials and trade policy researchers.

GAO found that Ex-Im Bank's methodology to calculate the number of U.S. jobs associated with the exports it helps finance has four key steps. First, Ex-Im Bank determines the industry associated with each transaction it finances. Second, Ex-Im Bank calculates the total value of exports it supports for each industry. Ex-Im Bank implements these first two steps using its own data. Third, Ex-Im Bank multiplies the export value for each industry by the Bureau of Labor Statistics (BLS) ratio of jobs needed to support \$1 million in exports in that industry—a figure known as the “jobs ratio”. Finally, Ex-Im Bank aggregates across all industries to produce an overall estimate. Ex-Im Bank reports the number of jobs its financing supports and the methodology it uses but does not describe limitations of the methodology or fully detail its assumptions. Although the BLS data tables that Ex-Im Bank relies on are based on a commonly used methodology, this methodology has limitations. For example, the employment data are a count of jobs that treats full-time, part-time, and seasonal jobs equally. In addition, the data assume average industry relationships, but Ex-Im Bank's clients could be different from the typical firm in the same industry. Further, the underlying approach cannot answer the question of what would have happened without Ex-Im Bank financing. Ex-Im Bank does not report these limitations or fully detail the assumptions related to its data or methodology. GAO's *Standards for Internal Controls in the Federal Government* states that, in addition to internal communication, management should ensure adequate communication with external stakeholders, which could include Congress and the public. Because of a lack of reporting on the assumptions and limitations

GAO found that while the Ex-Im Bank Business Plan reported that Ex-Im Bank's exposure limits were appropriate, the forecasting process used to reach this conclusion has weaknesses.

of its methodology and data, Congressional and public stakeholders may not fully understand what the jobs number that Ex-Im Bank reports represents and the extent to which Ex-Im Bank's financing may have affected U.S. employment.

To ensure better understanding of its jobs calculation methodology, GAO recommended that Ex-Im Bank improve reporting on the assumptions and limitations in the methodology and data used to calculate the number of jobs Ex-Im Bank supports through its financing. Ex-Im Bank agreed with the recommendation and stated that it would begin reporting more detailed information in its fiscal year 2013 annual report.

### ***Export-Import Bank: Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources***

GAO-13-620, May 30, 2013; [www.gao.gov/products/GAO-13-620](http://www.gao.gov/products/GAO-13-620)

The Export-Import Bank Reauthorization Act of 2012 reauthorized Ex-Im Bank through fiscal year 2014 and, as a condition of raising Ex-Im Bank's exposure limit in 2013, required Ex-Im Bank to prepare a report with a business plan and analyses of key operational elements. The act also directed GAO to analyze the Business Plan. This report discusses the extent to which Ex-Im Bank's Business Plan and analyses (1) justify bank exposure limits; (2) evaluate the risk of loss associated with the increased exposure limit, changing composition of exposure, and compliance with congressional mandates; and (3) analyze the adequacy of Ex-Im Bank resources to manage authorizations and comply with congressional mandates. GAO reviewed Ex-Im Bank's Business Plan, analyses, and other reports, and interviewed Ex-Im Bank officials.

GAO found that while the Ex-Im Bank Business Plan reported that Ex-Im Bank's exposure limits were appropriate, the forecasting process used to reach this conclusion has weaknesses. Although Ex-Im Bank's forecast model is sensitive to key assumptions, GAO found that Ex-Im Bank did not reassess these assumptions to reflect changing conditions or conduct sensitivity analyses to assess and report the range of potential outcomes. GAO used historical data in lieu of these assumptions and found that Ex-Im Bank's forecast of exposure could be higher than the exposure limit set by Congress for 2014. GAO's cost guidance calls for agencies' assumptions and forecasts to be supported by historical data and experience, and a sensitivity analysis, which can assess the effect of changes in assumptions. Because Ex-Im Bank has not taken these steps the reliability of its forecasts is diminished. This is of particular concern because Ex-Im Bank projects that its outstanding financing in the future will be closer to its exposure limit than it has been historically. Consequently, any forecast errors could result in the Bank's having to take actions, such as delaying financing for creditworthy projects, to avoid exceeding its limit.



The Business Plan provided limited analysis of Ex-Im Bank's risk of loss. First, Ex-Im Bank did not provide some forecast data because of pending OMB approval of key analyses. Second, Ex-Im Bank included only limited analysis to support its conclusions that changes in its portfolio—including subportfolios of transactions supporting congressional mandates for small business, sub-Saharan Africa, and renewable energy—would not affect its risk of loss. In addition, Ex-Im Bank has not routinely analyzed or reported the risk rating and default rate of subportfolios that respond to these mandates, although their performance may differ from the overall portfolio. OMB and banking regulator guidance call for entities, including federal agencies, to be able to provide comprehensive information by subportfolio, product, and other financial performance metrics. By not routinely analyzing and reporting financial performance for mandated transactions, Ex-Im Bank decreases its ability to evaluate such performance at the subportfolio level and inform Congress of related risks.

The Business Plan provided limited analysis of the adequacy of Ex-Im Bank's resources and ability to meet congressional mandates. From 2008 through 2012, Ex-Im Bank's administrative resources remained relatively flat as its portfolio grew. Ex-Im Bank does not expect to meet its small business or renewable energy mandate targets in 2013 or 2014. These mandate targets are fixed to a percentage of the dollar value of Ex-Im Bank's total authorizations. Although Ex-Im Bank has dedicated resources to support these mandates, as Ex-Im Bank authorizations have grown, the growth in mandate targets has outpaced Ex-Im Bank's increasing support. Ex-Im Bank projects that the targets will continue to outpace its growth in support through 2014. Mandate transactions also are resource-intensive and Ex-Im Bank's ability to expand its renewable energy portfolio may be constrained by the size of the overall market. Communicating the effect of percentage-based targets on Ex-Im Bank's resources and ability to achieve its goals to external stakeholders, such as Congress, is consistent with federal internal control standards.

Communicating the effect of percentage-based targets on Ex-Im Bank's resources and ability to achieve its goals to external stakeholders is consistent with federal internal control standards.

Ex-Im Bank should (1) adjust its forecasting model based on previous experience, (2) assess and report the sensitivity of the exposure forecast model to key assumptions and estimates, (3) routinely report the financial performance of subportfolios supporting congressional mandates, and (4) provide Congress with additional information on the resources associated with meeting mandated targets. Ex-Im Bank concurred with GAO's recommendations.

***Export-Import Bank: Recent Growth Underscores Need for Improved Risk Management and Reporting—Congressional Testimony***

GAO-13-703T, Jun 13, 2013; [www.gao.gov/products/GAO-13-703T](http://www.gao.gov/products/GAO-13-703T)

This testimony draws on two reports GAO issued in March and May of this year in response to requirements in the Export-Import Bank Reauthorization Act of 2012. The act required GAO to assess aspects of Ex-Im Bank's risk management and 2012 Business Plan in the

context of the agency's growth. The act also increased the statutory ceiling on the agency's total exposure (exposure limit). This testimony discusses Ex-Im Bank's efforts to (1) forecast exposure levels, (2) manage financial risks and estimate losses, and (3) manage its workload.

Ex-Im Bank's Business Plan concluded that the exposure limits in the Reauthorization Act were appropriate, but GAO's May 2013 report found weaknesses in the methodology Ex-Im Bank used to justify that conclusion. The Reauthorization Act increased the Ex-Im Bank exposure limit to \$120 billion in 2012, with provisions for additional increases to \$130 billion in 2013 and \$140 billion in 2014. Ex-Im Bank forecast that its year-end exposure would be \$120.2 billion in 2013 and \$134.9 billion in 2014, below the congressionally determined limits. However, the buffer between the exposure limit and Ex-Im Bank's exposure forecast for 2013 and 2014 is small in comparison with recent historical experience.

GAO's March 2013 report found that Ex-Im Bank has been developing a more comprehensive risk-management framework, but could take additional steps to improve this process. For example, Ex-Im Bank has started addressing recommendations by its Inspector General about portfolio stress testing, thresholds for managing portfolio concentrations, and risk governance. GAO's review indicated that the IG's recommendations represent promising techniques that merit continued attention. In addition, GAO concluded that reporting stress testing scenarios and their results would aid congressional oversight and be consistent with internal control standards for effective external communication. However, Ex-Im Bank could further improve its risk management, including its risk modeling. Ex-Im Bank calculates credit subsidy costs and loss reserves and allowances with a loss estimation model that uses historical data and takes credit, political, and other risks into account. Consistent with industry practices, Ex-Im Bank added factors to the model in 2012 to adjust for circumstances that may cause estimated credit losses to differ from historical experience.

