



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

Improper Payments Reporting

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

April 15, 2014

OIG-AR-14-06



To: David Sena
Senior Vice President and Chief Financial Officer

From: Arturo Cornejo *AC*
Acting Assistant Inspector General for Audits

Subject: Audit of Export-Import Bank's (Ex-Im Bank) Compliance with the
Improper Payments Information Act of 2002 (IPIA) for Fiscal Year (FY)
2012

Date: April 15, 2014

This memorandum transmits Audit Report OIG-AR-14-06, "Improper Payments Reporting: Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Risk Assessment Process." The audit was initiated to determine whether in FY 2012 Ex-Im Bank complied with IPIA, as amended by the Improper Payments Elimination and Recovery Act of 2010. We also evaluated the accuracy and completeness of Ex-Im Bank's improper payment reporting, efforts to reduce and recover improper payments in FY 2012, and implementation of actions to address prior year audit recommendations.

The audit found that Ex-Im Bank complied with IPIA in that it reported required information based on the results of its FY 2012 improper payments assessment. However, Ex-Im Bank should improve its internal controls around its improper payments risk assessment processes. We made two recommendations for corrective action. Management generally concurred with the recommendations and we consider management's proposed actions to be responsive. The recommendations will be closed upon completion and verification of the proposed actions.

We appreciate the courtesies and cooperation extended to us during the audit. If you have questions, please contact me at (202) 565-3499 or arturo.cornejo@exim.gov.

cc: Fred Hochberg, Chairman and President
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The Senate Homeland Security and Governmental Affairs Committee
The House Committee on Oversight and Governmental Reform
The Comptroller General
The Controller of the Office of Management and Budget

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

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

ACRONYMS

AFR	Agency Financial Report
Ex-Im Bank or the Bank	Export-Import Bank of the United States
FY	Fiscal Year
GAO	Government Accountability Office
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report

Executive Summary

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

Audit Report OIG-AR-14-06

April 15, 2014

Why We Did This Audit

Improper payments are payments made in the wrong amount, to the wrong entity, or for the wrong reason. They can result from processing errors, a lack of information, or fraud. In accordance with the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Inspectors General are required to annually review their agency's compliance with improper payments legislation and evaluate agency efforts to assess, report, and reduce improper payments. As a result, we reviewed the Export-Import Bank's (Ex-Im Bank or the Bank) improper payments assessment and reporting activities for fiscal year (FY) 2012.

What We Recommend

To improve Ex-Im Bank's processes for identifying and assessing its risk of improper payments, we recommend that the Bank (1) ensure that the improper payments risk assessment is completed before the improper payments information is reported in the Annual Financial Report and consider additional Bank wide internal controls that may affect the improper payments assessment process, beyond payment controls and (2) explicitly state in the Management Discussion and Analysis Section of the Annual Financial Report the decision whether or not to perform payment recapture audits and the justification and analysis used to determine if conducting payment recapture audits is cost-effective in accordance with OMB guidelines.

What We Found

Ex-Im Bank complied with IPIA, as amended by IPERA by reporting all required information based on the results of its FY 2012 improper payments assessment. Ex-Im Bank performed a risk analysis on all programs and activities in the last three years and determined that there are no programs or activities that are susceptible to significant improper payments. Ex-Im Bank reported its improper payments risk assessment and analysis in the Management Discussion and Analysis (MD&A) section of its FY 2013 annual report.

However, we identified the following internal control concerns that we believe reduce the overall reliability of Ex-Im Bank's improper payments assessment:

- Ex-Im Bank's Office of the Chief Financial Officer (OCFO) prepared the "Ex-Im Bank Risk Assessment for Improper Payments FY 2012" that summarizes Ex-Im Bank's risk assessment efforts for FY 2012 as required by IPIA. While the audit team determined that the risk assessment steps were performed during FY 2013, the "Ex-Im Bank Risk Assessment for Improper Payments FY 2012" was not finalized or approved before the reporting of Improper Payments in the FY 2013 annual report.
- Ex-Im Bank did not explicitly report its decision not to conduct a recapture audit program and the related analysis and justification in the FY 2013 Annual Financial report (AFR) as required by Office of Management and Budget (OMB) guidance A-123 Appendix C Part I Sec B #6.

Given identified weaknesses, including weaknesses in Ex-Im Bank's key information technology applications, Export Credit Insurance Program, Direct Loan Program and the weaknesses we observed during this audit in the OCFO's FY 2012 improper payments risk assessment, we could not ascertain the true risk of significant improper payments based solely on Ex-Im Bank's assessment. Therefore, we decided to test a sample of Ex-Im Bank's loan disbursements to estimate the approximate risk of significant improper payments. We did not detect evidence of improper payments in our sample of loan disbursements.

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

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INTRODUCTION

Background

Each year, the Federal Government wastes billions of taxpayer dollars on improper payments to individuals, organizations, and contractors.¹ According to the Office of Management and Budget (OMB), an improper payment is any payment that: (1) should not have been made; (2) was made in an incorrect amount, to an ineligible recipient, for in eligible goods or services, or for goods or services not received; or (3) lacks sufficient

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

documentation to determine whether it is proper². Improper payments may result from inadequate recordkeeping, inaccurate eligibility determinations, inadvertent processing errors, lack of timely and reliable information to confirm payment accuracy, or fraud.

To reduce improper payments, the President signed into law the Improper Payments Information Act of 2002 (IPIA)³. Congress amended IPIA by enacting the Improper Payments Elimination and Recovery Act of 2010 (IPERA)⁴ and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)⁵. As amended, IPIA requires

agencies to review their programs and activities each fiscal year (FY) and identify those susceptible to significant improper payments⁶. Agencies must report in their annual Performance and Accountability Report (PAR) or Agency Financial Report (AFR) estimated significant improper payments and actions to reduce them. In addition, Inspectors General are required to: (1) determine whether their respective agencies are compliant with IPIA and (2) evaluate the accuracy and completeness of agency reporting and performance in reducing and recapturing improper payments. To assist agencies and Inspectors General, OMB issued government-wide guidance in April 2011. To date, OMB has not issued government-wide guidance on the implementation of IPERIA. Therefore, this audit was

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

² OMB Circular A-123, “Management’s Responsibility for Internal Control,” Appendix C.

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

⁴ Public Law 111-204, July 22, 2010.

⁵ Public Law 112-248, January 10, 2013.

⁶ *Significant improper payments* are gross annual improper payments in the program or activity under review exceeding \$100 million or above both 2.5 percent of total program outlays and \$10 million of all program payments made during the fiscal year.

conducted in accordance with IPIA⁷, as amended by IPERA, and with OMB's guidance from April 2011⁸.

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

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

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

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

If no programs are identified in Step 1 as susceptible to significant improper payments (i.e., the improper payment rate of each program is determined to be less than \$100 million or below both 2.5 percent of total program outlays and \$10 million of all program payments made during the fiscal year), no further analysis is required. However, for each program identified as susceptible to significant improper payments, the agency must use an OMB-approved methodology in Step 2 to test a sample of transactions and obtain a statistically

⁷ From this point forward, "IPIA" will be used to refer to IPIA as amended by IPERA.

