



OFFICE OF INSPECTOR GENERAL

EXPORT-IMPORT BANK OF
THE UNITED STATES



SEMIANNUAL REPORT
TO CONGRESS

APRIL 1, 2009 THROUGH SEPTEMBER 30, 2009

811 VERMONT AVENUE, NW
WASHINGTON, DC 20571

The Export-Import Bank of the United States (Ex-Im

Bank/Bank) is the official export credit agency of the United States. The mission of the Bank is to assist in financing the export of U.S. goods and services to international markets. Ex-Im Bank enables U.S. companies — large and small — to turn export opportunities into sales that helps to maintain and create U.S. jobs and contribute to a stronger national economy. In fiscal year 2009, the Bank authorized transactions totaling \$21 billion. Ex-Im Bank is an independent executive agency and a wholly owned U.S. government corporation that is celebrating 75 years of service to the nation in 2009. Information about the Bank is available at www.exim.gov.

The Office of Inspector General (OIG) was organized in 2007 as an independent office within Ex-Im Bank to support its mission and goals by detecting and responding to fraud, waste, and abuse involving Ex-Im Bank programs and personnel and to promote economy and efficiency in operations. The Inspector General Act of 1978 charges the Inspector General with responsibility for conducting audits, inspections, and investigations. The Inspector General keeps the Chairman of Ex-Im Bank and Congress fully and currently informed about problems and deficiencies relating to the administration of Ex-Im Bank programs and operations.

Online Availability – reports of OIG audits, evaluations, and other activities are available at www.exim.gov/oig. Information about the responsibilities of Inspectors General across the U.S. government can be found at www.ignet.gov.

Additional Copies – for additional copies of this report or those from prior periods, write:

Office of Inspector General
Export-Import Bank of the United States
811 Vermont Ave. N.W.
Washington D.C. 20571

Or call: (202) 565-3908



MICHAEL W. TANKERSLEY
INSPECTOR GENERAL

**EXPORT-IMPORT BANK
OF THE UNITED STATES**

Fred P. Hochberg
Chairman
Export-Import Bank of the U.S.
811 Vermont Avenue, N.W.
Washington, DC 20571

Dear Chairman Hochberg:

This *Semiannual Report to Congress* of the Office of Inspector General (OIG) of the Export-Import Bank of the United States (Ex-Im Bank) summarizes the work of the OIG during the reporting period of April 1, 2009 to September 30, 2009. During this time, OIG staff-completed significant audits, evaluations, and investigations of Ex-Im Bank programs and operations, while laying the groundwork for expanded operations in future periods. The rapid and effective development of this office is particularly important in view of the leading role of the Bank in responding to the decrease in private sector export funding resulting from the international financial crisis.

The reporting period is highlighted by the following accomplishments:

- a) Medium Term Program, Information Technology Audit;
- b) Evaluation Report of Ex-Im Bank's response to the Financial Crisis;
- c) First arrests conducted by this office.

I am very proud of the fine organizational work of the OIG leadership team of Jean Smith, Assistant Inspector General for Audits, Larry Valett, Assistant Inspector General for Investigations, and Osvaldo Gratacos, Deputy Inspector General and Counsel, in conceiving and then executing the plans that produced the high level of activity and results described in this report. I look forward to providing future reports to Congress of the expanding work of this new office as it accomplishes the OIG mission within Ex-Im Bank.

A handwritten signature in black ink, appearing to read "Michael W. Tankersley".

Michael W. Tankersley
Inspector General
October 30, 2009

OVERVIEW

The Office of Inspector General (OIG) is an independent office within the Export-Import Bank of the United States (Ex-Im Bank/Bank) that supports Ex-Im Bank's mission and goals by working to detect and respond to fraud, waste, and abuse involving Ex-Im Bank programs and personnel and to promote economy and efficiency in Ex-Im Bank's operations. The Inspector General Act of 1978 (IG Act) charges the Inspector General with responsibility for conducting audits, evaluations, inspections, and investigations and keeping the Chairman of Ex-Im Bank and Congress fully and currently informed about problems and deficiencies relating to the administration of Bank programs and operations.

This reporting period represents the first time that this office, initially organized in August 2007, has fielded its full staff of ten career professionals. We hired four criminal investigators in February 2009, and in March 2009, we hired a third auditor and an experienced administrative specialist. Their arrival resulted in a significant increase in audit, evaluation, and investigative activity, a trend expected to continue in succeeding reporting periods.