Ex-Im Bank also could improve its analysis of the financial performance of its portfolio. As of December 2012, Ex-Im Bank reported an overall default rate of less than 1 percent. Ex-Im Bank's default rate declined steadily from about 1.6 percent as of September 30, 2006, to just under 0.3 percent as of September 30, 2012, before edging up slightly by the end of the calendar year. However, this downward trend should be viewed with caution because Ex-Im Bank's portfolio contains a large volume of recent transactions that have not reached their peak default periods. Moreover, Ex-Im Bank has not maintained data needed to compare the performance of newer books of business with more seasoned books at comparable points in time, a type of analysis recommended by federal banking regulators.







# Office of Audits

## Summary of Audit Activities

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

OA completed one audit during the six months ended September 30, 2013:

- Audit of Export-Import Bank's Management of Direct Loans and Related Challenges

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

- Audit of Export-Import Bank's Implementation of Content Policy
- Audit of Export-Import Bank's Controls Over Sponsored Travel
- FY 2013 Information Security Program and Practices Audit
- Audit of Export-Import Bank's Financial Statements for FY 2013

## Reports Issued

### *Ex-Im Bank's Management of Direct Loans and Related Challenges*

(OIG-AR-13-05, September 26, 2013)

<http://author.exim.gov/oig/upload/OIG-Final-Report-Audit-of-Ex-Im-Bank-s-Management-of-Direct-Loans-and-Related-Challenges-09-26-13-2.pdf>

Ex-Im Bank provides fixed-rate loans to foreign buyers of U.S. goods and services. Such direct loans generally exceed \$10 million and provide foreign buyers financing at the most favorable terms allowed. In light of the recent international financial crisis, Ex-Im Bank's direct loan authorizations increased from \$0 in FY 2007 to \$11.8 billion in FY 2012. During the same period, Ex-Im Bank's exposure to loans tripled from 9 percent to 27 percent of the total portfolio. As a result, we reviewed Ex-Im Bank's management of direct loan transactions, including its compliance with Federal and agency credit program policies. Our audit included a sample of 6 of the 40 direct loans authorized and managed by the Structured & Project Finance Division between FYs 2010 and 2012. These sampled loans were underwritten by approximately half of the division's loan officers and totaled \$7.3 billion (or 33 percent) of the total \$22.4 billion in loans authorized during the period.

Ex-Im Bank updated its policies to reflect new statutory requirements and is looking for ways to streamline its business processes. Ex-Im Bank is also establishing an Enterprise Risk Committee and developing a plan to address new Office of Management and Budget (OMB) requirements. These actions represent good faith efforts to improve internal controls and overall credit program management. However, as a result of inadequate recordkeeping, overreliance on institutional knowledge, and a lack of mechanisms necessary to ensure



compliance with Federal and agency credit program policies, we found that Ex-Im Bank loan officers and other personnel did not always document sufficient evidence for borrower statements regarding the need for Ex-Im Bank financing, or perform or document performance of other required tasks. Those tasks included (1) completing checklists intended to ensure borrower eligibility, completeness of loan applications, and collection of all required commitment documents; and (2) documenting Character, Reputational, and Transaction Integrity (CRTI) due diligence reviews prior to loan approval.

Also, although Ex-Im Bank's policies are largely consistent with many fundamentals of Federal credit program policies, Ex-Im Bank has not formally adopted key OMB and U.S. Department of Treasury policy documents. As a result, Ex-Im Bank's policies and procedures do not expressly address Federal requirements, including new requirements in OMB Circular A-129, "Policies for Federal Credit Programs and Non-Tax Receivables", revised in January 2013.

Finally, Ex-Im Bank faces several challenges that, although not unique to direct loans, may impact Ex-Im Bank's management of the direct loan portfolio. These challenges include:

- fragmented recordkeeping practices;
- complex business processes; and
- growing demand for Ex-Im Bank support.

Separately managing each challenge is difficult enough, but because they are inherently related they present additional complications and require management's attention.

To improve Ex-Im Bank's management of direct loans and related challenges, we recommended Ex-Im Bank (1) maintain additional documentation to support the need for Ex-Im Bank financing; (2) adopt key OMB and U.S. Department of Treasury policies by revising agency policies and procedures; (3) develop mechanisms to ensure compliance with Federal and agency credit program policies; and (4) evaluate recordkeeping practices and implement a plan to timely address deficiencies found. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

## Ongoing Audits

### Audit of Export-Import Bank's Implementation of Content Policy

The mission of Ex-Im Bank is to assist in financing the export of U.S. goods and services to international markets. Ex-Im Bank enables U.S. companies to turn export opportunities into real sales that help to maintain and create U.S. jobs and contribute to a stronger national economy. Ex-Im Bank provides a variety of financing mechanisms, including working capital guarantees, export-credit insurance, and loans to help foreign buyers purchase U.S. goods

Domestic content means the goods and services produced in the U. S. and included in Ex-Im Bank-supported transactions. It correlates to the creation or sustainment of U.S. jobs.

and services. The amount of goods and services produced in the U.S. and included in Ex-Im Bank-supported transactions—referred to as domestic content—correlates to the creation or sustainment of U.S. jobs involved in the production of those goods and services. In FY 2012, Ex-Im Bank approved \$35.8 billion in total authorizations supporting an estimated \$50 billion in U.S. export sales and, according to Ex-Im Bank, approximately 255,000 American jobs.

The overall objective of the audit is to evaluate Ex-Im Bank’s implementation of its content policy and assess Ex-Im Bank’s procedures for determining the U.S. content and eligible foreign content included in each transaction supported by Ex-Im Bank. Audit work commenced in November 2012. The OIG anticipates issuing an audit report in November 2013.

### Audit of Export-Import Bank’s Controls Over Sponsored Travel

Under certain circumstances, agencies and their employees may accept gifts of official travel and related expenses from non-Federal sources (referred to as sponsored travel). Specifically, 31 U.S.C. 1353 and its implementing regulation, the Federal Travel Regulation, permit executive branch agencies to accept payments of “travel, subsistence, and related expenses” from non-Federal sources for employee attendance at conferences, seminars, and speaking engagements, but not events required to carry out agencies’ statutory functions. In addition to this government-wide authority, the Export-Import Bank Act of 1945, as amended, enables Ex-Im Bank to accept reimbursement for travel and subsistence expenses incurred as a result of employee attendance at meetings or similar events that are directly related to the mission of Ex-Im Bank. The authority to accept transactional travel was added to Ex-Im Bank’s organic statute by Public Law 101-240 so that Ex-Im Bank could “be more aggressive in promoting its Export programs” given its “severely limited” annual restrictions on its overall administrative expenses.<sup>8</sup> However, Ex-Im Bank’s authority to accept sponsored conference and transactional travel is not unlimited and must comply with ethics and conflict-of-interest regulations. Specifically, in approving and accepting sponsored travel, Ex-Im Bank management must prevent abuse and ensure that Ex-Im Bank’s interest in employee attendance at sponsored events and meetings outweighs concern that acceptance of gifts of official travel from non-Federal sources may cause a reasonable person to question the integrity of Ex-Im Bank’s programs and operations. In addition, when sponsors agree to reimburse Ex-Im Bank for certain travel expenses, Ex-Im Bank must accurately and timely bill sponsors and collect reimbursements to ensure that limited administrative funds are not unnecessarily or inefficiently expended.

In certain circumstances, Export-Import Bank staff may accept gifts of official travel and related expenses from non-Federal sources.

<sup>8</sup> House Report that accompanied Public Law 101-240 [H.R. Rep. No. 101-271, at 23 (1989)].



The overall objective of the audit is to evaluate Ex-Im Bank's approval, acceptance, and collection of payments from non-Federal sources for travel and related expenses. We will also determine whether Ex-Im Bank has complied with Federal and agency regulations pertaining to sponsored travel, and follow-up on corrective actions implemented as a result of our previous audit report (OIG-AR-10-04), dated June 4, 2010. (<http://author.exim.gov/oig/loader.cfm?csModule=security/getfile&pageid=13592>) Audit work commenced in April 2013 but was temporarily suspended in June 2013 due to staffing constraints. Fieldwork resumed in September 2013 and the OIG anticipates issuing an audit report in March 2014.

