EXIM
EXPORT-IMPORT BANK
OF THE UNITED STATES

*Office of Inspector General*
*Export-Import Bank*
*of the United States*

# Audit of the Export-Import Bank's Disbursement Processes

*September 29, 2017*
*OIG-AR-17-05*

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

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*This audit was conducted 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.*

EXIM
EXPORT-IMPORT BANK OF THE UNITED STATES

*Office of Inspector General*

To: Nicole Valtos, Vice President of Operations and Management Reporting
Walter Hill, Vice President of Credit Review and Compliance
David Sena, Senior Vice President & Chief Financial Officer

From: Terry Settle, Assistant Inspector General for Audits TLS

Subject: Audit of the Export-Import Bank's Disbursement Processes

Date: September 29, 2017

This report presents the results of our audit of Export-Import Bank's ("EXIM Bank" or "the Bank") Disbursement Processes. The objective of this audit was to determine if loans and guarantees were disbursed in accordance with EXIM Bank's policies and procedures. Specifically, we focused on whether EXIM Bank's long-term direct loans and medium and long-term loan guarantees were disbursed for the correct amounts and purposes.

The report contains nine recommendations for corrective action. In response to our report, management concurred with all nine recommendations. Management's comments are included as Appendix B in this report. We consider management's proposed actions to be responsive. The recommendations will be closed upon completion and verification of the proposed actions.

We conducted this audit 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.

We appreciate the courtesies and cooperation extended to us during this audit. If you have any questions or comments regarding this report, please contact me at (202) 565-3498 or terry.settle@exim.gov. You can obtain additional information about the Export-Import Bank Office of Inspector General and the Inspector General Act of 1978 at www.exim.gov/oig.

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# EXECUTIVE SUMMARY

Audit of EXIM Bank's Disbursement Processses
OIG-AR-17-05 September 29, 2017

## Why We Did This Audit

Credit Administration, a unit of Operations and Management Reporting at EXIM Bank, is responsible for administering disbursement procedures for direct loans and medium and long-term guarantees. From October 1, 2014 to June 30, 2016, EXIM Bank disbursed $11.8 billion, $161 million, and $5.8 billion for long-term guarantees, medium-term guarantees, and long-term direct loans respectively.

The objective of the audit was to determine if loans and guarantees were disbursed in accordance with EXIM Bank's policies and procedures. Specifically, to determine if EXIM Bank long-term direct loans and medium and long-term guarantees were disbursed for the correct amount and purpose.

## What We Recommend

We made nine recommendations for the Bank to: (1) Develop a written policy and procedures for the disbursement processes; (2) document the process for coordination between Credit Administration and other divisions within the Bank or other sources; (3) enhance guidelines for evidence of payment; (4) document the exception and internal controls in place in lieu of obtaining an acquisition list for aircraft transactions; (5) develop a risk based approach for reviews performed by Credit Review and Compliance to ensure adequate coverage of all areas relying on third-party review and self-certification; (6) reassess and document the rationale for providing 100 percent guarantees under the medium-term guarantee program given the reliance on the guaranteed lenders to review disbursement documentation; (7) formalize training for employees specific to the disbursement process; (8) enhance performance measures and indicators for the disbursement process; and (9) implement a process for recording and validating disbursement data on at least a quarterly basis. Management concurred with all nine recommendations.

## What We Found

We determined that EXIM Bank's long-term direct loans and medium and long-term loan guarantees were generally disbursed in accordance with EXIM Bank's guidelines and for the correct amounts and purposes. In fact, during the audit, we only identified one disbursement that was approved by Credit Administration for $1,276,930.81 without receiving the required exporter certification on the invoice. Nevertheless, we determined that the underlying documentation and internal controls for disbursements should be improved by (1) developing, documenting and enhancing a policy and procedures; (2) implementing additional internal controls for procedures that rely on third-party reviews or self-certifications; and (3) implementing training and enhancing measurement and monitoring procedures for EXIM Bank's disbursement processes.

Specifically, we found that EXIM Bank did not have a formal policy or procedures for its disbursement processes and existing guidelines were not sufficient to address Credit Administration's reliance on other sources, evidence of payment, and an exception for aircraft transactions. This led to a lack of accountability, inconsistencies in the disbursement processes, and insufficient documentation in the disbursement files. We also found that reviews conducted by EXIM Bank's Credit Review and Compliance division were not sufficient to ensure areas relying on third-party review and self-certifications received proper coverage. This impacted letter of credit disbursements, medium-term guarantee disbursements, and local cost disbursements involving a U.S. supply contracts which rely on exporter certifications and guarantee lender review. Finally, we found that training could be formalized and performance measures and indicators for the Bank's disbursement processes could be enhanced and monitored to help ensure Credit Administration staff remains aware of updates to industry best practices and are able to effectively measure progress toward meeting its goals. We also identified an "other matter" related to EXIM Bank's inability to provide timely validated disbursement data to the OIG.