In addition to the audits and investigations described in the following sections of this report, Ex-Im Bank OIG's activities during this period included:

- Assisting Ex-Im Bank transition to the new leadership team organized by Chairman Fred P. Hochberg, who took office in May 2009. The OIG provided briefings for the Chairman and other members of senior management regarding completed and ongoing audits and evaluations. We also provided summaries of our investigative caseload and insights into the common attributes of fraud identified during investigations.
- Meeting regularly with Ex-Im Bank's Office of General Counsel staff and Asset Management Division to discuss referrals to the OIG of claims and other matters where evidence indicating the possibility of fraudulent acts has been identified and to coordinate their work in support of OIG investigations.
- Evaluating the feasibility of OIG conducting on-site inspections throughout all phases of Ex-Im Bank transactions to assess transaction integrity and conformity to applicable law and representations made to Ex-Im Bank.
- Expanding the responsibilities of the Counsel to the Inspector General to include the role of Deputy Inspector General to ensure continuity of leadership when the Inspector General steps down in October 2009.
- Addressing several matters of common interest with Ex-Im Bank's Audit Committee in a mutually supportive manner intended to be consistent with the

independence of the OIG and a positive relationship with Ex-Im Bank. We also met with the contractor selected by the Audit Committee to provide internal audit services for Ex-Im Bank.

- Developing the full range of written policies required to support the operations of the OIG in the areas of strategic goals, audits, investigations, staff performance goals and reviews, and general administrative matters.
- Participating in monthly meetings with Inspectors General of other agencies with responsibility for regulation of the U.S. financial sector to discuss issues of common interest, including agency and inspector general responses to the international financial crisis.
- Serving as the liaison between the Council of Inspectors General on Integrity and Efficiency (CIGIE) and the Chief Information Officer (CIO) Council.

SUMMARY OF ACTIVITIES

As required by the IG Act, presented below is an activity summary of the audits, evaluations, requests from Congress, hotline complaints, and fraud investigation referrals addressed by Ex-Im Bank OIG during the six month period ending September 30, 2009.

Audits and Evaluations

We issued one audit report and one evaluation report:

- A performance audit assessing the adequacy of information technology (IT) systems and support for Ex-Im Bank's Medium Term Export Credit Programs (MT Program); and
- An evaluation of Ex-Im Bank's actions in response to the financial crisis.

At the end of the reporting period, OIG had two reviews in process:

- An audit of Ex-Im Bank's financial statements for fiscal year (FY) 2009; and
- A performance audit of Ex-Im Bank's information security program and practices.

Audit Reports Issued During Period

Medium Term Export Credit Program – Information Technology Systems, Support, and Governance (OIG-AR-09-05, June 12, 2009).

<http://www.exim.gov/oig/documents/MTITauditreportfinal.pdf>

An audit of the efficiency and effectiveness of IT support for Ex-Im Bank's MT programs found that the IT support, including level of IT investment, had not benefited from effective governance processes. We determined that a range of significant enhancements were needed to Ex-Im Bank's processes for identifying strategic priorities, setting goals, developing plans to achieve them, supporting business process and system development, and allocating IT resources in order to improve functional support for the MT Program and create reasonable accountability for realizing management's objectives.

To improve Ex-Im Bank's IT systems, support, and governance, we recommended that management:

- Develop an IT Strategic Plan that is aligned with the MT Program business plan and covers the same time period;

- Designate a senior manager with responsibility and accountability:
 - (i) for management of the IT systems support for the MT Program,
 - (ii) to develop detailed business requirements for IT support of the MT Program, and
 - (iii) to facilitate effective communication and joint development efforts with Ex-Im Bank's Information Management Technology division;
- Develops more fully functional support systems and data infrastructure, including the design and implementation of embedded system controls;
- Develops data repositories that consolidate and organize the key transactional data fields, including eliminating existing duplicate files; and
- Make improvements to the systems development lifecycle (requirements, testing and training).

In the June 2009 report, we stated that management agreed with the reported findings and had presented proposed actions to address the findings. However, we noted that the proposed actions were vague in a number of instances and did not fully address all elements of a recommendation. In addition, management planned to continue existing systems development practices that were found to be in need of improvement.

In September 2009, management reported that corrective action had been completed on four of the five recommendations; several instances included actions beyond those described in management's initial response to the audit. For the remaining recommendation, which addressed the need to develop an IT strategic plan, management stated that it planned to complete action by December 30, 2009, based upon management's ongoing work to develop a comprehensive strategic plan for Ex-Im Bank.