### **Audit of Export-Import Bank's Compliance with the Federal Information Security Management Act for FY 2013**

The Federal Information Security Management Act (FISMA) requires the OIG, or its designee, to conduct annual evaluations of Ex-Im Bank's information security program and report the results to OMB. The OIG contracted with an Independent Public Accountant (IPA) to conduct the audit. The audit will include an assessment of Ex-Im Bank's efforts to address previously reported weaknesses.

Audit work commenced in June 2013. The OIG anticipates the IPA will respond to OMB reporting requirements in November 2013 and issue an audit report in December 2013.

### **Audit of Export-Import Bank's Financial Statements for FY 2013**

The Chief Financial Officers Act of 1990 requires the OIG, or an independent external auditor chosen by the OIG, to audit Ex-Im Bank's financial statements annually. An IPA working under OIG oversight is performing the audit of Ex-Im Bank's FY 2013 financial statements. The IPA is focusing on following areas of emphasis:

- Ex-Im Bank's processes for allowing for losses and subsidy re-estimate;
- Existing and new fraud cases in FY 2013 (if any); and
- Compliance with legislation reauthorizing Ex-Im Bank.

The audit will also include an assessment of Ex-Im Bank's efforts to address previously reported weaknesses.

Audit work commenced in July 2013. The OIG anticipates the IPA will issue its opinion on the FY 2013 financial statements in November.





# Office of Inspections and Evaluations

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

During the second half of FY 2013, OIE completed its inspection report of Minera y Metalurica del Boleo S.A. and began two additional transaction inspections: Punj Lloyd Solar Power, Ltd and the Liquefied Natural Gas Project in Papua New Guinea. In addition, OIE continued working on its evaluation of Ex-Im Bank's Economic Impact Procedures.

A brief synopsis of these assignments appears below.

## Reports Issued

### *Inspection Report on Minera y Metalurica del Boleo S.A. (Boleo)*

(OIG-INS-13-01, September 30, 2013)

<http://author.exim.gov/oig/upload/REDACTED-Report-on-Minera-y-Metalurica-del-Boleo-SA-Report-Final-OIG-INS-13-01-130930.pdf>

The Boleo project involves the development of an underground copper-cobalt-zinc mine located near the town of Santa Rosalia in Baja California Sur, Mexico.

Our inspection of the Boleo transaction seeks to develop a coherent explanation of events and causal factors that led to the cost overruns of the project, to examine the possibility of corporate malfeasance by any of the involved parties, and—with the benefit of hindsight—to identify lessons learned. Specifically, what could Ex-Im Bank have done differently from a due diligence, credit review, and monitoring perspective to mitigate the risk of loss. The report outlines several key findings that may indicate a systemic vulnerability in certain Ex-Im Bank policies and procedures and provides recommendations to help address these risks.

The Boleo project involves the development of an underground copper-cobalt-zinc mine located near the town of Santa Rosalia in Baja California Sur, Mexico. The mine is owned and operated by a consortium of Korean companies and Baja Mining Corporation, a listed Canadian company. The total project cost for developing the mine was initially estimated at \$1.2 billion, financed by a combination of sponsor equity of \$490 million and debt financing of circa \$710 million. Of the latter amount, Ex-Im Bank provided approximately \$420 million or 59 percent of the total financing. With the benefit of hindsight, it is apparent that certain identified risks were not sufficiently vetted in the initial due diligence process, nor mitigated in the structuring phase, nor adequately managed by the responsible parties. In the aggregate, these factors posed greater risks to Ex-Im Bank, facilitated substantial cost overruns, and contributed to the project's default within six months of financial closing.



In November 2012, Ex-Im Bank successfully restructured its \$419.6 million direct loan facility in, what appears to be, a no loss situation for Ex-Im Bank. The original Ex-Im Bank project financing was terminated and replaced with a new \$419.6 million facility to a state-owned Korean entity and member of the original consortium of sponsors. The project facilities remain in default, however, as the remaining lenders continue to re-negotiate their Standstill Agreement with the Borrower.

Our inspection revealed evidence of inappropriate conduct by several parties including the Borrower's failure to make timely disclosure of significant cost overruns, inaccurate representations, allegations of fraud related to one of the project's local vendors, management impropriety, and an over-arching lack of governance.

In addition, we observed that Ex-Im Bank's current policies and procedures related to the reimbursement of local costs may not be sufficiently developed to guard against waste, fraud, and abuse by local suppliers. Moreover, Ex-Im Bank lacks the infrastructure and resources to effectively process the high volume of local cost disbursements. Finally, we noted that Ex-Im Bank's Character, Reputational, and Transaction Integrity (CRTI) or Know Your Customer procedures for local cost vendors would benefit from a broader review of local public sources and more frequent application. The enhanced procedures would alert Ex-Im Bank to possible risks of fraud and corruption in the host country on an ongoing basis.

In light of these findings, we made seven recommendations to enhance the level of due diligence, credit analysis, and monitoring activities and to address potential systemic vulnerabilities. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

- Review internal credit analysis and approval procedures with a view to improving its transaction risk assessment and budget cost levels (BCL) classification and to ensure the independence and objectivity of the credit evaluation process. To this end, Ex-Im Bank should benchmark its current credit review and approval procedures against current best practices and U.S. financial regulatory guidance; evaluate the BCL rating process for structured financings to ensure a consistent approach across industries, countries, and financing structures as well as rating agency criteria for comparable transactions; and implement a more systematic approach to pre-Board briefings including a standardized briefing package that includes a full risk assessment. Finally, Ex-Im Bank should involve representatives from the Asset Management Division (AMD) at an earlier stage of the credit approval process to benefit from AMD's experience with similar transactions in its portfolio and to effect a smooth transition from pre- to post-operative status.

- Implement a risk-based approach to monitoring that specifically identifies and addresses the potential vulnerabilities of the transaction. With respect to Boleo, this approach would suggest a more pro-active focus on the performance of the engineering, procurement, and construction management (EPCM) contractor, budget revisions such as project change orders, and more “boots on the ground” inspections of the project.
- Strengthen its Know Your Customer and local due diligence procedures by expanding its review of local public sources and conducting the analysis periodically throughout the life of the transaction. The enhanced procedures would alert Ex-Im Bank to possible risks of fraud and corruption in the host country on an ongoing basis.
- Further develop its fraud prevention practices for local cost financings, with a view to establishing a more robust and proactive approach. To this end, Ex-Im Bank should review and benchmark current practices with the best practices currently employed by other multilateral agencies and U.S. federal agencies.
- Establish a streamlined, automated electronic invoice submittal system with a client web portal that seamlessly provides input for loan disbursement and data tracking control, review, and processing purposes covering both local costs and U.S. exports.
- Increase its staff in both the pre- and post-operative transaction monitoring teams, and related internal resources to better equip Ex-Im Bank to handle a growing volume of complex transactions and to implement a more proactive approach to site visits, loan structuring, and monitoring.
- Conduct a post-mortem review of the structural issues encountered in the Boleo transaction and formulate recommendations. All parties involved in the transaction should participate in the review.

### Ongoing Inspection Assignments

OIE identified several inspection candidates for FY 2013 and is currently reviewing two Ex-Im Bank structured financings. OIE expects to release the results of its inspections in FY 2014. A brief description of each financing appears below.

#### **Punj Lloyd Solar Power, Ltd. (Punj Lloyd)**

The Punj Lloyd solar project involves the development of a five megawatt solar photovoltaic (PV) power plant located on a 62.5-acre site near the village of Bap, approximately 90 miles from the city of Jodhpur in the state of Rajasthan, India. The project uses PV solar modules manufactured and exported by Abound Solar, Inc., formerly of Loveland, Colorado.

Borrower Punj Lloyd is a wholly-owned subsidiary of Punj Lloyd Infrastructure, Ltd., an infrastructure development company incorporated in 2007 and wholly-owned subsidiary



of Punj Lloyd Limited, an international engineering and construction firm headquartered in Gurgaon, India. The total project cost for developing the solar power plant is estimated at \$16.6 million, financed by sponsor equity of approximately \$7.5 million and debt financing of \$9.1 million.

