



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

**Fiscal Year 2012**  
**Financial Statement**  
**Audit - Management Letter**

**January 23, 2013**  
**OIG-AR-13-02**



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To: David Sena  
Senior Vice President and Chief Financial Officer

Joseph Sorbera  
Vice President - Controller

Nathalie Herman  
Vice President - Treasurer

Fernanda Young  
Chief Information Officer

From: Rebecca L. Sharek   
Assistant Inspector General for Audits

Subject: Fiscal Year 2012 Financial Statement Audit - Final Management Letter  
OIG-AR-13-02

Date: January 23, 2013

This memorandum transmits Deloitte and Touche LLP's Management Letter of the Export-Import Bank of the United States (Ex-Im Bank) financial statements for fiscal year ended 2012. Under a contract monitored by this office, we engaged the independent public accounting firm of Deloitte and Touche to perform the audit. The contract required the audit to be done in accordance with: United States generally accepted government auditing standards; Office of Management and Budget audit guidance; and the Government Accountability Office/President's Council on Integrity and Efficiency *Financial Audit Manual*.

Deloitte and Touche identified deficiencies related to the Ex-Im Bank's internal control over financial reporting and other matters that needed your attention. The observations, recommendations, and your responses regarding such matters are presented in the Attachment.

Deloitte and Touche is responsible for the attached management letter dated January 16, 2013 and the conclusions expressed in the letter. We do not express opinions on Ex-Im Bank's financial statements or internal control or conclusions on compliance with laws and regulations.

We appreciate the cooperation and courtesies provided to Deloitte and Touche and this office during the audit. If you have questions, please contact me at (202) 565-3169 or [rebecca.sharek@exim.gov](mailto:rebecca.sharek@exim.gov).

Attachment

cc: Fred Hochberg, Chairman and President  
Alice Albright, Executive Vice President and Chief Operating Officer  
Audit Committee  
Michael Cushing, Senior Vice President – Resource Management

January 16, 2013

Management of the Export-Import Bank of the United States  
811 Vermont Avenue NW  
Washington, D.C. 20571

Dear Members of Management:

In planning and performing our audit of the financial statements of Export-Import Bank of the United States (“Ex-Im Bank”) as of and for the year ended September 30, 2012 (on which we have issued our report dated November 14, 2012), in accordance with auditing standards generally accepted in the United States of America, the standards applicable to the financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, we considered the Ex-Im Bank’s internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ex-Im Bank’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ex-Im Bank’s internal control over financial reporting. This report is based on our knowledge as of the date of our report on the financial statements, obtained in performing our audit thereof, and should be read with that understanding.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in Section I, deficiencies related to the Ex-Im Bank’s internal control over financial reporting and other matters as of September 30, 2012, that we wish to bring to your attention.

Based on our audit work, we believe management adequately addressed the significant deficiency, “Subsidy Re-estimate on Foreign Transactions”, reported in our prior-year’s *Independent Auditors’ Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based upon the Audit Performed in Accordance With Government Auditing Standards*. Furthermore, Ex-Im Bank adequately addressed the deficiencies reported in our fiscal year (FY) 2011 management letter (see APPENDIX A).

The definitions of a deficiency, a material weakness, and a significant deficiency are set forth in Section III.

Although we have included management’s written response to our comments in Section I, such responses have not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

This report is intended solely for the information and use of management, the Audit Committee, the Inspector General, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Yours truly,

*Deloitte & Touche LLP*

cc: The Inspector General of the Export-Import Bank of the United States and the Audit Committee of the Export-Import Bank of the United States

## **SECTION I — DEFICIENCIES**

We identified, and have included below, deficiencies involving the Ex-Im Bank's internal control over financial reporting as of September 30, 2012, that we wish to bring to your attention:

### **Updated Budget Cost Level (BCL) Risk Rating Relied On Inaccurate Information**

#### *Condition:*

During the annual risk rating update process performed by the Transportation Portfolio Monitoring Division (TPMD), we noted multiple instances where inaccurate information was relied upon to establish the BCL risk rating. Some of these inaccuracies include:

- a) Incorrect foreign currency translation rates were used to convert financial statements to US dollars for the financial analysis.
- b) Incorrect average collateral values were used in the collateral analysis to support risk rating upgrades.
- c) Risk rating factors for the country risk in the Asset Management System (AMS) did not agree to Ex-Im Bank's BCL Schedule.