This IT audit was the second in a two-stage review. The OIG engaged an independent contractor to evaluate Ex-Im Bank's program performance and IT support of the MT Program in view of recent adverse economic results of the MT Program and user complaints regarding slow response times. During the previous semiannual period, we issued a report on Ex-Im Bank's program performance entitled *Medium Term Export Credit Program – Credit and Fraud Risk Management and Business Process Improvement* (OIG-AR-09-04, March 30, 2009).

http://www.exim.gov/oig/documents/MT_Program_Business_Process_Final_Audit_Report.pdf

Under the contract for the MT Program performance and IT support audits, the contractor will perform six and twelve month follow-up reviews of management's progress in responding to the recommendations made in the MT Program audits. The initial follow-up review is tentatively scheduled for January 2010.

On-Going Audits

FY 2009 Financial Statement Audit. An independent public accounting firm (IPA), working under OIG oversight, is performing an audit of Ex-Im Bank's FY 2009 financial statements. The IPA is also performing audit follow-up work on the six recommendations made in the *FY 2008 Financial Statement Audit – Management Letter* (OIG-AR-09-03, January 22, 2009).

http://www.exim.gov/oig/documents/fy08financial_statement_audit_managementletter.pdf

Audit work commenced in June 2009. The OIG anticipates the IPA will issue its opinion on the FY 2009 financial statements in November 2009.

Annual Information Security Audit. The Federal Information Security Management Act (FISMA) requires an annual independent evaluation of U.S. government agency information security programs and practices. The OIG contracted with an IPA to perform the FY 2009 FISMA review of Ex-Im Bank's systems. The audit includes assessing Ex-Im Bank's progress in developing, documenting, and implementing an agency-wide program to provide security for the information and information systems that support operations and assets of Ex-Im Bank. The audit also includes reviewing Ex-Im Bank's privacy program and the privacy impact assessment process and performing audit follow-up work on the four recommendations made in the audit report *Fiscal Year 2008 Implementation of the Federal Information Security Management Act* (OIG-AR-09-02, December 30, 2008).

http://www.exim.gov/oig/documents/fy2008implementation_fed_info_security_manag_act.pdf

Due to the sensitive content, we have limited distribution of information security audit reports.

Audit work commenced in July 2009. The OIG anticipates the IPA to respond to the Office of Management and Budget reporting requirements on the audit results in November 2009 and issue an audit report in December 2009.

Evaluation Reports Issued During Period

Export-Import Bank's Actions in Response to the Financial Crisis – Direct Lending (OIG-EV-09-02; September 30, 2009).

http://www.exim.gov/oig/documents/Actions_in_Response_to_the_Financial_Crisis.pdf

The OIG conducted an evaluation of actions taken by Ex-Im Bank since October 1, 2008 with the objectives of:

- Assessing the demand for direct loans from Ex-Im Bank by U.S. exporters and foreign purchasers of U.S. goods as a result of the international financial crisis;

- Identifying the actions taken by Ex-Im Bank to utilize the liquidity provided by its U.S. Treasury funding to fill gaps in response to the international financial crisis; and
- Identifying conditions that might restrain Ex-Im Bank's ability to respond to increased demand for direct loans and recommend actions to respond to those conditions.

Our evaluation showed that demand for direct lending from Ex-Im Bank had increased significantly since October 1, 2008, and that Ex-Im Bank responded to the international financial crisis by expanding its direct lending activity, enhancing its products, and adopting innovative structures to respond to the needs of U.S. exporters. Between October 1, 2008 and June 30, 2009, the volume of direct loans authorized by Ex-Im Bank increased to \$3.1 billion from \$12 million during the same period of the preceding fiscal year. Total export credit authorizations for the nine months ended June 30, 2009, were \$14.7 billion, compared with \$7.7 billion in the prior period.

Additionally, although not part of the direct loan program, Ex-Im Bank modified its Working Capital Guarantee Program requirements for letters of credit and increased delegated authority limits to provide additional support to U.S. exporters, including small businesses.

We concluded that while the above actions were responsive to the international financial crisis and consistent with Ex-Im Bank's mission, opportunities existed to further improve the Bank's ability to respond to the current and future financial crises in the following areas:

- Management's ability to monitor and respond to market demand for particular services (such as the demand for direct lending during the current financial crisis) is limited because Ex-Im Bank does not collect relevant and available data in a systematic and comprehensive manner;
- Ex-Im Bank does not have a formal policy defining the substantive and procedural requirements that must be met to support the adoption of material policies, the launch of new products, or material changes in existing products; and
- Ex-Im Bank does not have a documented plan to guide its response to the current financial crisis or other possible economic emergencies that might arise in specific locales around the world or more broadly.