OIE’s inspection seeks to determine the level of due diligence, risk assessment, and portfolio monitoring performed by Ex-Im Bank in this transaction given the difficult nature of the industry, allegations against the exporter, the implementation of the fast track credit process, and how the identified risks were mitigated. Further, OIE will make appropriate recommendations in the interest of supporting Ex-Im Bank’s ongoing, proactive initiatives to improve efficiency and banking practices.

### Papua New Guinea—Liquefied Natural Gas Project (PNG-LNG)

PNG LNG is a vertically integrated liquefied natural gas project in Papua New Guinea, consisting of gas fields in the highlands, an on-shore and off-shore pipeline of over 400 miles, a gas liquefaction plant on the coast, marine export facilities, and in-country infrastructure. Construction started in 2010 and is scheduled for completion in 2015. The current, estimated construction cost is \$19.4 billion. Ex-Im Bank has commitments totaling \$3 billion, including \$579 million for local costs.

The PNG-LNG project involves Exxon Mobil, companies in Papua New Guinea, Australia, Japan—and Ex-Im Bank

The project is an unincorporated joint venture among subsidiaries of Exxon Mobil Corporation, Oil Search Limited (a Papua New Guinea independent oil company), Santos Limited (an Australia company), Japan Papua New Guinea Petroleum Company (a subsidiary of Nippon Oil and other Japanese Oil companies) and certain companies wholly owned by the independent state of Papua New Guinea. OIE’s inspection seeks to determine the level of due diligence, policy compliance, risk assessment, risk mitigation, and portfolio monitoring performed by Ex-Im Bank, given the transaction’s size, complexity, and 17.5-year term, which is on a non-recourse basis once the project is in commercial operation. OIE will make appropriate recommendations in support of Ex-Im Bank’s ongoing, proactive initiatives to improve efficiency, integrity, and banking practices.

## Other Ongoing Assignments

### Evaluation of Ex-Im Bank economic impact procedures

Ex-Im Bank’s economic impact procedures are intended to provide a methodological framework to assure that that Ex-Im Bank’s projects do not have an adverse impact on U.S. industry. First introduced to Ex-Im Bank’s Charter in 1968, the procedures<sup>9</sup> have been

<sup>9</sup> Office of the Inspector General, Export-Import Bank of the United States; *Evaluation Report Relating to Economic Impact Procedures*; OIG-EV-10-03; September 17, 2010. See: <http://author.exim.gov/oig/loader.cfm?csModule=security/getfile&pageid=13549>

U.S. Government Accountability Office; *Export-Import Bank: Improvements Needed in Assessment of Economic Impact*; GAO-07-1071; September 2007. See: [www.gao.gov/products/GAO-07-1071](http://www.gao.gov/products/GAO-07-1071).

the subject of Congressional scrutiny and public interest. In prior years, both the OIG and the GAO have identified opportunities for improvement in Ex-Im Bank's economic impact procedures. The most recent version of the procedures was approved by Ex-Im Bank's Board of Directors on November 19, 2012 and took effect April 1, 2013. This evaluation complements OIG's prior report by analyzing the new procedures in the context of OIG's prior findings and recommendations. OIE expects to publish the results of its evaluation during the next fiscal period.

### **Other activities**

The OIE participates in the CIGIE Inspection and Evaluation Committee, which leads the development of protocols for reviewing management issues that cut across departments and agencies, promotes the use of advanced program-evaluation techniques, and fosters awareness of evaluation and inspection practices in OIGs. Additionally, during this period, OIE participated in several discussions with representatives from the GAO to discuss Ex-Im Bank's loss reserve and risk management practices, business strategy, and due diligence procedures.

Finally, we are pleased to announce the hire of Ms. Lilith Sanchez and Mr. Don Reid as Senior Inspectors. Both join Ex-Im Bank OIG with more than twenty years of structured finance lending experience with several financial institutions.







# Office of Investigations

## Summary of accomplishments

The Office of Investigations (OI) conducts and coordinates investigations relating to alleged or suspected violations of laws, rules, or regulations occurring in Ex-Im Bank programs and operations. The subjects of OI investigations can be program participants, contractors, Ex-Im Bank management, or employees. Special Agents in OI are Federal criminal investigators (job series 1811). Investigations that uncover violations of Federal law, rules, or regulations may result in criminal or civil prosecution, and administrative sanctions.

During this reporting period, OI achieved several milestones and accomplishments towards meeting mission objectives of investigating and preventing trade finance and export credit insurance fraud impacting Ex-Im Bank. These actions include:

- Obtained 13 criminal judgments resulting in 130 months imprisonment, 396 months' probation, and \$54,370,505 in criminal restitution, forfeiture, and fines.
- Obtained three administrative actions stemming from referrals of active investigative information resulting in \$110,000 in payments to Ex-Im Bank and a cost savings of \$750,000 by protecting U.S. taxpayer funds at risk.
- Obtained four plea agreements entered in court by subjects pursuant to ongoing investigative matters.
- Provided 37 reports of investigative information to Ex-Im Bank Office of General Counsel concerning potential funds at risk to support enhanced due diligence efforts in approving, processing, and monitoring export credit loan guarantees and insurance policies.
- Referred one investigative matter to the U.S. Department of Justice for prosecutive decision.
- Successfully closed nine investigations after concluding all remaining actions and prosecutive results in those cases and, additionally, closed further investigative review of approximately \$29.5 million in suspected claims that had been under investigation.

## Summary of investigations

OI evaluates all reports of possible fraud or illegality affecting Ex-Im Bank programs and activities. Such reports are received from a variety of sources including Ex-Im Bank employees, Ex-Im Bank Office of General Counsel, participants in Ex-Im Bank transactions, other government agencies, and the Ex-Im Bank OIG Hotline. Evaluations that identify reasonable indications of possible fraud or illegality result in an investigation. These investigations are summarized in the table on page 39.

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<sup>10</sup> Administrative actions are responses by Ex-Im Bank to stop transactions, cancel policies, or protect funds at risk based upon investigative findings.



Activity	Investigations	Claims*	Claim amounts
Open as of April 1, 2013	31	374	\$250,549,264
Opened during period	15	21	\$24,848,900
Closed during period	(9)	(34)	(\$29,468,975)
Open as of September 30, 2013	37	361	\$245,929,189

\* The number and amount of claims paid subject to investigation. Not all investigations involve claims paid by Ex-Im Bank. Not all claims opened or closed in the period are related to cases opened or closed in the period, but may be related to other active investigations. The referral of a claim to the OIG for investigation does not establish the existence of fraud and not all claims included in a case under investigation are necessarily fraudulent until proven so by evidence developed in the investigation. The number of claims may vary during the course of an investigation as facts and findings develop.

## Summary of investigative results

OI obtained the following actions during this reporting period.

Description	OIG	Joint activities*	Total
Matters Referred to the Department of Justice	1	0	1
Arrest Warrants Obtained	0	1	1
Arrests Made	0	1	1
Criminal Indictments, Informations, Complaints	3	1	4
Pleas Entered	2	2	4
Criminal Judgments	3	10	13
Prison Time (months)	36	94	130
Probation (months)	72	324	396
Pre-Trial Diversion (months)	0	18	18
Court Ordered Fines, Restitution, and Forfeiture	\$2,034,500	\$52,336,005	\$54,370,505
Administrative Actions**	1	2	3
Administrative Cost Savings and Repayments	\$750,000	\$110,000	\$860,000

\* Joint investigations with other law enforcement agencies.

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

## Investigations

### Ex-Im Bank program integrity

OI conducts investigations into violations of Federal laws affecting the integrity of Ex-Im Bank's programs and the public's trust and reliance on those programs and representations.

These investigations involve allegations such as the misuse of official government seals and letterhead; forgeries of bank officials' signatures; false Letters of Interest; or other misrepresentations or misconduct in which criminals falsely purport to victims that they have the authority, approval, or support of Ex-Im Bank.

Successful investigative efforts within this area during the period include:

***Former Bank Senior Vice President Sentenced for Conspiracy Charges***

On May 17, 2013, James Bender, of Sharon, Massachusetts, was found guilty of conspiracy to commit wire fraud after a four-day jury trial in the U.S. District Court for the District of New Hampshire. On September 23, 2013, Bender was sentenced to 24 months in prison. Bender was also fined \$7,500, ordered to pay restitution in the amount of \$195,457.67, and sentenced to serve 36-months of supervised release.