The above inaccuracies did not change the approved risk ratings at year-end and therefore did not result in a misstatement in the financial statements.

#### *Criteria:*

The BCL risk rating should be updated based on accurate information.

#### *Cause:*

The deficiency was due to the fact that TPMD officers do not perform a detailed review for accuracy of the information used for risk rating update.

#### *Effect or potential effect:*

Inaccurate information used by TPMD could result in incorrect BCL risk ratings being applied to credits. An incorrect BCL risk rating may cause the year-end allowance and subsidy to be misstated.

#### *Recommendation:*

We recommend management enhance the review process of the information relied upon by TPMD prior to submission of the risk rating to the Vice President of TPMD for approval.

#### *Management Response:*

Management agrees with the recommendation. A two-tier review process will be established and prior to submission of risk ratings for the review and approval of the Vice President of TPMD, the risk ratings will be provided to the Senior Portfolio Manager of TPMD for review.

## **Inconsistency in BCL Risk Rating Between the Loans and Guarantees Accounting System (LGA) and Asset Management System (AMS)**

### *Condition:*

After all risk ratings are finalized at the end of August, the interaction between the LGA system and AMS is closed to prevent further changes to the BCL risk rating. The monitoring groups are required to report any subsequent BCL changes to the Office of the Controller to be changed directly in the LGA system. At September 30, 2012, the BCL risk rating in the LGA system should agree to the AMS system. During our test of the BCL risk rating, we identified one incident where the BCL risk rating in the LGA system did not correspond to the approved risk rating in AMS at September 30, 2012. The change in the risk rating occurred after August 31, 2012 and did not affect the subsidy re-estimate, which was performed based on the correct BCL risk rating as of August 31, 2012.

### *Criteria:*

The BCL risk rating in the LGA system should agree to the approved risk rating in AMS at September 30, 2012.

### *Cause:*

The difference in BCL risk rating between AMS and the LGA system was due to a typographical error made by the TPMD during its review of BCL risk rating after August 31, 2012, which resulted in an inappropriate change in the risk rating in the LGA system by the Office of the Controller.

### *Effect or potential effect:*

The potential misstatement resulting from the incorrect BCL Risk Ratings in the LGA system at September 30, 2012 would be limited to disclosure related errors for the weighted average BCL.

### *Recommendation:*

We recommend that the monitoring groups review all changes made in the LGA system after August 31 by the Office of the Controller to ensure that changes to BCL risk ratings are appropriate. Further, we recommend that communications from the monitoring groups to the Office of the Controller include specific instructions if changes to risk ratings are required after August 31<sup>st</sup>.

### *Management Response:*

Management agrees with the recommendation. Subsequent to the August 31<sup>st</sup> portfolio review, the Office of the Controller will provide to the respective monitoring groups a list of proposed changes for concurrence prior to making any changes in the LGA system.

## **Inaccurate Repayment Schedule in the LGA System**

### *Condition:*

Repayment schedules are set up in the LGA system according to the executed guarantee agreements. Changes to guarantee repayment schedules are made in the LGA system if the agreement is amended. During our confirmation testing, we identified two guarantees that had incorrect repayment information in the LGA system. Information in the LGA system did not agree to the executed guarantee agreements.

*Criteria:*

Transaction information in the LGA system should agree to the executed guarantee agreement. Amendments to the agreement should be reflected in the LGA system.

*Cause:*

After a transaction is approved or amended, Financial Analysts are required to review the information entered into the LGA system against the executed guarantee agreements to ensure that information in the LGA system, including the repayment schedule, is accurate. Due to many changes in procedures and personnel during FY 2011 and FY 2012, review of the information in the LGA system against the executed agreement was ineffective.

*Effect or Potential Effect:*

Outstanding guarantees balance was overstated by approximately \$100,000 at September 30, 2012

*Recommendation:*

We recommend that the Financial Analysts review and compare information for all transactions in the LGA system against the final approved executed agreements and amendments.

*Management Response:*

Management agrees with the recommendation. A Loan and Guarantee Servicing staff will review the accuracy of repayment schedules data input by Financial Planning and Portfolio Review Division against the final credit agreements and amendments.

**Inaccurate Information Used for Subsidy Calculation**

*Condition:*

We noted certain instances where management used incorrect information related to commitment fees in the subsidy calculation. Additionally, we also noted other instances where the preliminary information used for the subsidy calculation was not updated as per the final executed agreement.