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

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# ABBREVIATIONS AND GLOSSARY

| Term | Description |
|---|---|
| Bank or EXIM Bank | Export-Import Bank of the United States |
| Board | The Board of Directors, EXIM Bank, responsible for approving all transactions over $10 million |
| Charter | The Charter of the Export-Import Bank of the United States (Export-Import Bank Act of 1945, as amended, 12 U.S.C. §635 et seq). The Charter establishes the Bank's operations and programs and is reauthorized by Congress on a periodic basis |
| CRC | Credit Review and Compliance Division, EXIM Bank |
| E&E | Engineering and Environment Division, EXIM Bank |
| ECP | Medium-Term Electronic Compliance Program |
| EOL | EXIM Online, the Bank's web-based platform to apply for and manage export credit insurance and medium-term bank guarantees, as well as an electronic disbursement approval system. |
| ERS | EXIM Bank Reporting System. ERS is the Bank's database that aggregates data on the Bank's obligors, transactions and exposures |
| Lapse in Authorization | On July 1, 2015, EXIM Bank's statutory authority was significantly limited under the terms of its Charter and full authority was not reinstated until December 4, 2015 when Congress extended the Bank's Charter until September 30, 2019. According to EXIM Bank, this meant its authorization to approve new transactions and engage in business development and certain other functions lapsed. |
| FMS-NG | Financial Management System-Next Generation |
| FY | Fiscal Year |
| GAGAS | Generally Accepted Government Auditing Standards |
| GAO | Government Accountability Office |
| OGC | Office of General Counsel, EXIM Bank |
| OIG | Office of Inspector General, EXIM Bank |
| SVP | Senior Vice President, EXIM Bank |
| Turnkey | A turnkey contract is generally defined as a contract under which the contractor is responsible for both the design and construction of a facility as well as the implementation of all work, materials, and services necessary to enable the client to turn the key and take over an operational facility |
| VP | Vice President, EXIM Bank |

# AUDIT REPORT ON EXIM BANK'S DISBURSEMENT PROCESSSES

## INTRODUCTION

This audit report presents the results of our audit of Export-Import Bank's ("EXIM", "EXIM Bank" or "the Bank") disbursement processes. The objective of this audit was to determine if loans and guarantees were disbursed in accordance with EXIM Bank's policies and procedures. Specifically, we focused on whether EXIM Bank's long-term direct loans and medium and long-term loan guarantees were disbursed for the correct amounts and purposes. To answer this objective, we reviewed federal laws, regulations and guidance as well as EXIM Bank's applicable policies, procedures and guidelines. We also interviewed EXIM officials to gain an understanding of the disbursement processes. Finally, we judgmentally selected and reviewed the supporting documentation for 52 disbursements totaling $424,773,372.34 from 11 transactions of the approximately $18 billion long-term direct loan and medium and long-term loan guarantee disbursements made by the Bank between October 1, 2014 and June 30, 2016. See appendix A for more details on the scope and methodology.

We conducted this performance audit from October 2016 through August 2017 at EXIM Bank Headquarters in Washington, DC. We conducted the audit 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.

## BACKGROUND

The main loan products of EXIM are (1) direct loans, (2) loan guarantees, and (3) working capital guarantees. The scope of this audit was limited to long-term direct loans and long and medium-term guarantees.

Through direct loans, EXIM provides foreign buyers of U.S. goods and services fixed-rate financing in amounts generally exceeding $10 million. The Bank's direct loans generally carry fixed-interest rate terms under the Arrangement on Guidelines for Officially Supported Export Credits. EXIM Bank direct loan terms are typically up to 12 years, and up to 18 years for renewable energy products. The Bank extends a loan to a U.S. exporter's foreign customer (borrower) supporting up to 85 percent of the U.S. contract value. The specific rates charged by EXIM are based on the Commercial Interest Reference Rates (CIRR).

According to the 2015 EXIM report to U.S. Congress of Global Export Credit Competition, there was no demand for direct loans in 2015. As a result of the 2007-2008

financial crisis, EXIM Bank experienced four years of rapid growth in its direct-lending activity, which peaked in 2012 with $11.8 billion in direct-loan support distributed among 18 transactions. Since 2012, EXIM Bank's direct-loan support has exhibited a consistent downward trend, ending in 2015 with zero direct loans provided by EXIM Bank for the first time since before the financial crisis. EXIM Bank attributes the drop in transactions to its lapse in authority to approve new transactions, in addition to other market forces. From July 1, 2015 to December 4, 2015, EXIM Bank's authority to approve new transactions lapsed and EXIM Bank's Board of Directors and employees were prohibited from approving any new authorizations, engaging in business development or other prohibited activities. While the lapse has ended, EXIM Bank's Board does not have a quorum and cannot approve medium and long-term transactions over $10 million.

EXIM Bank loan guarantees cover the repayment risks on the foreign buyer's debt obligations incurred to purchase U.S. exports. EXIM Bank's comprehensive guarantee covers commercial and political risks for up to 85 percent of the U.S. contract value. EXIM Bank provides a 100 percent guarantee for up to 85 percent of the U.S. contract amount to a commercial lender that, in the event of a payment default by the borrower, it will pay the outstanding principal and interest on the loan. According to the Senior Vice President, Office of Policy Analysis and International Relations, a 15 percent down payment is required from the buyer and the commercial lender bears no risk of loss in the event of default. Medium-term guarantee transactions are less than or equal to $10 million (excluding exposure fees) and typically have a repayment term of one to seven years. Long-term guarantees typically have repayment terms in excess of seven years and are greater than $10 million.