Bender, a former Senior Vice President of Trade Finance for Sovereign Bank, conspired with Paul Wilson, the former Manager of International Trade Finance for Goss International Americas Corporation, to defraud several Latin American customers of Goss. Goss manufactures commercial printing presses. One component of Wilson's job was to facilitate international sales by arranging financing for foreign purchasers of Goss's products and working with Ex-Im Bank to obtain credit insurance for loans extended to Goss's foreign customers. Bender arranged for Sovereign Bank to purchase most of the loans Goss extended to its foreign customers.

Bender and Wilson formed two shell companies called Zephyr Capital LLC and Zephyr Financial LLC, through which they defrauded two Brazilian and two Mexican businesses that purchased presses from Goss. Bender and Wilson used the shell companies to send fraudulent invoices to these businesses charging them for loan underwriting services that were either never rendered or that Wilson performed as part of his job at Goss. The invoices totaled over \$200,000 in bogus charges. Most of the victim companies wired payments for the fraudulent invoices to Zephyr bank accounts in the United States, which Bender and Wilson divided between themselves over a four-year period.

Wilson pleaded guilty last year to three counts of wire fraud in connection with this scheme and was later sentenced to one year and one day in prison.

Ex-Im Bank OIG investigated the case and Assistant United States Attorney Mark S. Zuckerman was the prosecutor.

**Export Credit Insurance & Loan Guarantee Program**

One of Ex-Im Bank's key programs—the export credit insurance program—has been particularly susceptible to fraud schemes by foreign borrowers, U.S. based exporters, and



other transaction participants. This program accounts for several investigations currently underway. While there are several different programs in Ex-Im Bank, criminal activity exploits certain processes within the programs in order to induce Ex-Im Bank to approve insurance or guaranteed coverage.

### **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 used to exploit this 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.

Successful investigative efforts within the export credit insurance program during this reporting period resulted in \$12,860,000 in forfeitures.

Successful investigative efforts within the export credit insurance program during the reporting period include the reports noted below.

#### ***Denver Businessman Sentenced to 30 Months in Prison***

On May 14, 2013, Luis E. Moy, the owner of a steel supply company in Denver, Colorado, was sentenced to 30 months in prison for his role in a scheme to defraud Ex-Im Bank of approximately \$11,183,275.

Moy was sentenced by Judge Lewis Babcock in U.S. District Court in Denver. Moy pleaded guilty on May 16, 2012 to one count of conspiracy to commit wire fraud and one count of wire fraud in connection with a scheme to defraud Ex-Im Bank. In addition to his prison term, Moy was sentenced to 60 months of supervised release and was ordered to pay \$11,183,275 in forfeiture.

According to court documents, Moy, a legal permanent resident, was the owner of a metal building design and export business in Denver. Moy admitted that between 2004 and 2009, he acted as the exporter in 11 fraudulent Ex-Im Bank insured or guaranteed loans totaling \$11,183,275. Moy admitted that he and others entered into a conspiracy and scheme to fraudulently obtain and misappropriate loan proceeds for personal use rather than to purchase and export U.S. manufactured products into Mexico. Moy admitted that he and others conspired to make false statements about the purchase of U.S. manufactured equipment, supplied false invoices, and falsified other records to fraudulently represent to the lending bank and Ex-Im Bank the purchase and export of U.S. goods to various buyers in Mexico. Moy admitted that he retained approximately \$1,249,010 for his own personal use and benefit. As a result of the fraud, all of the loans defaulted, causing Ex-Im Bank to pay \$7,486,861 in claim payments to the lending bank.

The U.S. Department of Justice Criminal Division Fraud Section and the U.S. Attorney's Office for the District of Colorado prosecuted the case. The case was investigated by the Ex-Im Bank OIG, Homeland Security Investigations in El Paso, and the Federal Bureau of Investigation in Washington, DC.

### *Miami Businesswoman Sentenced*

On September 10, 2013, Judge Donald L. Graham, U.S. District Court for the Southern District of Florida, sentenced Teolinda Briseyda Angeles, an owner of an electronics company in Miami, Florida, to serve one year and one day in prison for her role in a scheme to defraud Ex-Im Bank of nearly \$446,876.

Judge Graham also sentenced Angeles to 36 months of supervised release and ordered her to pay \$446,876 in restitution and \$1,384,666 in criminal forfeiture. Angeles pleaded guilty on June 26, 2013, to one count of conspiracy to commit wire fraud and one count of wire fraud in connection with a scheme to defraud Ex-Im Bank of approximately \$446,876. Angeles was born in Peru and is a lawful permanent resident of the United States.

According to court documents, Angeles was the owner of BNB Pembroke Pines, Inc., a computer and electronics company located in Miami that purported to be in the business of exporting computers and electronic equipment to buyers in South America. According to court records, Angeles admitted that she and co-conspirators created false invoices, shipping documents, financial statements, and other documents that were submitted to a Miami finance company. The false documents were ultimately submitted to Ex-Im Bank to insure the financial transaction. Angeles admitted that, in fact, none of the merchandise was exported. Angeles received a total of \$1,384,666 in Ex-Im Bank insured loan proceeds and ultimately defaulted on her loan, causing a loss to Ex-Im Bank and the U.S. government of \$446,876.

The case was prosecuted by the Fraud Section of the U.S. Department of Justice Criminal Division and investigated by the Ex-Im Bank OIG. Significant assistance in this ongoing investigation was provided by INTERPOL in Washington, D.C. and the U.S. Department of Justice, Office of International Affairs.

Angeles' sentencing is part of an ongoing OIG investigation into a network of export credit insurance fraud schemes involving exports into South America that, to date, have resulted in criminal charges against seven defendants, seven convictions, and almost \$15 million in court ordered criminal forfeiture and restitution. One fugitive had fled to Argentina where he was captured in December of 2011 and is awaiting extradition back into the United States.



### ***Mexican Farm Owner Sentenced***

On September 11, 2013, Judge Kathleen Cardone, U.S. District Court in El Paso, Texas, sentenced Alfredo Rodela-Campos, a Mexican farm owner, to serve three years of probation for his role in a scheme to defraud Ex-Im Bank of approximately \$291,550.

In addition to his term of probation, Rodela was ordered to pay \$154,463 in restitution and \$291,500 in forfeiture. Rodela, a citizen of Mexico, pleaded guilty on January 8, 2013, to one count of money laundering conspiracy, one count of conspiracy to commit wire fraud, and one count of wire fraud.

According to court documents, Rodela was the owner of a farm in Chihuahua, Chihuahua, Mexico. Rodela admitted that he and co-conspirators created false invoices, shipping documents, financial statements, and other documents that were submitted to a bank in Miami, FL. The false documents, which purported to purchase construction equipment, were ultimately submitted to Ex-Im Bank to insure the financial transaction. Rodela admitted that none of the equipment was purchased or exported. Instead, Rodela and his co-conspirators split the Ex-Im Bank insured loan proceeds and ultimately Rodela defaulted on his loan in late 2007, causing a loss to Ex-Im Bank and the U.S. government of \$257,463.

The U.S. Department of Justice Criminal Division Fraud Section and the U.S. Attorney's Office, Western District of Texas, El Paso Division prosecuted the case. Ex-Im Bank OIG, Homeland Security Investigations in El Paso; Internal Revenue Service-Criminal Investigation in Washington, D.C., and the U.S. Postal Inspection Service in Washington, D.C., investigated the case.

### **Loan Guarantee Program**

Ex-Im Bank assists exporters by guaranteeing term financing from a commercial lender to creditworthy international buyers, both private and public sector, for purchases of U.S. goods and services. Ex-Im Bank's guarantee of a lender's loan to an international buyer is used to finance purchases of U.S. goods and services. Criminals have exploited this program by submitting false financial statements of foreign borrowers in order to induce Ex-Im Bank to provide its guarantee coverage for a loan for which they might otherwise be ineligible, and by submitting false documentation to the guaranteed lender and Ex-Im Bank regarding the shipment, nature, or quantity of the U.S. goods allegedly being exported.

OIG's investigation into a network of export credit insurance fraud schemes involving exports into South America have resulted in seven convictions and \$15 million in forfeiture and restitution.