⁸ M-11-16, "Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123," April 14, 2011.

valid estimate of the annual amount of improper payments. Once testing is complete and the annual estimated amount of improper payments is derived, Step 3 requires the agency to develop and implement a corrective action plan that identifies root causes and establishes reduction targets as well as accountability for reducing improper payments. In Step 4, the agency must report in its annual PAR or AFR its estimated annual improper payments and its progress in reducing them.

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

Export-Import Bank's Process for Identifying and Measuring its Risk of Improper Payments. To identify and measure its risk of significant improper payments, the Export-Import Bank (Ex-Im Bank or the Bank) Office of the Chief Financial Officer (OCFO):

- reviews the Bank's payment types;
- compiles the results of risk assessment questionnaires that assess each payment type;
- compares the total amount of transactions captured on Ex-Im Bank's annual Rejected Payment Log with IPIA thresholds for significant improper payments;
- estimates insurance claim payments that may have involved fraud based on historical data from the Office of Inspector General (OIG), Office of General Counsel (OGC) and Asset Management Division (AMD);
- compiles a list of newly identified participants of Ex-Im Bank programs that have committed fraud against the Bank for any improper payments made to the participants in the cases;
- reviews OIG reports focused on payment processes; and
- documents the payment controls that help prevent and detect improper payments along with a summary of the assessment of the Bank's risk⁹.

With OMB's approval, Ex-Im Bank performs its improper payments assessment one year in arrears, meaning the analysis for FY 2012 is performed in FY 2013 and reported in Ex-Im Bank's FY 2013 AFR.

⁹ Payment controls mean the preventative and detective controls around the disbursement of cash that Ex-Im Bank describes in its improper payments risk assessment memorandum.

Review of Ex-Im Bank Payments. The OCFO reviewed Ex-Im Bank's FY 2012 payments, which totaled \$4.9 billion, and identified three payment types: (1) Administrative Expenses, (2) Claim Payments, and (3) Loan Disbursements. Each payment type, which the OCFO defined as a program for the purposes of IPIA, is described below.

- (1) Administrative Expenses – Ex-Im Bank has three categories of administrative expenses: compensation and benefits, rental payments on its Washington, D.C. Headquarters building, and contract and invoice payments. Ex-Im Bank's compensation and benefits are processed by the General Services Administration's Kansas City, Missouri payroll processing center. In addition, compensation, benefits, and rental payments are paid to the General Services Administration through the intra-government payment system. As intra-governmental transactions, these payments are excluded from the Bank's improper payments assessment. The remainder of Ex-Im Bank's administrative disbursements was contract and invoice payments totaling \$29.4 million. According to the OCFO, the two largest components of these payments were technology and travel-related expenses.
- (2) Claim Payments – Ex-Im Bank makes claim payments under its Loan Guarantee and Export Credit Insurance programs. Under the Loan Guarantee Program, the Bank guarantees to a lender that, in the event of a payment default by the borrower, Ex-Im Bank will pay to the lender the outstanding principal and interest on the loan. Specifically, the Bank's medium-term guarantees provide unconditional coverage in the event of default. According to the OCFO, except in certain instances of noncompliance with the terms of the guarantee agreement between the Bank and the guaranteed party, Ex-Im Bank cannot deny payment of the claim even if the borrower provided fraudulent information to obtain the underlying credit from the guaranteed lender. Therefore, the OCFO does not consider such payments as improper payments.

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

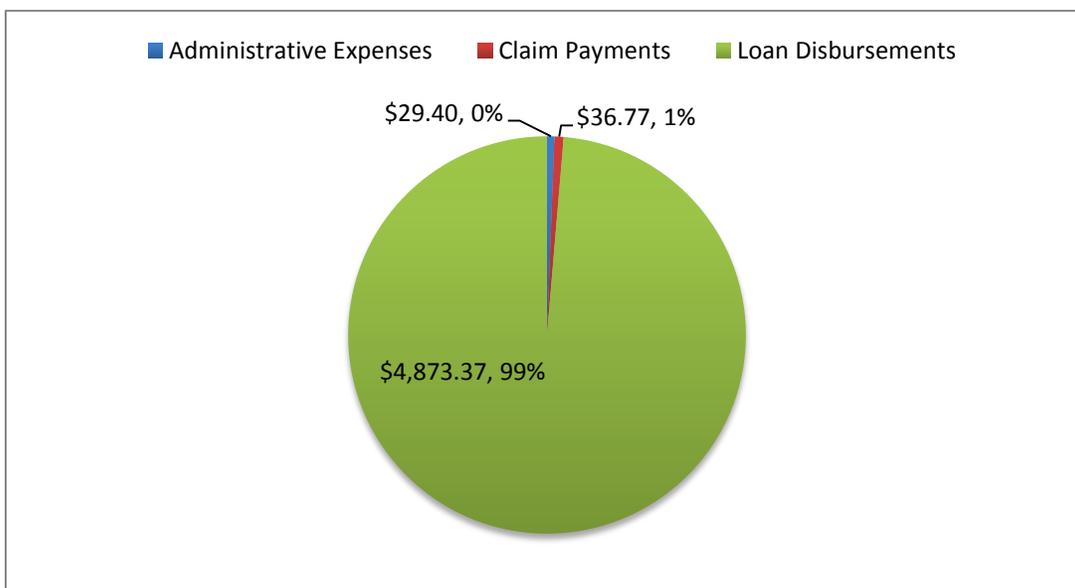
The Claims Processing Group of the Office of the Controller is responsible for processing requests for disbursements when paying claims on either loan guarantees or export credit insurance, expenses related to claims, and a participant's share of recoveries or related expenses. During FY 2012, Ex-Im Bank disbursed approximately \$36.8 million in claim payments.

- (3) Loan Disbursements – Ex-Im Bank offers fixed-rate loans directly to foreign buyers of U.S. goods and services. Once a loan transaction becomes legally operative, the

Operations and Data Quality Division reviews supporting documentation prior to approving a disbursement request. After their review, Operations and Data Quality personnel sign the disbursement approval and send it and supporting documentation to the Loans and Guarantees Servicing Division. Program Accounting and Servicing staff apply the appropriate fees, print the disbursement voucher, and submit it to a certifying officer who signs the voucher and forwards it to the Cash Control Division for remittance of funds. Loan disbursements comprised 99 percent of the value of the Bank’s total payments for the year. Specifically, Ex-Im Bank made loan disbursements worth about \$4.87 billion, while total FY 2012 payments equaled \$4.94 billion.

The following figure shows the value of Ex-Im Bank’s FY 2012 payments by program area.

Figure 1. Ex-Im Bank’s FY 2012 Payments by Program Area (in millions)



Source: Office of Inspector General summary of data received from the Ex-Im Bank OCFO.