In light of limited resources available to the OIG for this evaluation, we examined the effect of only one policy mandate. This policy, the requirement to use U.S. flag ocean

vessels to ship U.S. goods in transactions receiving Ex-Im Bank support, has been cited by exporters as limiting the effectiveness of Ex-Im Bank support for U.S. exports. Our evaluation concluded that Ex-Im Bank should improve communications with the U.S. Maritime Administration of the Department of Transportation (MARAD) and the understanding of Ex-Im Bank staff and exporters relative to the efficient management of U.S. flag shipping requirements.

To address a financial crisis, we suggested that Ex-Im Bank:

- Develop a systematic and comprehensive approach to collecting and reporting data relating to market demand and related factors impacting Ex-Im Bank performance.
- Adopt a policy for Ex-Im Bank setting forth clear written requirements for approving material policies, new export credit products, and material changes in existing export credit products.
- Develop a plan to guide Ex-Im Bank's response to financial crises that is generally based upon evaluation of its response to the current financial crisis.
- Actively work with MARAD to improve the efficiency of U.S. flag ocean vessel shipping requirements to minimize any negative impact on Ex-Im Bank support for U.S. exports during the international financial crisis.

In its response to our draft report, Ex-Im Bank's management stated that it was as well prepared as could be expected to respond to the international financial crisis. Management agreed that improvements were necessary to Ex-Im Bank's data gathering and indicated that it had undertaken a review of available options in light of Ex-Im Bank's staffing and financial constraints. Ex-Im Bank is currently reviewing the policy approval process to be sure consistent procedures exist for modifying or creating financing products. Management also noted plans to meet with MARAD to further discussions begun in late 2008 to address the issues noted in the report.

Government Accountability Office (GAO)

The IG Act states that each Inspector General shall give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and ensuring effective coordination and cooperation. During this period, the GAO issued one report related to Ex-Im Bank activities. This report, *U.S. AFRICA TRADE – Options for Congressional Consideration to Improve Textile and Apparel Sector Competitiveness under the African Growth and Opportunity Act* (GAO-09-916, August 2009) referenced Ex-Im Bank, but did not contain a recommendation for corrective action by the Bank.

GAO conducted this study to provide Congress a range of options for: (1) possible changes to the African Growth and Opportunity Act (AGOA) or other U.S. trade preference programs and (2) other measures the U.S. government could take to help increase investment in and improve competitiveness of sub-Saharan Africa's (SSA) textile and apparel inputs production.

Possible measures applicable to Ex-Im Bank to improve support of SSA textile and apparel sector identified in the report were:

- Increase the Bank's lending and guarantees to facilitate investment in the SSA textile and apparel sector; and
- Increase flexibility of Overseas Private Investment Corporation, Ex-Im Bank, and U.S. Trade and Development Agency requirements to address local content and economic effects restrictions for AGOA countries.

Audit Follow-Up

Recommended actions remain open on one audit reported in the previous Semiannual Report:

Medium Term Export Credit Program – Credit and Fraud Risk Management and Business Process Improvement (OIG-AR-09-04, March 30, 2009).

http://www.exim.gov/oig/documents/MT_Program_Business_Process_Final_Audit_Report.pdf

When this audit report was issued, management committed to act upon six of the eight recommendations. In September 2009, management reported that action has been undertaken to address each of the findings. Of the eight recommendations, management stated that it completed action on one recommendation and was either making substantial progress in implementing the specific recommendations or pursuing alternatives that Ex-Im Bank believes will effectively address the report's findings.

The remaining seven open recommendations are:

1. Require as part of its credit underwriting due-diligence on-site inspections and appraisals of equipment being exported as well as bank/brokerage statements of obligors and guarantors for MT transactions;
2. Institute a defined and standardized process for lenders to report payment history; obtain a quantitative analyst with experience in the design and implementation of pricing, risk management and credit analysis tools and models; payment frequency should be consistent with local country norms which, in most instances, require monthly payments;
3. Institute a formal lender oversight function;
4. Revamp Ex-Im Bank's exposure fee pricing structure for non-sovereign MT Program transactions to more effectively account for transaction-level risk;
5. Evaluate the impact of implementing a greater degree of risk sharing or other incentives for non-sovereign transactions;
6. Develop a definition of a complete application by defining documentation requirements at initial application and establish dedicated processing teams for processing first-time lenders as well as those transactions considered highly complex or risky; and
7. Develop a strategic plan for the MT Program.