Successful investigative efforts within the loan guarantee program during the reporting period include the following:

### *Colombian Businessman Sentenced*

On April 19, 2013, Juan Carlos Schwartzman, the owner of a trade finance consulting company in Miami, Florida and Barranquilla, Colombia, South America, was sentenced by Judge Reginald Walton in the U.S. District Court, Washington, D.C., to serve 30 months in prison for his role in a scheme to defraud Ex-Im Bank of approximately \$8,100,000.

Schwartzman pleaded guilty on July 8, 2011 to one count of conspiracy to commit mail fraud and wire fraud. In addition to his prison term, Schwartzman was sentenced to serve 36 months of supervised release and was ordered to pay \$10,179,335 in restitution and \$8,162,582 in forfeiture.

According to court documents, Schwartzman, a Colombian citizen with permanent residency status in the United States, resided in Florida and owned J.C. Schwartzman & Associates, a trade finance consulting firm used to assist several Colombian buyers obtain lender financing guaranteed by Ex-Im Bank. Schwartzman admitted that from March 2005 through October 2007, he and other co-conspirators devised a scheme to unlawfully enrich themselves by submitting and/or causing the submission of fraudulent information to Ex-Im Bank, through lending banks and U.S. exporters, in order to obtain and misappropriate loan proceeds. Schwartzman admitted that he and others prepared and submitted false applications, financial statements, invoices, and shipping records which falsely reflected that goods were purchased and shipped to buyers in Colombia. Schwartzman admitted that he and others distributed, amongst themselves, the difference in the loan amounts and the purchase price of less valuable goods that were actually purchased and shipped. Schwartzman further admitted that he and others transferred the money by wire between and among their bank accounts to disguise the nature, source, and purpose of the monies, and they allowed the loans to default, triggering Ex-Im Bank's obligation to cover the debts. As a result of the defaulted loans, Ex-Im Bank paid the lenders or loan assignees for the defaulted amounts of \$8,503,567.

The case was prosecuted the U.S. Department of Justice Criminal Division Fraud Section. Ex-Im Bank OIG and the U.S. Postal Inspection Service in Washington, D.C. investigated the case.

### *Fugitive Surrenders at Texas Border*

On Tuesday, April 23, 2013, fugitive Maria de Jesus Ortiz-Saldivar (Ortiz-Saldivar) surrendered at the U.S. Border in El Paso, Texas and was arrested for her role in a scheme to defraud Ex-Im Bank.



Ortiz-Saldivar, a Mexican citizen and former accountant for Centro Oncologico de Norte S.A., a purported cancer treatment center in Ciudad Juarez, Chihuahua, Mexico, was charged with bank fraud and wire fraud conspiracy in a federal indictment unsealed on October 19, 2011, in the Western District of Texas. Ex-Im Bank OIG and Homeland Security Investigations agents arrested Ortiz-Saldivar at the U.S. port of entry in El Paso, Texas based on a federal arrest warrant issued subsequent to her indictment.

Between January 2005 and February 2009, according to the U.S. indictment and court documents, Ortiz-Saldivar and her co-conspirators allegedly conspired to obtain Ex-Im Bank guaranteed loans through lending banks by creating false loan applications, false financial statements and other documents purportedly for the purchase and export of U.S. goods into Mexico. Ortiz-Saldivar and her co-conspirators allegedly devised a scheme to defraud Ex-Im Bank and a lending bank and to unlawfully enrich themselves by submitting false information to obtain and to misappropriate loan proceeds. As a result of the alleged fraud, the conspirators' loans defaulted, causing Ex-Im Bank to pay claims to lending banks on a loss of over \$2.5 million.

Law enforcement agents continue to seek the arrest and extradition of the following fugitives in Mexico who are related to this investigation: Gilberto Ruiz, Sergio Acosta-Camacho, Adrian Rascon-Chavez, Genoveva Fontes de Rascon, Jorge Valdez-Cota, Veronica Iglesias-Lucero, Pedro Ruvalcaba, and Estansilao Reyes-Chavarria.

The case is being prosecuted by the U.S. Department of Justice Criminal Division Fraud Section and the U.S. Attorney's Office, Western District of Texas, El Paso Division.

### ***Mexican Farm Owner Sentenced***

On April 24, 2013, Jaime Galvan-Guerrero, a Mexican farm owner, was sentenced by Judge Kathleen Cardone in U.S. District Court in El Paso, Texas to serve 60 months of supervised release for his role in a scheme to defraud Ex-Im Bank of approximately \$825,563.

In addition to his term of probation, Galvan was ordered to pay \$825,563 in forfeiture and a \$2,000 fine. Galvan, who is a citizen of Mexico, plead guilty on August 3, 2011, to one count of conspiracy to commit wire fraud and one count of wire fraud in connection with a scheme to defraud Ex-Im Bank of approximately \$825,000.

According to court documents, Galvan was the purported owner of a farm in Delicias, Chihuahua, Mexico. Galvan admitted that he and co-conspirators created false invoices, shipping documents, financial statements, and other documents that were submitted to a Baltimore, Maryland finance company. The false documents, which purported to purchase construction equipment, were ultimately submitted to Ex-Im Bank to guarantee the financial

transaction. Galvan admitted that none of the equipment was purchased or exported. Instead, Galvan and his co-conspirators split the Ex-Im Bank insured loan proceeds and ultimately Galvan defaulted on his loan in late 2007, causing a loss to Ex-Im Bank and the U.S. government of \$725,522. Between 2007 and 2010, Galvan paid back most of his debt to the government. After his arrest in 2010, Galvan paid off the remaining balance of approximately \$150,000 to Ex-Im Bank.

Successful investigative efforts within the loan guarantee program resulted in more than \$20,000,000 in forfeitures or an average forfeiture of \$2,860,000 per sentencing.

The U.S. Department of Justice Criminal Division Fraud Section and the U.S. Attorney's Office, Western District of Texas, El Paso Division prosecuted the case. Ex-Im Bank OIG; Homeland Security Investigations in El Paso; Internal Revenue Service-Criminal Investigation in Washington, D.C.; and the U.S. Postal Inspection Service in Washington, D.C. investigated the case.

### ***El Paso Shipping Company Owner Sentenced***

On July 17, 2013, Octavio Maese-Cordero, the owner of a trucking and shipping company in El Paso, Texas, was sentenced to serve 18 months in prison for his role in a scheme to defraud Ex-Im Bank of approximately \$2,371,860.

Judge David Briones, of the U.S. District Court in El Paso, Texas, also sentenced Maese to 36 months of supervised release and ordered Maese to pay \$1,742,89 in restitution, \$2,371,859 in forfeiture, and a \$200 special assessment fee. Maese, a naturalized U.S. citizen, pled guilty on September 16, 2011, to one count of conspiracy to defraud the United States and one count of wire fraud in connection with a scheme to defraud Ex-Im Bank of approximately \$2,371,860.

According to court documents, Maese was the owner of Jorsa Logistics and OMC Services, shipping and trucking companies both located in El Paso. Maese admitted that he and co-conspirators created and signed false shipping documents that were submitted to a lending bank in Baltimore, Maryland. The false shipping documents, which purported the shipment of construction equipment to Mexico, were ultimately submitted to Ex-Im Bank to insure the financial transaction. Maese admitted that, in fact, none of the construction equipment was purchased or exported to Mexico. Maese and his co-conspirators caused a loss to Ex-Im Bank and the U.S. Government of \$2,371,859.

The U.S. Department of Justice Criminal Division Fraud Section and the U.S. Attorney's Office, Western District of Texas, El Paso Division prosecuted the case. Ex-Im Bank OIG; Homeland Security Investigations in El Paso; Internal Revenue Service-Criminal Investigation in Washington, D.C.; and the U.S. Postal Inspection Service in Washington, D.C. investigated the case.



### ***Mexican Ranch Owner Sentenced***

On July 29, 2013, Judge Philip R. Martinez, U.S. District Court in the Western District of Texas, El Paso Division, sentenced Osvaldo Kuchle-Lopez to six months of time served and 24 months of supervised release for his role in a scheme to defraud Ex-Im Bank of approximately \$3.21 million.

Federal law enforcement agents arrested Kuchle, a ranch owner in Mexico, on February 17, 2010 as he crossed the border into the United States. Kuchle subsequently pleaded guilty on October 8, 2010, to one count of conspiracy in connection with a scheme to defraud Ex-Im Bank. In addition, Kuchle was ordered to pay a \$10,000 fine. Since his arrest in 2010, Kuchle has paid \$2.9 million in restitution to Ex-Im Bank.