Ex-Im Bank’s Improper Payments Risk Assessment Questionnaire. Ex-Im Bank’s Financial Reporting Office asked key employees from each department involved in the Bank’s disbursement process to complete a questionnaire based on FY 2012 disbursement activities. The questionnaire, which the Bank developed after an FY 2008 internal audit of Ex-Im Bank’s improper payments processes and procedures, includes 60 questions that address each of the five widely accepted components of internal control, which are: control environment, risk assessment, control activities, information and communication, and monitoring¹⁰. The Financial Reporting Office distributed four copies of the questionnaire: one for administrative expenses, one for claim payments, and two for the loan disbursement process (one for the operations phase of the process and one for the servicing phase). After scoring the four responses received, the OCFO concluded that Ex-Im

¹⁰ “Export-Import Bank of the United States 2008 Internal Audit Report, Improper Payments Information Act (IPIA),” April 30, 2009 (KPMG LLP).

Bank has a low risk of improper payments in all three programs. Ex-Im Bank's risk assessment questionnaire is included in Appendix B.

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

Ex-Im Bank's Rejected Payment Log.

To support whether Ex-Im Bank's risk of improper payments is significant, the OCFO creates and evaluates a Rejected Payment Log and compares it to IPIA thresholds. As described in the Bank's internal guidance for identifying and assessing improper payments – "Ex-Im Bank

Process and Procedures for Improper Payments" – the Rejected Payment Log is produced by the Financial Reporting Office and maintained by the Cash Control Supervisor. Specifically, personnel in the Financial Reporting Office input Ex-Im Bank wire and check payments that were returned by the U.S. Treasury or U.S. Post Office or were voided by the Bank during the fiscal year on a spreadsheet titled "Rejected Payment Log." According to the OCFO, the returned wires and returned or voided checks are not necessarily improper payments as defined by IPIA, but rather serve as an indicator that further research is required to determine if significant improper payments exist. According to Ex-Im Bank's internal guidance, "if there is a significant change in this log, payments should be further investigated to determine the specific circumstances of why they were rejected and whether or not they are improper."

For FY 2012, Ex-Im Bank's Rejected Payment Log included 198 payments – 46 returned wires and 152 returned or voided checks – totaling \$5.95 million. The OCFO determined that these rejected payments did not meet the definition of improper payments.

According to Ex-Im Bank's internal guidance, "if there is a significant change in this log, payments should be further investigated to determine the specific circumstances of why they were rejected and whether or not they are improper."

Historical Insurance Claim Payments Involving Fraud Estimate. In order to determine an estimate for FY 2012 of insurance claim payments involving fraud that are considered "improper payments" as defined by IPIA, OIG provided Ex-Im Bank a listing of historical insurance and guarantee claim payments from FY 2006 to FY 2011 involving fraud. OCFO personnel met with Ex-Im Bank's Office of General Counsel personnel to discuss these cases and determine if the payments were "improper" as defined by IPIA. Ex-Im Bank determined that a claim payment involving fraud does not meet the definition of an improper payment in the following circumstances: (1) medium-term guarantees that provide unconditional coverage in the event of default and (2) short-term insurance with enhanced assignment.

According to Ex-Im Bank's Small Business Multibuyer Export Credit Insurance Policy Enhanced Assignment of Policy Proceeds, Ex-Im Bank agrees to pay, regardless of the Insured's performance under the Policy and under the Agreements of the Insured contained herein, losses incurred as a result of a financed receivable for which the Assignee has not been paid, provided that non-payment has occurred for three months, the assignee files a claim no later than eight months after from the date of the unpaid financed receivable, and the assignee complied with the agreement.

Additionally, as noted in its risk assessment, the Bank concluded that it is under contractual obligations to make claim payments in medium-term guarantees and short-term insurance with enhanced assignments deals even if the underlying credit was obtained based on fraudulent information or documentation. Therefore, payments for such claims were not considered as improper payments by Ex-Im Bank.

Ex-Im Bank determined that after reviewing the historical claim information, and after discussions with the Office of General Counsel and Asset Management Division, “no claim payments were identified that should have been denied as a result of fraud. Based on this review, the available historical data shows that Ex-Im [Bank] has not made any improper payments as a result of fraud, and therefore did not include an estimate of fraudulent claim payment activity for FY 2012.”

Newly Identified Participants of Ex-Im Bank Programs List. Ex-Im Bank created a list of newly identified participants who have defrauded Ex-Im Bank programs to determine if improper payments were made to these participants. Ex-Im Bank Office of the Controller personnel met with Office of General Counsel and Asset Management personnel to discuss this list and determine if any improper payments occurred. A list of “Restitution Cases FY 2012 and FY 2013” was developed by the Office of General Counsel including new cases involving fraud against Ex-Im Bank. Based on this meeting and analysis of the list of restitution cases, Ex-Im Bank determined that no improper payments were made related to these new participants that defrauded Ex-Im Bank programs. Ex-Im Bank determined that these cases do not meet the definition of improper payments since the cases involved were either medium-term insurance or medium-term guarantees that provide unconditional coverage in the event of default or short-term insurance with enhanced assignment.

Review of OIG Reports. As noted in the FY 2012 Risk Assessment, Ex-Im Bank, OCFO reviewed OIG audit reports by periodically reviewing OIG Audit reports posted on the OIG website since the previous Improper Payments Audit, “Improper Payments Reporting: Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Improper Payments Assessment,” was completed on March 14, 2013. OCFO focused its review on issues identified around the payment process. Ex-Im Bank noted that it did not identify any issues in the OIG reports surrounding the payment process, with the exception of the Improper Payments Audit report dated March 14, 2013.

Ex-Im Bank’s Risk Assessment Summary. The OCFO also issued an FY 2012 risk assessment summary that described the cash disbursement process and documented the payment controls that prevent and detect improper payments. The summary stated that Ex-Im Bank “has a strong system of internal controls in place to help prevent improper payments and to detect them should they occur.” In addition, the summary noted that:

- all Ex-Im Bank FY 2012 risk assessment questionnaires showed that the risk of significant improper payments was low;
- no improper payments were noted in the review of the Rejected Payment Log;

- an estimate of insurance claim payments that may have involved fraud was \$0 since no claim payments were identified that should have been denied as a result of fraud;
- all payments made to newly identified participants of Ex-Im Bank programs that have committed fraud against the Bank were determined to be proper, after discussions with Asset Management Division and Office of General Counsel ; and
- no issues were noted around the payment process after a review of OIG reports since the FY 2011 audit of Improper Payments.

The summary concluded that, “because of the assessment of a low risk of improper payments and the small amount of known rejected payments, the Bank does not meet the IPERA threshold of [1] 2.5 percent of program outlays and \$10,000,000 of all program or activity payments made during the fiscal year reported or (2) \$100,000,000 that requires agencies to perform recapture audits. However, the Bank actively pursues recovery of any payment that has been identified as being made improperly.” As a result, the OCFO determined that no additional action was warranted to assess or reduce Ex-Im Bank’s FY 2012 improper payments or test controls intended to prevent or detect such payments. The results of Ex-Im Bank’s FY 2012 improper payments assessment were reported in the Bank’s FY 2013 AFR, which reiterated the low risk of improper payments.