*Criteria:*

Subsidy for all transactions should be calculated using the information as per the final executed agreement.

*Cause:*

Incorrect information related to commitment fees was used when the subsidy was calculated. Additionally, in some instances, preliminary information was used instead of information as per the final executed agreement.

*Effect or potential effect:*

Negative subsidy or program revenue for transactions authorized during the fiscal year ended September 30, 2012 was understated by approximately \$4.6 million or 0.22%. The understated amount was corrected through the subsidy reestimate performed at September 30, 2012

*Recommendation:*

We recommend Ex-Im Bank adds a second level of review on the subsidy calculation prior to releasing the approved or amended transactions into the LGA system.

*Management Response:*

Management agrees with the recommendation. For large transactions requiring Board of Director's approval, two staff of the Financial Planning and Portfolio Review Division will perform the subsidy calculation and compare answers for accuracy. For transactions not requiring Board of Director's approval, a Financial Planning and Portfolio Review Division staff will perform a program budget validation control semiannually for deals authorized throughout the fiscal year. Any differences between the estimate calculation and the actual subsidy amounts greater than 100bps will be analyzed for potential errors.

**Incorrect Accrual Status of Rescheduled Loans Written Off In Prior Years**

*Condition:*

Management identified an instance where a rescheduled loan, though written off during FY 2005, was accruing interest income. Management extended its review and performed a detailed analysis to check if there were other similar instances where interest income was accruing on written-off loans. There was no other instance noted by management. "Accrual" status and the interest income for the above identified loan were corrected by management in the current year.

*Criteria:*

Rescheduled loans written off in previous years should not have "accrual" status where it continues to accrue interest income.

*Cause:*

The status of rescheduled loan was changed from "non-accrual" to "accrual" during a system migration in previous years in error.

*Effect or Potential Effect:*

Interest income and loan receivable balance as of September 30, 2011 was overstated by \$59 million. An adjusting entry was recorded by management in the current year to correct interest income and loan receivable balance.

*Recommendation:*

We recommend that the Loan Guarantee Servicing Division perform a thorough review of "accrual" status of loans on a regular basis.

*Management Response:*

Management agrees with the recommendation. At the time this issue was found, the Loan and Guarantee Servicing Division performed a review of all Rescheduled-loans and determined no other issues were noted. Additionally, the Loans and Guarantee Servicing Division will perform monthly reviews of the loan accruals to ensure the accuracy of the accruals.

## **Incorrect Allowance for Loan Loss Journal Entry**

### *Condition:*

During our testing of allowance for loan loss, we noted a journal entry for pre-credit reform claims loss reserve was recorded in reverse.

### *Criteria:*

Calculation of loss reserve is performed to determine where additional loss is expected by Ex-Im Bank. Accordingly, a journal entry is recorded by the Office of Controller to adjust the loss reserve to reflect an addition or reduction in the loss reserve.

### *Cause:*

The incorrect journal entry was caused by a human error.

### *Effect or Potential Effect:*

Though the incorrect journal entry was immaterial and did not result in a misstatement in the current year's financial statements, such incorrect entries, especially relating to the loan loss, could potentially result in a misstatement. Management corrected this error in the current year.

### *Recommendation:*

We recommend management enhance controls around the journal entry review process to detect any misstatements that may potentially occur.

### *Management Response:*

Management agrees with the recommendation. After adjusting entries are made, the Controller's Office will prepare a schedule of the adjusted allowances and compare them to the allowance calculations prepared by the Financial Planning and Portfolio Review Division to ensure accuracy of entries.

## **Incorrect Formula Used In the LGD Calculation**

### *Condition:*

The Probability of Default (PD) and Loss Given Default (LGD) are components of the loss factors used to calculate the loss reserve. We identified three formula errors in the PD/LGD calculations.

### *Criteria:*

Statistical calculations and formula logic in PD/LGD model should be accurate.

### *Cause:*

Inaccurate formulas were entered in the calculation by a financial analyst during the LGD calculation.

*Effect or Potential Effect:*

Incorrect information used in the PD/LGD Model could cause a misstatement to the loss reserve. We noted that the effect of these errors was immaterial to the current year's financial statements.

*Recommendation:*

We recommend management perform a more detailed review of the formulas used in in the allowance for loan loss methodology, in order to detect any errors which may result in potential misstatements. A detailed tie-out of the PD/LGD model and the default curve report is also recommended.