According to court documents, Kuchle admitted that between 2003 and 2004, he acted as the buyer in a fraudulent Ex-Im Bank insured loan. Kuchle admitted that he and others entered into a conspiracy and scheme to defraud a lending bank and Ex-Im Bank to obtain and misappropriate loan proceeds for personal use rather than to purchase and export U.S. manufactured products into Mexico. Kuchle admitted that he and others conspired to make false statements about the purchase of U.S. manufactured equipment, supplied false invoices, and falsified other records to fraudulently represent to the lending bank and Ex-Im Bank the purchase and export of U.S. goods to various buyers in Mexico.

The case was prosecuted by the United States Attorney's Office for the Western District of Texas, El Paso Division. Ex-Im Bank OIG, Federal Bureau of Investigation in El Paso, and Homeland Security Investigations in El Paso investigated the case.

### ***El Paso Business Owner Sentenced***

On August 29, 2013, Victor Gonzalez was sentenced by Judge Kathleen Cardone in U.S. District Court in El Paso, Texas, to 10 months home confinement for his role in a scheme to defraud Ex-Im Bank of approximately \$1,976,000.

Gonzalez pleaded guilty on August 25, 2011, to one count of money laundering conspiracy and one count of money laundering concealment. Gonzalez was also sentenced to 60 months of supervised release and was ordered to pay \$1,976,320 in restitution and \$3,801,833 in forfeiture.

According to court documents, Gonzalez, a legal permanent resident alien residing in El Paso, Texas, was the owner of Gaviv S.A., an El Paso based export company. Gonzalez admitted that from early 2005 until May 2007, he was involved with other co-conspirators in obtaining seven loans from a lending bank, all of which were guaranteed by Ex-Im Bank. Gonzalez admitted that he acted as an exporter in some transactions and utilized his bank

#### **Ex-Im Bank OIG investigators regularly cooperate with:**

- Department of Justice
- U.S. Attorney offices
- Federal Bureau of Investigation
- Homeland Security Investigations
- Internal Revenue Service, Criminal Investigations
- INTERPOL
- U.S. Postal Inspections Service

account to transfer illicit Ex-Im Bank loan proceeds to buyers in Mexico. Gonzalez admitted that he assisted four of the foreign buyers in preparing fraudulent shipping documents, false invoices, false bills of lading, and other documents indicating the equipment had been exported to Mexico. Gonzalez admitted that all of the loans he was involved in were fraudulent and none of the U.S. goods listed on the invoices were ever shipped to the Mexican buyers in any of the loans. Court records indicate Gonzales and others would retain portions of the loan proceeds for their own use and benefit before transferring the funds to other co-conspirators. As a result of the fraud, five of the loans defaulted causing Ex-Im Bank to pay claims losses to the lending bank in the amount of \$1,976,320.

The U.S. Department of Justice Criminal Division Fraud Section and the U.S. Attorney's Office, Western District of Texas, El Paso Division prosecuted the case. Ex-Im Bank OIG; Homeland Security Investigations in El Paso, Texas; Internal Revenue Service-Criminal Investigations in Washington, D.C.; and the U.S. Postal Inspections Service in Washington, D.C. investigated the case.

### ***Mexican Farmer Sentenced***

On August 29, 2013, Jesus Armando Bustillos, from Namiquipa, Chihuahua, Mexico, was sentenced to 24 months of supervised release for his role in a scheme to defraud Ex-Im Bank of approximately \$1,209,000. Judge Kathleen Cardone in U.S. District Court in El Paso, Texas sentenced Bustillos.

Judge Cardone also ordered Bustillos to pay \$571,002 in restitution and \$1,399,029 in forfeiture. Bustillos, a Mexican citizen, pled guilty on January 30, 2012, to one count of conspiracy to commit wire fraud, one count of wire fraud, and one count of money-laundering conspiracy.

According to court documents, Bustillos was the owner of a fruit orchard located in Namiquipa, Chihuahua, Mexico. Bustillos admitted that, from December 2004 to May 2010, he acted as a buyer in an Ex-Im Bank guaranteed loan transaction for the purported purchase and importation of U.S. manufactured agricultural equipment. Bustillos admitted that instead of receiving the agricultural equipment, he and others falsified bills of lading and other purchase and export documents and submitted them to the lending bank located in Baltimore, Maryland and causing Ex-Im Bank to disburse \$426,376 in loan proceeds to Bustillos. Additionally, Bustillos admitted that between August 2006 and November 2007, he also acted as a promoter in another fraudulent Ex-Im Bank guaranteed loan in the amount of approximately \$782,000. Bustillos received \$70,500 for his role in this second loan.

The U.S. Department of Justice Criminal Division Fraud Section and the U.S. Attorney's Office, Western District of Texas, El Paso Division prosecuted the case. Ex-Im Bank OIG;



Homeland Security Investigations in El Paso, Texas; Internal Revenue Service-Criminal Investigation in Washington, D.C., and the U.S. Postal Inspection Service in Washington, D.C., investigated the case.

### ***Mexican Refrigeration Company Owner Sentenced***

On August 29, 2013, Judge Kathleen Cardone, U.S. District Court in El Paso, Texas, sentenced Alexis Papatheodorou-Schmill to 24 months of supervised release for his role in a scheme to defraud Ex-Im Bank of approximately \$649,000.

Papatheodorou pleaded guilty on June 16, 2010, to one count of conspiracy to commit wire fraud and one count of wire fraud. In addition to probation, Papatheodorou was ordered to pay \$527,378 in restitution and \$553,148 in forfeiture.

According to court documents, Papatheodorou, a Mexican citizen residing in Ciudad Juarez, Mexico, was the owner of a refrigeration company. Papatheodorou admitted that from October 2006 until February 2009, he was involved with other co-conspirators in obtaining a loan from a private lending bank, which was guaranteed by Ex-Im Bank. Papatheodorou admitted that he and others created fraudulent shipping documents, false invoices, false bills of lading, and other documents indicating equipment had been exported to Mexico and purchased by Papatheodorou. Because of the fraud, Papatheodorou's loan defaulted causing Ex-Im Bank to pay a claim to the lending bank in the amount of \$553,148.

The U.S. Department of Justice Criminal Division Fraud Section and the U.S. Attorney's Office, Western District of Texas, El Paso Division prosecuted the case. Ex-Im Bank OIG; Homeland Security Investigations in El Paso, Texas; Internal Revenue Service-Criminal Investigations in Washington, D.C.; and the U.S. Postal Inspections Service in Washington, D.C., investigated the case.

## **Other Investigative Results**

### **Special Agents Work Collaboratively with Ex-Im Bank to Help Protect Funds at Risk**

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

During this reporting period, OI communicated with Ex-Im Bank management to enhance the monitoring of several existing transactions and due diligence reviews of proposed transactions based on developed investigative leads. We shared active law enforcement

intelligence with Ex-Im Bank on several matters concerning suspected criminal activity by participants involved in active policies or transactions under review. As an example, OI coordination with the U.S. Department of Justice and Ex-Im Bank helped to facilitate two administrative actions resulting in the direct repayment and collection of outstanding debt by responsible parties in amounts totaling \$110,000.

In another matter, investigative intelligence was shared with the Ex-Im Bank Office of General Counsel regarding a subject investigated by both the OIG and other law enforcement agencies. The investigation found the subject had obtained an Ex-Im Bank Short Term insurance policy in 2010 and had recently obtained a policy credit limit increase to \$750,000. As a result of shared intelligence, the subject's policy was amended and then was subsequently canceled by Ex-Im Bank to protect funds at risk.

Additionally, during this reporting period, OI made 37 referrals of investigative information to Ex-Im Bank Office of General Counsel concerning potential fraud and funds at risk for enhanced due diligence by Ex-Im Bank.

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

### **Outreach—OIG Continues Efforts to Educate the Export Community on Identifying and Reporting Fraud, Waste, and Abuse**

As part of the OIG's mission to prevent and detect fraudulent activity, efforts have been made to meet with and educate stakeholders and other law enforcement partners about the various risks and fraud scenarios most commonly seen in trade finance and export credit fraud cases.