Objectives

Our objectives were:

- To determine whether Ex-Im Bank was compliant with IPIA, as amended by IPERA;
- To evaluate the accuracy and completeness of Ex-Im Bank’s improper payments reporting and efforts to reduce and recover improper payments for FY 2012;
- To evaluate Ex-Im Bank’s efforts to reduce and recapture improper payments as required by IPERA and OMB guidance; and
- To verify Ex-Im Bank’s completion and implementation of actions to address prior year audit recommendations from the prior year audit report: “Improper Payments Reporting: Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Improper Payments Assessment” (March, 14, 2013).

See Appendix A for details of the audit’s scope and methodology; our review of internal controls; applicable federal laws, regulations, policies, and guidance; and a description of prior audit coverage.

Ex-Im Bank Complied With Improper Payments Reporting Requirements

Ex-Im Bank complied with IPIA, as amended by IPERA by reporting all required information based on the results of its FY 2012 improper payments assessment. Ex-Im Bank performed a risk analysis on all programs and activities in the last three years and determined that there are no programs or activities that are susceptible to significant improper payments. Ex-Im Bank reported its improper payments risk assessment and analysis in the Management Discussion and Analysis (MD&A) section of its FY 2013 annual report.

Additionally, to test the completeness and accuracy of Ex-Im Bank's improper payments reporting, we statistically sampled and tested 31 out of 298 or \$0.5 billion out of \$4.9 billion loan disbursements. We did not discover any "significant improper payments" as defined by IPIA to mean gross annual improper payments in the program or activity exceeding \$100 million or above both 2.5 percent of total program outlays and \$10 million of all program payments made during the fiscal year.

Ex-Im Bank Complied With IPIA Reporting Requirements

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

Figure 2. Summary of Ex-Im Bank's Compliance with IPIA Reporting Requirements

IPIA Requirement <i>Did the agency . . .</i>	Yes/No/Not Applicable	Comments
Publish a PAR or AFR for the most recent fiscal year and post that report and any accompanying materials required by OMB on the agency website?	Yes	Ex-Im Bank’s FY 2012 AFR can be accessed at: http://www.exim.gov/about/library/reports/annualreports/2013/
Conduct a program-specific risk assessment for each program or activity?	Yes	
Publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments as required?	Not Applicable	Ex-Im Bank did not identify any programs as susceptible to significant improper payments.
Publish programmatic corrective action plans in the PAR or AFR as required?	Not Applicable	Ex-Im Bank did not identify any programs as susceptible to significant improper payments.
Publish and meet annual reduction targets for each program assessed to be at risk and measured for improper payments?	Not Applicable	Ex-Im Bank did not identify any programs as susceptible to significant improper payments.
Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR?	Not Applicable	Ex-Im Bank did not identify any programs as susceptible to significant improper payments.
Report information on its efforts to recapture improper payments?	Not Applicable	Ex-Im Bank does not conduct recapture audits and reported in its FY 2013 AFR that based on its assessment, no further action was required under IPIA ¹¹

Source: OMB Circular A-123, “Management’s Responsibility for Internal Control,” Appendix C and OIG analysis.

¹¹ Ex-Im Bank did not explicitly report its analysis and judgment in deciding not to conduct payment recapture audit. See further details in the “Ex-Im Bank Should Improve Internal Controls around Its Improper Payments Risk Assessment Process” section.

Ex-Im Bank Did Not Appear to Have Significant Improper Payments for Direct Loan Disbursements

Ex-Im Bank noted in the Management Discussion and Analysis (MD&A) Section of its FY 2013 Financial Report that the risk of improper payments associated with administrative, claim, and loan program disbursements was low in part based on internal controls in place around these programs. Additionally, in its “Ex-Im Bank Risk Assessment for Improper Payments FY 2012” memorandum, OCFO notes that the bank has a “strong system of internal controls in place to help prevent improper payments and to detect them should they occur” and summarizes various preventive and detective controls that aim to minimize the risk of improper payments. The memorandum also states that as part of Ex-Im Bank’s annual financial statement audit, the independent public accountant samples and tests all categories of payments and, although the purpose of this testing is to judge the accuracy of the financial statements and not compliance with IPIA, testing has not revealed any material improper payments over the years.

Yet, recent OIG audits cited weaknesses likely to increase losses due to errors or fraud. These include weaknesses in controls related to: (1) key information technology applications, including those used to process payments and applications for Ex-Im Bank products, (2) the Export Credit Insurance Program, including weaknesses that could increase the risk of financial loss through claims or insurance of insurance policies based on erroneous and potentially fraudulent information, and (3) the Direct Loan Program, including weaknesses related to the management of direct loans.^{12,13,14} Given these weaknesses and the weaknesses we observed in the OCFO’s FY 2012 improper payments risk assessment, we decided to test a sample of Ex-Im Bank’s disbursements to estimate the approximate risk of significant improper payments.

We tested a sample of 31 direct loan disbursements occurring in FY 2012. See the Scope and Methodology Section for our sampling method used to test direct loan disbursements. We did not find evidence that indicate the disbursements tested met the definition of an improper payment. Additionally, we discovered that 15 out of 31 items sampled, or 48% of disbursements, required an additional interest payment due to Ex-Im Bank disbursing the loan amount later than the agreed upon date of disbursement. The dollar value of these interest payments totaled \$6,731.67, or approximately 0.001% of the total amount disbursed. See a summary of our results below:

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

¹³ “Audit of Export-Import Bank’s Short-Term Insurance Program,” September 28, 2012 (OIG-AR-12-05). The report can be accessed at: <http://www.exim.gov/oig/upload/Official-20Final-20Report-20-20Audit-20of-20ST-20Ins-20Program-20120928-1.pdf>.

¹⁴ “Export-Import Bank’s Management of Direct Loans and Related Challenges,” September 26, 2013 (OIG-AR-13-05). The report can be accessed at: <http://www.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>.

Figure 3. Summary of Audit Test Work of Direct Loan Disbursements FY 2012

Principal Amount Disbursed	Interest Amount Disbursed	Total Amount Disbursed	Audit Determined Improper Amount
\$ 514,636,724.81	\$ 6,731.67	\$ 514,643,456.48	\$ -

Source: Office of Inspector General audit testwork data.

See detailed listing of our audit testwork around direct loan disbursements in Appendix C.

Based on our audit test work performed, we did not detect evidence of improper payments in our sample of loan disbursements.

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

Ex-Im Bank Should Improve Internal Controls Around its Improper Payments Risk Assessment Process

While we concluded that Ex-Im Bank complied with improper payments reporting requirements, we identified the following internal control concerns:

- Ex-Im Bank’s Office of the Chief Financial Officer (OCFO) prepared the “Ex-Im Bank Risk Assessment for Improper Payments FY 2012” that summarizes Ex-Im Bank’s risk assessment efforts for FY 2012 as required by IPIA. While the audit team determined that the risk assessment steps were performed during FY 2013, the “Ex-Im Bank Risk Assessment for Improper Payments FY 2012” was not finalized or approved before the reporting of Improper Payments in the FY 2013 annual report.
- Ex-Im Bank did not explicitly report its decision not to conduct a recapture audit program and the related analysis and justification in the FY 2013 AFR as required by OMB guidance A-123 Appendix C Part I Sec B #6.