INVESTIGATIONS AND HOTLINE ACTIVITY

Milestones and Noteworthy Accomplishments

This reporting period is the first completed at the full staffing level of five Special Agents (including the Assistant Inspector General for Investigations). We initiated a series of law enforcement operations and continued to build the infrastructure necessary to support the full range of investigative activity required to address the fraud schemes that have impacted Ex-Im Bank. These actions included:

- Achieving \$900,000 in cost savings for Ex-Im Bank stemming from referrals of active investigative information.
- Referring 17 investigative matters to the Department of Justice for prosecutive decision.
- Expanding the fraud investigations case portfolio to 369 individual claims paid by Ex-Im Bank, representing more than \$300 million.
- Obtaining five federal arrest warrants, two of which were against foreign nationals. All of these warrants related to investigations commenced during calendar year 2009.
- Three arrests were made by Ex-Im OIG Special Agents pursuant to the warrants referenced above.
- Executing a federal search warrant with support from the U.S. Postal Inspection Service.
- Referring active investigative information to Ex-Im Bank management concerning potential fraud and funds at risk to support enhanced due diligence efforts in approving, processing, and monitoring export credit guarantees and insurance policies.
- Referring investigative information to Ex-Im Bank management for enhanced collection efforts on policies and guarantees that have defaulted due to fraudulent activity.
- Developing joint investigative operations and partnerships with the Federal Bureau of Investigation, Internal Revenue Service-Criminal Investigations Division, U.S. Postal Inspection Service, U.S. Immigration and Customs Enforcement, and U.S. Customs and Border Protection.

- Completing advanced training to enhance investigative effectiveness in such areas as international banking and money laundering, Ex-Im Bank programs, export trade, finance and insurance practices, and legal updates related to general criminal law and rules applicable to arrest, searches, and seizures.
- Developing and implementing an automated internal case management database for tracking and reporting investigative operations, data, and statistics. This fully functional system was developed internally using open-source tools and replicates the performance of systems provided by private sector vendors costing \$10,000 or more.
- Completing the procurement, implementation, and use of strategic investigative resources, including advanced analytical software for financial fraud investigations, export and shipping record databases, and financial and law enforcement intelligence resources.

Summary of Investigations

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

Summary of Investigative Activity During Period	Investigations Totals	No. of Claims*	Net Amount Of Claims**
Investigations open as of April 1, 2009	35	241	\$227,596,564
Opened during period	9	134	\$78,903,850
Closed during period	(9)	(6)	(\$496,918)
Investigations open as of September 30, 2009	35	369	\$306,003,496

**The number of claims subject to investigation. Not all investigations involve claims paid by Ex-Im Bank. 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.*

***The net amount of claims may vary between reporting periods as post-default interest accrues and collection expenses are incurred and as the Bank obtains recoveries of funds through its civil collection efforts. Accordingly, the net dollar amount of claims reported is subject to fluctuation between reporting periods.*

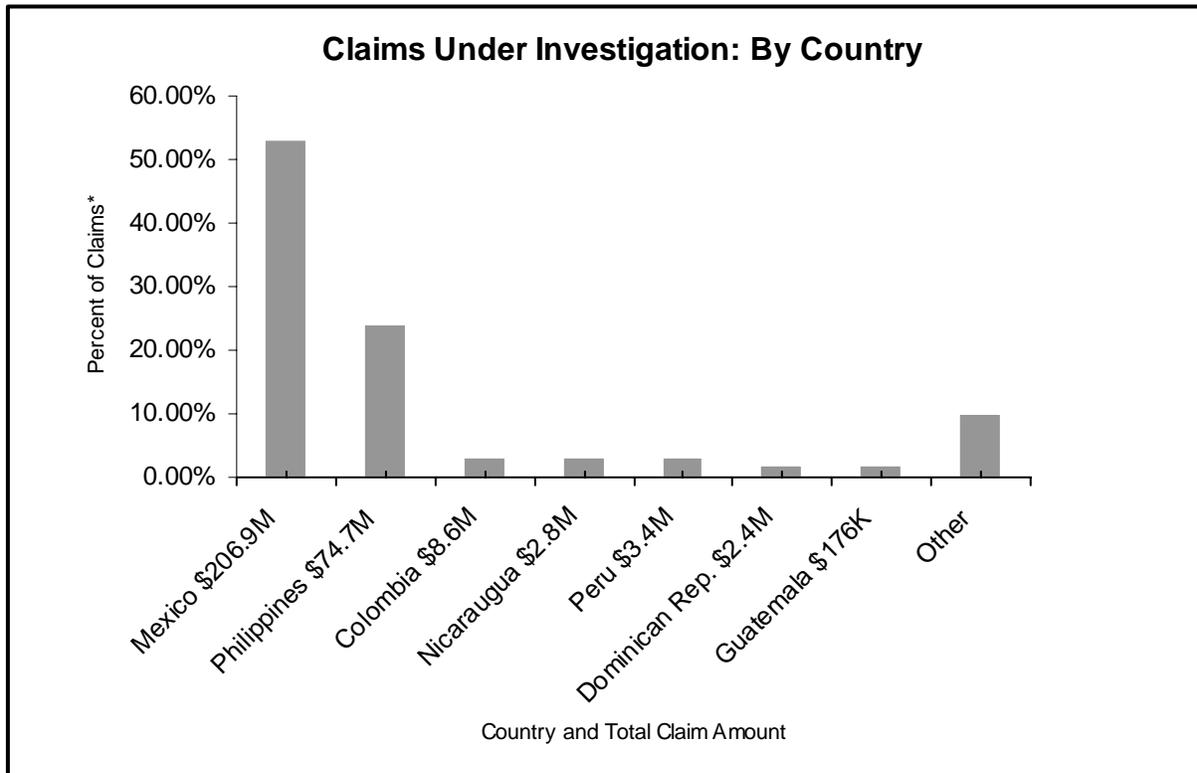
The following table and chart break down the 369 claims that are currently the focus of open investigations by the fiscal years during which the transactions were authorized (which would generally be the year in which any associated fraud was committed) and by country. The period of time between the dates a transaction is authorized and any