On September 16, 2013, OI representatives met with Senior Vice Presidents, senior staff, and analysts from the Anti-Money Laundering and Credit/Trade Finance teams of Espirito Santo Bank in Miami, Florida. OI discussed common fraud scenarios and money laundering patterns often seen in trade finance fraud investigations and provided information regarding the role and responsibility of the OIG in combatting fraud, waste, and abuse.

On September 23, 2013, OI representatives met with Ex-Im Bank Asset Management Division (AMD) leaders to share common fraud scenarios and money laundering patterns often seen in trade finance fraud investigations and provide updated information regarding the role and responsibility of the OIG in combatting fraud, waste, and abuse. OI recommended several software purchases for AMD so they could improve their collection and due diligence efforts.



During this period, OI continued to meet with representatives from the GAO in order to discuss fraud risks and various fraud scenarios often seen and investigated by the OIG. The purpose of the meetings was to discuss the structure, organization, and authority of the OI investigative team and to outline some of the various fraud risks associated with Ex-Im Bank programs.

In June 2013, the OIG became a designated law enforcement partner with the Association of Certified Fraud Examiners in Austin, Texas. One investigator had completed the requirements to become a Certified Fraud Examiner (CFE) in 2010. Two additional OIG employees earned their CFE certifications within the past six months; the OIG currently has three employees with CFE designations.

Also, during this period, one OI agent was designated as a Certified Anti-Money Laundering Specialist through the Association of Certified Anti-Money Laundering Specialists in Miami, FL.

Through the above certifications and professional associations, the OIG has an increased liaison with the anti-fraud and anti-money laundering communities and the OI mission is enhanced through cooperative training, intelligence sharing, and contacts within the communities.

## Hotline Activity

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

The OIG received four hotline reports during the reporting period. Two were referred for investigation and two were resolved and closed by the hotline.

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

- phone at 1-888-OIG-EXIM (1-888-644-3946)
- email to [IGhotline@exim.gov](mailto:IGhotline@exim.gov)
- mail or delivery service to Office of Inspector General Hotline; Export-Import Bank of the U.S.; 811 Vermont Ave. NW; Washington DC 20571

The OIG will not disclose the identity of a person making a report through the hotline without their consent unless the IG determines such disclosure is unavoidable during the course of an investigation.

### OIG staff received these certifications:

- Certified Fraud Examiner
- Certified Anti-Money Laundering Specialist

Additionally, the OIG has partnered with the Association of Certified Fraud Examiners.





# Appendix A

## Recommendations from prior reporting periods

This table shows that 34 of 68 total recommendations are from five reports issued during the prior reporting periods. Fifteen of the total 49 open recommendations are from the reports issued during the last period.

Report Date	Report Title	Recommendations				Latest target closure date
		Total	Open	Closed	Unresolved	
<b>Last Period</b>						
<b>Audits</b>						
OIG-AR-13-04 22 Mar 2013	FY 2012 Information Security Program and Practices Audit	3	3	0	0	11/15/13
OIG-AR-13-03 14 Mar 2013	Export-Import Bank's Improper Payments Reporting for FY 2011	5	4	1	0	11/30/13
OIG-AR-13-02 23 Jan 2013	FY 2012 Financial Statement Management Letter	8	8	0	0	11/15/13
<b>Prior Periods</b>						
<b>Audits</b>						
OIG-AR-12-05 28 Sep 2012	Audit of Export-Import Bank's Short-Term Insurance Program	10	2	4	4	None Provided
OIG-AR-12-04 24 Jan 2012	Audit of Information Technology Support for Export-Import Bank's Mission	11	7	4	0	None Provided
<b>Inspections and Evaluations</b>						
OIG-INS-12-02 27 Sep 2012	Report on Portfolio Risk and Loss Reserve Allocation Policies	7	5	0	2	4/30/14
OIG-INS-12-01 27 Mar 2012	Report on Performance Metrics for Operational Efficiency and Customer Service, Phase 1	8	4	4	0	4/30/14
OIG-EV-10-03 17 Sep 2010	Evaluation Reporting Relating to Economic Impact Procedures	16	16	0	0	None provided
<b>Totals</b>		<b>68</b>	<b>49</b>	<b>13</b>	<b>6</b>	





# Appendix B

## Peer review reporting

This appendix complies with Section 5(a)(14)-(16) of the IG Act of 1978, as amended.

### Of the audit function

Under government standards, OIG audit functions must have an external peer review at least every three years. The next peer review of OIG audit functions will be in 2014.

### Of the investigation function

As of July 2011, Ex-Im Bank OIG derives its law enforcement authority from Section 6(e) of the IG Act of 1978, as amended. As such, the OIG is required to undergo an external peer review process of our investigative function every three years. The peer review is scheduled for summer 2014.

### Of other OIGs

The Ex-Im Bank OIG did not complete a peer review of any other OIG during this reporting period. It began a peer review of the audit function of the Commodity Futures Trading Commission (CFTC) in fall 2013. This peer review should be concluded during the next semiannual period. No peer reviews of investigation divisions of other OIGs are scheduled at this time.





# Appendix C

## Abbreviations and Acronyms

Acronym	Definition
ACFE	Association of Certified Fraud Examiners
AMD	Asset Management Division, Export-Import Bank
APP	Annual Performance Plan
BCL	Budget Cost Levels
CAMS	Certified Anti-Money Laundering Specialist
CFE	Certified Fraud Examiner
CIGIE	Council of Inspectors General on Integrity and Efficiency
CRTI	Character, Reputational, and Transaction Integrity
EPCM	Engineering, Procurement, and Construction Management
EX-IM BANK	Export-Import Bank of the United States
FISMA	Federal Information Security Management Act of 2002
FY	Fiscal Year
GAO	U.S. Government Accountability Office
GPRA	Government Performance and Results Act of 1993 and Government Performance and Results Act Modernization Act of 2010
IDA	Individual Delegated Authority
IG	Inspector General
INTERPOL	International Criminal Police Organization
IPA	Independent Public Accountant
IPERA	Improper Payments Elimination and Recovery Act of 2010
IT	Information Technology
LNG	Liquid Natural Gas
OA	Office of Audits, Office of Inspector General, Export-Import Bank
OI	Office of Investigations, Office of Inspector General, Export-Import Bank
OIE	Office of Inspections and Evaluations, Office of Inspector General, Export-Import Bank
OIG	Office of Inspector General, Export-Import Bank
OMB	Office of Management and Budget, The White House
PNG	Papua New Guinea
PPD	Presidential Policy Directive





# Appendix D

## Inspector General Act

### Reporting Requirements

Inspector General Act citation	Requirement definition	Page
Section 4(a)(2)	Review of Legislation and Regulations	9
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	11–15
Section 5(a)(2)	Recommendations for Corrective Actions	24–25 30–32
Section 5(a)(3)	Prior Significant Audit Recommendations Yet to Be Implemented	53
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	39
Sections 5(a)(5) and 6(b)(2)	Summary of Refusals to Provide Information	None
Section 5(a)(6)	Audit Products Issued Including Total Dollar Values of Questioned Costs, Unsupported Costs, and Recommendations that Funds Be Put to Better Use	None
Section 5(a)(7)	Summary of Particularly Significant Reports	24–25 30–32
Section 5(a)(8)	Total Number of Reports and Total Dollar Value for Audits with Questioned Costs	None
Section 5(a)(9)	Total Number of Reports and Total Dollar Value for Audits with Recommendations that Funds Be Put to Better Use	None
Section 5(a)(10)	Summary of Prior Audit Products for which No Management Decision Has Been Made	53
Section 5(a)(11)	Description and Explanation of Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions with which the Inspector General Disagreed	None
Section 5(a)(13)	Reporting in Accordance with Section 5(b) of the Federal Financial Management Improvement Act of 1996 Remediation Plan	None
Sections 5(a)(14), (15) and (16)	Peer Reviews Conducted and Outstanding Recommendations	55



## How to report fraud, waste, and abuse

The Inspector General Act of 1978 states that the Inspector General (IG) may receive and investigate complaints or information concerning the possible existence of an activity constituting a violation of law, rules, or regulations, or mismanagement, gross waste of funds, abuse of authority, or a substantial and specific danger to public health and safety. Whether reporting allegations via telephone, mail, or in person, the OIG will not disclose the identity of persons making a report without their consent unless the IG determines such disclosure is unavoidable during the course of the investigation. You may submit your complaint or information by these methods:

### In person

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

### Telephone

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

### Mail

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