FY2012 Improper Payments Risk Assessment Was Not Finalized Before Improper Payments Were Reported in the FY 2013 AFR

According to IPIA and OMB guidance, agencies must conduct an improper payments risk assessment of all programs and activities at least once every three years, and annually if there is a significant change in legislation or increase in its funding level. This risk assessment is presumably to be completed before the agency reports its improper payments information in its Annual Financial Report (AFR). Ex-Im Bank released its FY 2013 Financial Statements and AFR on December 12, 2013, but did not finalize its improper payments risk assessment for FY 2012 until February 4, 2014.

As required by IPIA, agencies shall review all programs and activities they administer at least once every three years thereafter for programs deemed not risk susceptible.

Ex-Im Bank prepared and provided OIG the FY 2011 risk assessment of improper payments on November 26, 2012. As such, Ex-Im Bank is not in violation of IPIA or OMB guidance since it performed a risk assessment within the past three years. However, Ex-Im Bank should improve its risk assessment process by finalizing and clearly documenting the completion of the improper payments risk assessment before the release of the Financial Statements and AFR. Also, Ex-Im Bank should document management’s review on the (1) “Ex-Im Bank Risk Assessment for Improper Payments FY 2012” and (2) “Ex-Im Bank Process and Procedures for Improper Payments” to demonstrate that these documents have been approved and finalized.

GAO “Standards for Internal Control in the Federal Government” state that internal controls should provide reasonable assurance that the objectives of the agency are being achieved in its reliability of financial reporting, including reports on budget execution, financial

statements, and other reports for internal and external use.¹⁵ Furthermore, such standards state that internal control activities are an integral part of an entity’s planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results. Control activities may be classified by control objectives such as accurate and timely recording of transactions and events. Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.

Also, the GAO standards state that information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities. Operating information, such as data on purchases, subsidies and other transactions, is needed to determine whether the agency is achieving its compliance requirements under various laws and regulations. Pertinent information should be identified, captured, and distributed in a form and time frame that permits people to perform their duties efficiently.

Ex-Im Bank OCFO provided us with two documents that serve as internal guidance and documentation of the risk assessment on the improper payments reporting process: (1) “Ex-Im Bank Risk Assessment for Improper Payments FY 2012” on January 31, 2014 and (2) “Ex-Im Bank Process and Procedures for Improper Payments” on February 4, 2014. When asked why these documents were not available earlier, OCFO stated that the risk assessment was going through the review process and would be available once the CFO approved the documents. Both documents lacked evidence of management review or date of completion.

According to OCFO, the improper payments risk assessment was not finalized until January, 2014 because it was being reviewed by OCFO management.

However, since Ex-Im Bank completed its risk assessment on November 26, 2012, it was not required by IPIA to complete another risk assessment until November 26, 2015. Additionally, since Ex-Im Bank performed another risk assessment on February 4, 2014, it is not required by IPIA to complete another assessment until February 3, 2017. We believe an annual improper payments risk assessment is a best practice to identify the risk of improper payments on an annual basis.

¹⁵ “Standards for Internal Control in the Federal Government” (GAO/AIMD-00-21.3.1, November 1999).

Ex-Im Bank Did Not Explicitly Report its Decision Not to Perform Payment Recapture Audits in its FY 2013 AFR

In its improper payments disclosure in the Management Discussion and Analysis (MD&A) Section of the FY 2013 Financial Report, Ex-Im Bank assessed the risk of improper payments to be low and determined that based on its assessment, under IPIA, no further action was required. Ex-Im Bank also stated in its “Ex-Im Bank Risk Assessment for Improper Payments FY 2012” that “because of the assessment of a low risk of improper payments and the small amount of known rejected payments, the Bank does not meet the IPERA threshold of [1] 2.5 percent of program outlays and \$10,000,000 of all programs or activity payments made during the fiscal year reported or (2) \$100,000,000 that requires agencies to perform recapture audits.”

However, according to IPERA Section 2 (h) (2) (A), each agency shall conduct recovery audits with respect to each program and activity of the agency that expends \$1,000,000 or more annually if conducting such audits would be cost-effective. Additionally, OMB guidance states that if an agency determines that a payment recapture audit program is not cost effective, then it must notify OMB and the agency’s Inspector General of the decision and include an analysis used by the agency to reach the decision. Each agency shall report in its AFR “1) a list of programs and activities where it has determined conducting a payment recapture audit program would not be cost-effective; and 2) a description of the justifications and analysis that it used to determine that conducting a payment recapture audit program for these programs and activities was not cost-effective.”

Although Ex-Im Bank reported its low risk assessment for improper payments associated with administrative, claim, and loan disbursements and no further action was required based on this assessment in its MD&A Section of its FY 2013 Financial Report, Ex-Im Bank should explicitly state in the MD&A Section that it did not perform payment recapture audits and its justification and analysis used to determine that conducting payment recapture audits is not cost-effective in accordance with OMB guidelines. Also, Ex-Im Bank should provide the Inspector General with the decision not to perform payment recapture audits and the related analysis to reach this decision. These additional steps will add transparency and meet the OMB requirements around payment recapture reporting requirements.

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

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

1. Using GAO’s “Standards for Internal Control in the Federal Government” as a guide, ensure that the improper payments risk assessment is completed before the improper payments information is reported in the Annual Financial Report and document management’s review and the timing of the review on the improper payments risk assessment and process and procedures. Additionally, consider and review Bank wide internal controls, beyond payment controls, that prevent and detect improper payments in the improper payments risk assessment.

Management’s Response. Management agrees with the recommendation. Going forward, the improper payment risk assessment documentation will be completed before the improper payments information is reported in the Annual Financial Report. Management’s review will be documented in the improper payments risk assessment and process and procedures. Management will consider and review other Bank-wide internal controls beyond payment controls.

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

2. Explicitly state in the Management Discussion and Analysis Section of the Annual Financial Report the decision whether or not to perform payment recapture audits and the justification and analysis used to determine if conducting payment recapture audits is not cost-effective in accordance with OMB guidelines.

Management’s Response. Management agrees with the recommendation. Management will state in the Management Discussion and Analysis Section of the Annual Financial Report the decision whether or not to perform payment recapture audits as well as the justification and analysis used to determine if conducting payment recapture audits is not cost-effective.

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

Follow-up on Prior Year Audit Recommendations

GAO's "Standards for Internal Controls in the Federal Government" state "monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved."¹⁶ "The resolution process begins when audit or other review results are reported to management, and is completed only after action has been taken that (1) corrects identified deficiencies, (2) produces improvements, or (3) demonstrates the findings and recommendations do not warrant management action."

In our prior year audit, "Improper Payments Reporting: Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Improper Payments Assessment" (March 14, 2013), we discussed five recommendations to improve Ex-Im Bank's Improper Payments Assessment.¹⁷ One of the five recommendations was closed at the release date of the audit report.