claim resulting from fraudulent activity can vary significantly from a few months to many years.

Year Transaction Authorized	No. of Claims*	Net Amount Of Claims**
2000 and earlier	18	\$8,296,489
2001	24	\$26,974,479
2002	42	\$19,121,926
2003	78	\$54,973,272
2004	130	\$152,436,401
2005	35	\$18,084,724
2006	23	\$17,020,845
2007	15	\$4,964,836
2008	4	\$4,130,524
TOTAL	369	\$306,003,496

*The number of claims subject to investigation. Not all investigations involve claims paid by Ex-Im Bank. 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 to be so by evidence developed in the investigation. The number of claims may vary during the course of an investigation as facts and findings develop.

**The net amount of claims may vary between reporting periods as post-default interest accrues and collection expenses are incurred and as the Bank obtains recoveries of funds through its civil collection efforts. Accordingly, the net dollar amount of claims reported is subject to fluctuation between reporting periods.



*Percentage is by number of claims, not dollar amount.

Summary of Investigative Results

Considerable time is generally required to develop investigations into prosecutable cases and then into plea agreements and convictions that result in the types of remedies described below. While we developed several cases to the point of obtaining arrest warrants and completing arrests of the targets during this reporting period, it is generally expected that most of our investigations will require at least a year to develop fully.

Semiannual Period (April 1, 2009 – Sept 30, 2009) Results of Prosecutive Actions	Ex-Im OIG Only	Joint Investigations*	Totals
Matters referred to Dept. of Justice	14	3	17
Criminal indictments/information/complaints	0	0	0
Convictions/settlements/judgments	0	0	0
Prison time (including time suspended)	0	0	0
Probation	0	0	0
Community service	0	0	0
Fines and recoveries (including civil)	0	0	0
Results of Administrative Actions	Ex-Im OIG Only	Joint Investigations*	Totals
Suspensions	0	0	0
Debarments	0	0	0
Compliance agreements	0	0	0
Other administrative/disciplinary actions	0	0	0
Administrative recoveries, repayments, cost savings	\$900,000	0	\$900,000

* With another federal agency

Hotline Activity

The Ex-Im OIG maintains a Hotline reachable by telephone, email, or mail 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, referral to other law enforcement authorities having jurisdiction, or referral to management for administrative action.

The OIG received five Hotline reports during the reporting period. One was referred for investigation, two are actively under review, and two were addressed without further referral. One pending hotline complaint that had been under review as of the last reporting period was also referred for investigation during this period.

Criminals Use an Array of Methods to Defraud Ex-Im Bank Loan Guarantee and Export Credit Insurance Programs

Two of Ex-Im Bank's key programs - the loan guarantee program and the export credit insurance program – have been particularly susceptible to fraud schemes by foreign borrowers, U.S. based exporters, and other transaction participants, including deal brokers commonly referred to as “agents” or “finders”. The deal brokers assist in arranging the transactions and shipments. These two programs account for the majority of investigations currently underway. Each program offers different features to Ex-Im Bank customers, but criminal activity exploits certain processes within the programs in order to induce the Bank to approve fraudulent loan guarantees or insurance coverage.