*Management Response:*

Management agrees with the recommendation. The Financial Planning and Portfolio Review Division plans to implement a review of the PD/LGD model similar to how it reviews the reestimate model.

**Retention of Daily Security Monitoring report**

*Condition:*

For 2 of the 15 haphazardly selected dates that we selected for testing, we noted that the Daily Security Monitoring report and actions taken on the report were not retained according to the Ex-Im Bank procedures. The 2 days are January 9, 2012 and July 5, 2012. Based on the inspection of audit documentary evidence and corroborations with The Office of the Chief Information Officer (OCIO), we determined that a deficiency in operating effectiveness existed as the properly designed control did not operate as designed. After the completion of our fieldwork and reporting the deficiency to Ex-Im Management, we held further discussions with OCIO on the details of the deficiency, including the audit documentary evidence and our corroborations with OCIO. Subsequently, OCIO delivered additional documentation pulled from email archives and reproduced from network logs as audit documentary evidence to note that: 1) compensating controls were in place to detect a security breach for the two days noted as testing exceptions; and, 2) emails created on the two days noted as exceptions to demonstrate that activity by Ex-Im Network Security existed related to the missing Daily Security Monitoring Reports. We evaluated the audit evidence delivered by OCIO after our fieldwork, and we concluded that the deficiency in operating effectiveness existed as the properly designed control did not operate as designed for the dates noted.

*Criteria:*

The Daily Security report should be retained as an audit evidence of the monitoring, review and actions taken as required for attempted IT infrastructure security breaches, anti-virus infections, vulnerabilities and availability issues.

*Cause:*

We understand that due to gaps in employment and shifting of employee responsibilities, audit evidence was not maintained or did not sufficiently document actions taken on the Daily Security Monitoring reports for the two days mentioned above.

*Effect or Potential Effect:*

Management may not be able to detect and correct attempted security breaches, anti-virus infections, vulnerabilities and availability issues, if the Daily Security Monitoring report and actions taken on the report were not retained. While this control has been properly designed to be performed on a daily basis and logging controls are in place, the evidence documenting the monitoring and actions taken were not retained as an evidence of effective operating control.

*Recommendation:*

We recommend that management ensure all actions taken on the Daily Security Monitoring report are documented and retained.

*Management Response:*

Management agrees with the recommendation. The staff did perform the work and distributed the reports associated with the daily IT security activities for the dates audited, but the artifacts for two of these dates were not saved in the designated folders. The 2 artifacts were located and provided later to the auditors. The systematic retention of these artifacts for the purpose of providing them to the auditors has been corrected. Weekly reviews of the folder for these files are being performed by the Quality Assurance team to ensure the documents were all saved for that week.

In addition, we are in the process of implementing a new IT Security Enterprise Management system providing enhanced capabilities for intelligent event management. We will discontinue the manual process of manually integrating information on security-related events and preparing and storing the Daily IT Security Report.

## **SECTION II — OTHER MATTERS**

Refer to Appendix A below for the status of the FY 2011 management letter comments.

## **SECTION III — DEFINITIONS**

The definitions of a deficiency, a material weakness, and a significant deficiency are as follows:

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

\* \* \* \* \*

**APPENDIX A**

The table below provides the status of the FY 2011 management letter comments:

*Control deficiencies:*

<b>No.</b>	<b>Prior Year Comments</b>	<b>Elevated to Material Weakness</b>	<b>Still Relevant and Repeated</b>	<b>Adequately Resolved or No Longer Relevant</b>
1.	Loss Factor Historical Claims data			X
2.	Trade Credit Insurance Originations			X
3.	Reprographic Error on the Published Annual Report			X
4.	Inaccurate Risk Rating			X
5.	Short Term Single Buyer Insurance Subsidy Calculation			X
6.	Monitoring of Credits "In Transfer"			X

The table below provides the status of the significant deficiency reported in FY 2011's Independent Auditors' Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based upon the Audit Performed in Accordance With Government Auditing Standards.

*Significant deficiency:*

<b>No.</b>	<b>Prior Year Comments</b>	<b>Elevated to Material Weakness</b>	<b>Still Relevant and Repeated</b>	<b>Adequately Resolved or No Longer Relevant</b>
1.	Subsidy Re-estimate on Foreign Transactions			X



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