During the course of this year's audit, we determined that two of the four remaining open recommendations issued in our prior year audit report, "Improper Payments Reporting Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Improper Payments Assessment" (March 14, 2013), have been resolved. However, the remaining two open recommendations for Ex-Im Bank to: (1) revise its procedures to ensure that improper payments assessment correctly calculates improper payment rates and (2) consider the cost effectiveness and value of conducting payment recapture audits have not been fully resolved.

We found internal control deficiencies around the timeliness of Ex-Im Bank's improper payments assessment, which was not finalized and approved until after the Annual Financial Report release date. Additionally, we found that Ex-Im Bank did not report its decision not to perform payment recapture audits and its analysis used to reach this decision in the Management Discussion and Analysis Section of the Annual Financial Report as required by OMB guidance.

Ex-Im Bank has taken numerous actions to improve its improper payments reporting assessment and analysis. However, improvements are still needed to ensure Ex-Im Bank complies with OMB guidance and GAO Standards for Internal Control, and resolve audit findings.

Prior Audit Recommendation #1 – Not Fully Implemented

In its prior year audit, "Improper Payments Reporting Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Improper Payments

¹⁶ "Standards for Internal Control in the Federal Government" (GAO/AIMD-00-21.3.1, November 1999).

¹⁷ "Improper Payments Reporting: Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Improper Payments Assessment," March 14, 2013 (OIG-AR-13-03). The report can be accessed at: <http://www.exim.gov/oig/upload/OIG-AR-13-03-Final-Audit-Report-Improper-Payments-Web.pdf>.

Assessment” (March 14, 2013), OIG recommended that OCFO revise its procedures to ensure that Ex-Im Bank’s improper payments assessment correctly calculates improper payment rates based on those payments that should not have been made; were for incorrect amounts, to ineligible recipients, for ineligible goods or services, or for goods or services not received; or that are otherwise improper as defined by IPIA.

Background. The OIG made this recommendation because it found internal control weaknesses in Ex-Im Bank’s improper payments assessment. Specifically, OIG found that payments were incorrectly identified as improper, Ex-Im Bank’s risk assessment questionnaire may not have accurately reflected risk, and the improper payments risk assessment did not include export-credit insurance claims later determined to be fraudulent.

Prior Management Response. Management agreed with the recommendation and stated that Ex-Im Bank will expand the analysis and utilize six separate tools in future analysis to assess the risk of improper payments. The Bank will enhance the improper payments analysis by reviewing the existing procedures and expanding the methodology as follows:

- (1) Continue using the risk assessment questionnaire but conduct a more thorough review of the answers provided, especially those identified as “Not Applicable”;
- (2) Continue a qualitative risk assessment review of the payment controls surrounding each of the programs;
- (3) Maintain a list of payments returned to Ex-Im Bank. If there is a significant number or dollar amount of returned items, then investigate further the reason for the returned payments;
- (4) As recommended, the Bank will develop a methodology to factor into the analysis an estimate of insurance claim payments that may have involved fraud;
- (5) The Financial Reporting Office will meet with the Asset Management Division, the Office of the General Counsel, and the OIG to compile a list of newly identified participants of the Bank’s programs that have committed fraud against the Bank. The list will be checked against payments made during the period of analysis to determine if payments were made to any of these participants;
- (6) The Financial Reporting Office will review OIG reports issued since the last improper payments analysis with a focus on issues identified surrounding the payment process.

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

Current Audit Results. As discussed in this report, we found that Ex-Im Bank took actions to improve its improper payments risk assessment methodology. However, we found that Ex-Im Bank’s updated improper payments analysis and risk assessment was not formalized and approved until after the AFR report release date. As a result, we noted an internal control weakness related to the timeliness of communication of the improper payments risk assessment methodology.

Status. With this report, OIG is closing prior audit “Improper Payments Reporting: Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Improper Payments Assessment” (March 14, 2013) Recommendation 1 and modifying and reissuing it as Recommendation 1 to establish effective internal controls over finalization and approval of the improper payments risk assessment methodology. Establishing effective internal controls includes recording and communicating to management and others in the Bank that need it the improper payments risk assessment process and methodology in a timely manner.

Current Recommendation 1. To improve Ex-Im Bank’s processes for identifying and assessing its risk of improper payments and to better comply with the intent of improper payments legislation, we recommend that the OCFO:

1. Using GAO’s “Standards for Internal Control in the Federal Government” as a guide, ensure that the improper payments risk assessment is completed before the improper payments information is reported in the Annual Financial Report and document management’s review and the timing of the review on the improper payments risk assessment and process and procedures. Additionally, consider and review Bank wide internal controls, beyond payment controls, that prevent and detect improper payments in the improper payments risk assessment.

Prior Audit Recommendation #5 – Not Implemented

In its prior year audit, “Improper Payments Reporting Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Improper Payments Assessment” (March 14, 2013), OIG recommended that OCFO consider the cost effectiveness and value of conducting payment recapture audits and additional periodic testing to prevent and detect improper payments in all program areas throughout each fiscal year.

Background. The OIG made this recommendation because it found deficiencies in Ex-Im Bank’s processes for identifying and measuring risk for improper payments and therefore Ex-Im Bank’s risk of significant improper payments was unknown. Specifically, OIG found that payments were incorrectly identified as improper, Ex-Im Bank’s risk assessment questionnaire may not have accurately reflected risk, and the improper payments risk assessment did not include export-credit insurance claims later determined to be fraudulent. As a result, OIG determined that FY 2011 improper payments reporting may be inaccurate and incomplete, and its efforts to reduce and recover improper payments may be inadequate.

Prior Management Response. Management agreed with the recommendation and stated that if a risk assessment shows an increase in the risk of improper payments in any of the Bank’s programs or if there is a substantial increase in the amount of improper payments, the Bank will consider engaging a private sector firm to look at the Bank’s payment

processes and procedures and determine if it is beneficial to develop a formal payment recapture audit plan.

Current Audit Results. As discussed in this report, we found that Ex-Im Bank assessed its risk of significant improper payments as low and consequently decided not to conduct payment recapture audits. However, we found that Ex-Im Bank did not explicitly state in the Management Discussion and Analysis Section of its Annual Financial Report its decision not to perform payment recapture audits and the judgment and analysis used to reach this decision, as required by OMB guidance.

Status. With this report, OIG is closing prior audit “Improper Payments Reporting: Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Improper Payments Assessment” (March 14, 2013) Recommendation 5 and modifying and reissuing it as Recommendation 2 to meet OMB requirements by reporting in its AFR the justification and analysis used to determine that conducting payment recapture audits is not cost effective.

Current Recommendation 2. To improve Ex-Im Bank’s processes for identifying and assessing its risk of improper payments and to better comply with the intent of improper payments legislation, we recommend that the OCFO:

2. Explicitly state in the Management Discussion and Analysis Section of the Annual Financial Report the decision whether or not to perform payment recapture audits and the justification and analysis used to determine if conducting payment recapture audits is not cost-effective in accordance with OMB guidelines.

Prior Audit Recommendation #3 and #4 - Implemented

In its prior year audit, “Improper Payments Reporting Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Improper Payments Assessment” (March 14, 2013), OIG recommended the following under recommendations 3 and 4.