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 American 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 guarantee coverage for a loan for which borrowers might otherwise be ineligible. After the loan is approved, criminals have submitted false documentation to the guaranteed lender and Ex-Im Bank regarding the shipment, nature, or quantity of the U.S. goods allegedly being exported.

An example of successful investigative efforts within the loan guarantee program during the reporting period is the following:

- **COLOMBIAN BORROWER ARRESTED BY SPECIAL AGENTS OF EX-IM BANK OIG.** On May 4, 2009, Ex-Im Bank OIG Special Agents arrested a Colombian borrower at the Miami International Airport, pursuant to an arrest warrant for the borrower's role in a broader scheme to defraud Ex-Im Bank. The investigation concerns a scheme in which various borrowers, exporters, and a deal broker or “agent” allegedly schemed to prepare false financial statements, loan applications, and shipping records that Ex-Im Bank relied upon to issue loan guarantees for the export of certain goods represented in the loan application. The loan proceeds were then allegedly embezzled and distributed to various parties rather than used for the purchase and shipment of those goods that were approved and guaranteed by Ex-Im Bank. The foreign borrower then defaulted on the loan, causing Ex-Im Bank to pay the loan guarantee. The arrest is part of an ongoing investigation concerning suspected fraud in nearly \$8.2 million in loan guarantees and other insurance claims paid by Ex-Im Bank.

EXPORT CREDIT INSURANCE. This program offers protection in the form of several different insurance policy types to U.S. exporters and their lenders against non-payment

by foreign buyers due to commercial and political risks. Export credit insurance allows exporters to increase export sales by limiting international repayment risk, offering credit to international buyers, and enabling exporters to access working capital funds. One fraudulent scheme to exploit 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.

Examples of successful investigative efforts within the Export Credit Insurance program during the reporting period include the following:

- MEXICAN BORROWER ARRESTED BY SPECIAL AGENTS OF EX-IM BANK OIG. On September 8, 2009, Ex-Im Bank OIG Special Agents arrested a Mexican borrower in El Paso, Texas, pursuant to a criminal complaint alleging the borrower's involvement in a broader scheme to defraud Ex-Im Bank. The investigation concerns a scheme in which the exporter, borrower, and various associates allegedly conspired to defraud Ex-Im Bank by falsifying purchase orders, shipping records, and export certifications purporting that certain goods had been purchased and shipped to Mexico when in fact they were not. The subjects allegedly embezzled the loan proceeds, distributed cash to the Mexican borrower who falsified equipment receipts attesting to the shipment and delivery of goods, and then subsequently defaulted on the loan causing Ex-Im Bank to pay the insurance claim. The arrest is part of an ongoing investigation concerning suspected fraud in nearly \$4.81 million in insurance claims paid by Ex-Im Bank.
- EXPORTER ARRESTED FOR ROLE IN EX-IM BANK SCHEME. In the same case, on August 20, 2009, the United States Marshal Service arrested an exporter in El Paso, Texas, pursuant to an arrest warrant obtained by Special Agents of the Ex-Im OIG for the exporter's role in a broader scheme to defraud Ex-Im Bank.
- FEDERAL SEARCH WARRANT EXECUTED ON MIAMI EXPORTER. On April 30, 2009, Ex-Im Bank OIG Special Agents and Inspectors from the U.S. Postal Inspection Service executed a federal search warrant at the premises of a U.S. based exporter located in Miami, Florida, based on probable cause that the exporter was involved in a scheme to defraud Ex-Im Bank in transactions insured by Ex-Im Bank. The investigation concerns a scheme in which the exporter and other associates allegedly obtained Ex-Im Bank insurance and loan guarantees on several transactions; and rather than purchasing and shipping of the goods that were insured and guaranteed by Ex-Im Bank, allegedly embezzled and distributed the money to various parties. Several foreign borrowers then defaulted on the loans, causing Ex-Im Bank to pay the insurance and loan guarantees. The search warrant is part of an ongoing

investigation concerning suspected fraud in nearly \$20 million in claim payments and transactions with Ex-Im Bank.

OIG Shares Investigative Intelligence with Ex-Im Bank to Help Protect Funds at Risk

To the extent permissible and within the confines and limitations of an investigation, the OIG works collaboratively to share investigative intelligence with 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 Ex-Im Bank transactions and to protect taxpayer funds at risk.