- (3) Modify the method used to score improper payments risk assessment questionnaires to ensure that factors that are not applicable are accurately reflected in the future.
- (4) Either formulate and include in future improper payments risk assessments, at a minimum, a reasonable estimate of fraudulent insurance claim payments based on historical information, or obtain OMB’s written approval to continue excluding such payments from its improper payments assessment.

Background. The OIG made both recommendations because it found deficiencies with Ex-Im Bank’s improper payments assessment that indicated that the FY 2011 improper payments reporting may have been inaccurate and incomplete. Specifically, the risk

assessment questionnaire may not have accurately calculated risk according to OCFO's scoring method. Also, Ex-Im Bank's improper payments risk assessment did not consider export credit insurance claims later determined to be fraudulent. For FY 2011, OIG Office of Investigations identified \$1.3 million in fraudulent insurance claims paid.

Prior Management Response. Management concurred with the recommendations and stated that: (1) the questionnaires will be more thoroughly reviewed, especially the "Not Applicable" responses and (2) staff has begun reviewing data on cases closed by the OIG that involved fraud. The OCFO will develop a methodology that factors into the improper payments analysis an estimate of insurance claim payments made during the analysis period that may be fraudulent and therefore improper.

Current Audit Results. We obtained, reviewed and recalculated all four risk assessment questionnaires, and found that the risk calculation was performed correctly, including the factors that are not applicable. Also, we obtained an understanding of Ex-Im Bank's methodology to estimate fraudulent insurance claim payments based on historical data.

Status. We will close prior "Improper Payments Reporting: Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Improper Payments Assessment" (March 14, 2013) Audit Recommendations 3 and 4 based on the audit results identified in this report, indicating that Ex-Im Bank made improvements and took actions that met the intent of our prior recommendations.

Scope and Methodology

We performed this audit from December 2013 through April 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our objectives were to determine whether Ex-Im Bank was compliant with IPIA, as amended by IPERA, to verify Ex-Im Bank's completion and implementation of actions to address prior year audit recommendations, to evaluate the accuracy and completeness of Ex-Im Bank's improper payments reporting and efforts to reduce and recover improper payments for FY 2012 and to evaluate Ex-Im Bank's efforts to reduce and recapture improper payments as required by IPERA and OMB guidance. To determine whether Ex-Im Bank identified, reported, and reduced improper payments in accordance with IPIA, we reviewed applicable laws, regulations, Bank procedures, and guidance issued by the Council of Inspectors General on Integrity and Efficiency. In addition, we interviewed OCFO personnel, including personnel in the Office of the Controller. We also reviewed Ex-Im Bank's FY 2013 AFR, responses to its FY 2012 risk assessment questionnaire, and supporting documentation, including a list of all FY 2012 payments produced by the OCFO. We also performed the following tasks:

- Using a sampling plan developed by our contracted statistician, Econometrica, Inc. (Econometrica), we tested a statistical sample of FY 2012 loan disbursements for accuracy. We provided Econometrica a listing of FY 2012 loan disbursements from Ex-Im Bank's Finance and Accounting System (F&A) that we agreed to Ex-Im Bank's general ledger to check for completeness of the loan disbursement population. There were 298 loan disbursements totaling \$4.87 billion. Econometrica provided us with a sample of 31 loan disbursements totaling \$515 million. Econometrica used a confidence interval of 10% and a confidence level of 95%. As the loan disbursements made up 99% of total disbursements, \$4.8 billion of loan disbursements out of \$4.9 total disbursements for FY 2012, we judgmentally decided not to statistically sample and test administrative and claim disbursements for accuracy. Our test work was limited to testing the accuracy of the payment process and cash disbursement process as noted in Ex-Im Bank's improper payments risk assessment. Specifically, we tested the accuracy of the amount, payee, and payment approval.

- Reviewed the population of FY 2012 payments (approximately 6,975 transactions totaling \$4.9 billion) and tested administrative, claim, and loan disbursements for completeness. We traced the total amount of the FY 2012 administrative, claim, and loan disbursements to Ex-Im Bank’s general ledger without exception.
- Reviewed prior OIG reports and supporting workpapers, including those from the “Export-Import Bank’s Management of Direct Loans and Related Challenges” (OIG-AR-13-05, September 26, 2013), “Audit of Information Technology Support for Export-Import Bank’s Mission” (OIG-AR-12-04, January 24, 2012), and “Audit of Export-Import Bank’s Short-Term Insurance Program” (OIG-AR-12-05, September 28, 2012) to identify previously reported internal control weaknesses that could impact Ex-Im Bank’s risk of improper payments.
- Reviewed prior OIG semiannual reports and information provided by the OIG’s Office of Investigations to identify cases of known fraud in the Export Credit Insurance Program and determine whether fraudulent insurance claim payments identified in FY 2011 were included in Ex-Im Bank’s improper payments assessment.

Review of Internal Controls

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

Federal Laws, Regulations, Policies, and Guidance

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

- Public Law 107-300, “Improper Payments Information Act of 2002”;
- Public Law 111-204, “Improper Payments Elimination and Recovery Act of 2010”;
- Executive Order 13520, “Reducing Improper Payments,” November 2009;
- OMB Circular No. A-136 (Revised), “Financial Reporting Requirements,” October 21, 2013;
- OMB Memorandum M-11-16, “Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123,” April 14, 2011;
- OMB Memorandum M-11-04, “Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits,” November 16, 2010; and
- “Ex-Im Bank Process and Procedures for Improper Payments.”

Prior Coverage

During the last 5 years, the Ex-Im Bank OIG and GAO have issued six reports of particular relevance to the subject of this report. Unrestricted reports can be accessed over the Internet at <http://www.exim.gov/oig/reports/audits-and-evaluations.cfm> (Ex-Im Bank OIG) and <http://www.gao.gov> (GAO).

Ex-Im Bank OIG:

- “Improper Payments Reporting: Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Improper Payments Assessment” (OIG-AR-13-03, March, 14, 2013);
- “Evaluation of Export-Import Bank of the United States’ Compliance with the Improper Payments Elimination and Recovery Act of 2010” (OIG-EV-12-01, March 12, 2012).

GAO:

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

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

APPENDIX B

Ex-Im Bank’s Improper Payments Risk Assessment Questionnaire

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

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

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

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

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

APPENDIX C

Direct Loan Disbursement Detailed Audit Testwork

Sample Number	Disbursement Date	Principal Amount Disbursed	Interest Amount Disbursed	Total Amount Disbursed	Audit Determined Improper Amount
1	10/4/2011	\$ 523,318.81	\$ 193.56	\$ 523,512.37	\$ -
2	2/23/2012	\$ 385,317.82	\$ 142.51	\$ 385,460.33	\$ -
3	3/9/2012	\$ 40,516.50	\$ 8.33	\$ 40,524.83	\$ -
4	3/15/2012	\$ 1,624,707.84	\$ 600.92	\$ 1,625,308.76	\$ -
5	3/15/2012	\$ 120,829.16	\$ 49.66	\$ 120,878.82	\$ -
6	4/23/2012	\$ 882,684.57	\$ 544.12	\$ 883,228.69	\$ -
7	7/26/2012	\$ 15,648.07	\$ 5.79	\$ 15,653.86	\$ -
8	8/9/2012	\$ 641,990.15	\$ 765.11	\$ 642,755.26	\$ -
9	8/9/2012	\$ 613,752.52	\$ 227.00	\$ 613,979.52	\$ -
10	8/16/2012	\$ 65,838.89	\$ 21.65	\$ 65,860.54	\$ -
11	8/16/2012	\$ 114,750.00	\$ 33.01	\$ 114,783.01	\$ -
12	9/10/2012	\$ 267,103.45	\$ 76.84	\$ 267,180.29	\$ -
13	1/6/2012	\$ 11,279,080.70	\$ -	\$ 11,279,080.70	\$ -
14	1/19/2012	\$ 41,614,416.00	\$ -	\$ 41,614,416.00	\$ -
15	1/12/2012	\$ 168,014,144.89	\$ -	\$ 168,014,144.89	\$ -
16	2/14/2012	\$ 4,028,243.10	\$ -	\$ 4,028,243.10	\$ -
17	6/12/2012	\$ 4,278,092.08	\$ 3,340.43	\$ 4,281,432.51	\$ -
18	6/15/2012	\$ 7,372,236.42	\$ -	\$ 7,372,236.42	\$ -
19	7/20/2012	\$ 837,023.00	\$ -	\$ 837,023.00	\$ -
20	7/20/2012	\$ 496,707.03	\$ 183.71	\$ 496,890.74	\$ -
21	9/20/2012	\$ 2,447,794.53	\$ -	\$ 2,447,794.53	\$ -
22	11/15/2011	\$ 1,229,665.25	\$ -	\$ 1,229,665.25	\$ -
23	11/22/2011	\$ 263,962.10	\$ -	\$ 263,962.10	\$ -
24	11/30/2011	\$ 22,383,901.66	\$ -	\$ 22,383,901.66	\$ -
25	12/5/2011	\$ 98,169.69	\$ -	\$ 98,169.69	\$ -
26	12/9/2011	\$ 12,297,951.69	\$ -	\$ 12,297,951.69	\$ -
27	12/9/2011	\$ 7,686,219.81	\$ -	\$ 7,686,219.81	\$ -
28	12/20/2011	\$ 22,206,758.25	\$ -	\$ 22,206,758.25	\$ -
29	12/21/2011	\$ 10,800,123.18	\$ -	\$ 10,800,123.18	\$ -
30	12/28/2011	\$ 190,694,126.62	\$ -	\$ 190,694,126.62	\$ -
31	12/29/2011	\$ 1,311,651.03	\$ 539.03	\$ 1,312,190.06	\$ -
	Total	\$ 514,636,724.81	\$ 6,731.67	\$ 514,643,456.48	\$ -

Management Comments



EXPORT-IMPORT BANK
OF THE UNITED STATES

April 9, 2014

Osvaldo Gratacós
Inspector General
Office of the Inspector General
Export-Import Bank of the United States
811 Vermont Avenue NW
Washington, DC 20571

Dear Inspector General Gratacós,

Thank you for providing the Export-Import Bank of the United States (“Ex-Im Bank” or “the Bank”) Management with the Office of the Inspector General’s (OIG) report on “Improper Payments reporting: Ex-Im Bank Generally Complied with Improper Payments Reporting Requirements but Should Improve Its Risk Assessment Process” (OIG-AR-14-06, April 2, 2014). Management appreciates and continues to support the OIG’s work and audits which complement the Bank’s efforts to continually improve its processes. Ex-Im Bank is proud of the strong and cooperative relationship it has with the OIG.

Management is pleased that the OIG recognized the efforts of the Bank to ensure compliance with the Improper Payments Information Act of 2002 (“IPIA”), as amended by the Improper Payments Elimination and Recovery Act of 2010 (“IPERA”). The OIG found that the Bank complied with the IPIA, as amended by the IPERA, by reporting all required information based on the results of its FY 2012 improper payments assessment. In addition, the OIG in testing a sample of Ex-Im’s loan disbursements to estimate the approximate risk of significant improper payments, did not detect evidence of improper payments. The OIG also closed out two prior year recommendations, noting “that Ex-Im Bank made improvements and took actions that met the intent of our prior recommendations.”

This report on the Bank’s improper payment reporting makes two recommendations regarding the Bank’s processes for identifying and assessing its risk of improper payments. Management concurs with both recommendations.

To improve Ex-Im Bank’s processes for identifying and assessing its risk of improper payments and to better comply with the intent of improper payments legislation, the OIG recommends that the OCFO:

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Recommendation 1: Using GAO’s “Standards for Internal Control in the Federal Government” as a guide, ensure that the improper payments risk assessment is completed before the improper payments information is reported in the Annual Financial Report and document management’s review and the timing of the review on the improper payments risk assessment and process and procedures. Additionally, consider and review Bank wide internal controls, beyond payment controls, prevent and detect improper payments in the improper payments risk assessment.

Management agrees with the recommendation. Going forward, the improper payments risk assessment documentation will be completed before the improper payments information is reported in the Annual Financial Report. Management’s review will be documented in the improper payments risk assessment and process and procedures. Management will consider and review other Bank-wide internal controls beyond payment controls.

Recommendation 2: Explicitly state in the Management Discussion and Analysis Section of the Annual Financial Report the decision whether or not to perform payment recapture audits and the justification and analysis used to determine if conducting payment recapture audits is not cost-effective in accordance with OMB guidelines.

Management agrees with the recommendation. Management will state in the Management Discussion and Analysis Section of the Annual Financial Report the decision whether or not to perform payment recapture audits as well as the justification and analysis used to determine if conducting payment recapture audits is not cost-effective.

We thank the OIG for your efforts to ensure the Bank’s policies and procedures continue to improve, as well as the work you do with us to protect Ex-Im funds from fraud, waste, and abuse. We look forward to continuing to work closely with the Office of the Inspector General.

Sincerely,



Charles J. Hall
Executive Vice President and Chief Risk Officer
Export-Import Bank of the United States

Acknowledgements

Key contributors to this report were Kamran Beikmohamadi, Lead Auditor, Julie Wong, Auditor, Maria Tse, Auditor, and Matthew Wiles, Independent Referencer.

To Report Fraud, Waste, or Abuse, Please Contact:

Email: IGHotline@exim.gov
Telephone: 1-888-OIG-EXIM (1-888-644-3946)
Fax: (202) 565-3988
Address: Office of Inspector General
Export-Import Bank of the United States
811 Vermont Avenue, NW
Suite 138
Washington, DC 20571

Comments and Suggestions

If you wish to comment on the quality or usefulness of this report or suggest ideas for future audits, please contact Arturo Cornejo, Acting Assistant Inspector General for Audits, at Arturo.Cornejo@exim.gov or call (202) 565-3499. Comments, suggestions, and requests can also be mailed to the attention of the Assistant Inspector General for Audits at the address listed above.





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