During this reporting period, the OIG communicated with Ex-Im Bank management to enhance the monitoring of existing transactions and due diligence review of proposed transactions based on developed investigative leads. Additionally, with concurrence by the Department of Justice, we provided Ex-Im Bank with active law enforcement intelligence on the identification and location of previously unknown foreign assets and property to aid in the Bank's civil collection efforts with respect to defaulted loans.

In another example of support of Ex-Im Bank operations, we shared active law enforcement intelligence with the Bank concerning the involvement of a foreign borrower engaged in suspected criminal activity. During the investigation, it was found that a \$900,000 short-term insurance policy covering this borrower was eligible for renewal. Because of this shared information, Ex-Im Bank canceled this policy, resulting in a cost savings of \$900,000.

These examples of information sharing underscore the OIG objective to expeditiously protect funds at risk during ongoing criminal investigations and to enhance Ex-Im Bank's existing capabilities in monitoring civil collection efforts involving transactions in which fraud is uncovered.

Investigative Operations Reveal Opportunities to Protect the Interests and Integrity of Ex-Im Bank

In conducting investigative operations or through the receipt of complaints, the OIG has become aware of private parties in the U.S. or abroad seeking business opportunities or collection of debts by misrepresenting their relationships with Ex-Im Bank or misusing official government seals, logos, or letterheads in their efforts to advertise or exploit their relationship with Ex-Im Bank. Activities involving suspected fraud or other criminal actions have also identified and helped stop inappropriate representations or use of official government identifiers that are not criminal per se but involve individuals seeking to impress prospective clients or to enhance collection efforts. As an example, investigative activity during this reporting period found that a lender had been using the government seal of Ex-Im Bank on its invoice to a customer in an effort to collect an

amount due. This information was provided to Ex-Im Bank Office of General Counsel, which issued a cease and desist notification to the lender.

OIG Promotes Suspension, Debarment, and Compliance Agreements

OIG investigative operations can also protect the government's interest by supporting the suspension and debarment of parties from future transactions with the U.S. government. Suspension and debarment proceedings are based on the presentation of summary evidence of wrongdoing by an individual or organization before an agency debarment official, typically a member of an agency's senior management. No specific referrals for suspension and debarment were made during this reporting period, but discussions continue with Ex-Im Bank Office of General Counsel regarding the use of these proceedings for parties indicted or convicted for fraudulent activity.

The OIG and the Office of General Counsel have also discussed the use of compliance agreements as a means of improving oversight and increasing the accountability of individuals whose transactions have encountered significant rates of claims or fraud but do not involve indications of fraudulent activity. In one instance, Ex-Im Bank initiated a compliance agreement process during the reporting period.

As investigative efforts progress, the OIG intends to work with Ex-Im Bank Office of General Counsel and management to pursue these sorts of administrative opportunities to protect the interests of the government concurrently with criminal investigations and prosecutions.

CROSS-REFERENCE TO REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT

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

CITATION	REPORTING REQUIREMENTS	PAGE
Section 4(a)(2)	Review of legislation and regulations	None
Section 5(a)(1)	Significant problems, abuses and deficiencies	None
Section 5(a)(2)	Recommendations with respect to significant problems, abuses and deficiencies	None
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed	9
Section 5(a)(4)	Matters referred to prosecutorial authorities	13
Section 5(a)(5)	Summary of instances in which information was refused	None
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs and recommendations that funds be put to better use	None
Section 5(a)(7)	Summary of each particularly significant report	3 to 7
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs	None
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	None
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by end of reporting period	None
Section 5(a)(11)	Significant revised management decisions	None
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees	None



OFFICE OF INSPECTOR GENERAL HOTLINE
EXPORT-IMPORT BANK OF THE UNITED STATES

SUSPECT FRAUD, WASTE, ABUSE,
OR MISMANAGEMENT?

REPORT IT!



**YOU ARE THE KEY TO
GOVERNMENT INTEGRITY!**

CALL THE HOTLINE AT 1-888-OIG-EXIM (888-644-3946)

OR WRITE TO:

EXPORT-IMPORT BANK OF THE UNITED STATES
OFFICE OF INSPECTOR GENERAL HOTLINE
811 VERMONT AVENUE, NW
WASHINGTON, DC 20571

WEBSITE: [HTTP://WWW.EXIM.GOV/OIG/HOTLINE.CFM](http://www.exim.gov/oig/hotline.cfm)

OR EMAIL:

IGHOTLINE@EXIM.GOV

YOUR REPORT CAN BE MADE ANONYMOUSLY OR IN CONFIDENCE