Credit Administration, a unit of the Operations and Management Reporting, is responsible for long-term direct loan and medium and long-term guarantee disbursements. Prior to disbursement for direct loans and long-term guarantees, Credit Administration reviews and approves the borrower's request for reimbursement or request for letter of credit approval including the documents required to establish the letter of credit. For medium-term guarantees and certain eligible long-term guarantees, the lender reviews documents, disburses, and submits an electronic request for disbursement approval using the Electronic Compliance Program (ECP), which is the lender's certification that all disbursement documents are in compliance. Credit Administration does not review the disbursement documents, including invoices, evidence of payment, evidence of export, or the exporter's certificate for disbursement approvals submitted under the ECP.

Medium and long-term loans and guarantees operate on the principle of disbursements against documents reviewed by either Credit Administration, a guaranteed lender, or a letter of credit bank. Basic documents needed to support disbursements for U.S. goods and services are: an invoice from the U.S. exporter, proof of payment to the U.S. exporter, an Exporter's Certificate, and evidence of export from the U.S. Other documents may be necessary depending on the nature and type of the specific transaction. EXIM Bank may provide local cost support, for project-related costs for goods and services incurred in the buyer's country. Up to 30 percent of the U.S. export value can also be financed for locally originated and/or manufactured goods and services as authorized by EXIM Bank's Board of Directors.

The two methods of disbursements for long-term transactions are reimbursements, and letter of credit disbursements:

1. **Reimbursements for long-term transactions** occur when the export of goods and services has taken place and the borrower has paid the U.S. exporter. The borrower is reimbursed by EXIM Bank or the guaranteed lender for the financed portion of the goods and services. When reviewing reimbursements, Credit Administration or the guaranteed lender compares the invoice numbers, payment information, description of goods and services, and bill of lading reference numbers to the disbursement documents and the acquisition list for accuracy. Credit Administration staff also require an itemized statement of payment for local costs.

2. **Letter of credit disbursements for long-term transactions** are drawings by an exporter under a letter of credit for the financed portion of goods or services. When reviewing letter of credit disbursements for approval, Credit Administration staff relies upon the exporter's certification that "Invoiced Goods and/or Services appear on the acquisition list approved by EXIM Bank". EXIM Bank management stated it implemented this practice for letter of credit disbursements due to the extensive front-end authorization process for letters of credit which includes an analysis of the items on the acquisition list and how the invoicing will work. Letter of Credit banks are required to comply with the pre-negotiated letter of credit terms. As a result, for letter of credit disbursements, Credit Administration staff are not required to compare the invoice numbers, payment information, description of goods and services, and bill of lading reference numbers to the disbursement documents and the acquisition list for accuracy and perform only a cursory review of the letter of credit documents.

For medium-term guarantees, in addition to reimbursements and letter of credits, direct disbursements are also allowed. Direct disbursements are direct payments by the guaranteed lender to an exporter on behalf of the borrower for the financed portion of goods and services. There is also an exception to allow direct disbursement for long-term aircraft financing as noted in the Credit Adminstration Handbook and the related legal documentation. Multiple methods of disbursement can be used in the same transaction.

During the period of review from October 1, 2014 to June 30, 2016, EXIM Bank disbursed $11.8 billion, $161 million, and $5.8 billion for long-term guarantees, medium term guarantees, and long term direct loans respectively.

## Results: Disbursements were Generally Made for the Correct Amounts and Purposes but Underlying Documentation and Internal Controls Should Be Improved

We determined that EXIM Bank's long-term direct loans and medium and long-term loan guarantees were generally disbursed in accordance with EXIM Bank's guidelines and for the correct amounts and purposes. In fact, during the audit, we only identified one

disbursement that was approved by Credit Administration for $1,276,930.81 without receiving the required exporter certification on the invoice. Nevertheless, we determined that the underlying documentation and internal controls for disbursements should be improved by (1) developing, documenting and enhancing a policy and procedures; (2) implementing additional internal controls for procedures that rely on third-party reviews or self-certifications; and (3) implementing training and enhancing measurement and monitoring procedures for EXIM Bank's disbursement processes.

Specifically, we found that EXIM did not have a formal policy or procedures for its disbursement processes and existing guidelines were not sufficient to address Credit Administration's reliance on other sources, evidence of payment, and an exception for aircraft transactions. This led to a lack of accountability, inconsistencies in the disbursement processes, and insufficient documentation in the disbursement files. We also found that reviews conducted by EXIM Bank's Credit Review and Compliance division were not sufficient to ensure areas relying on third-party review and self-certifications received proper coverage. This impacted letter of credit disbursements, medium-term guarantee disbursements, and local cost disbursements involving a U.S. supply contract which rely on exporter certifications and guarantee lender review. Finally, we found that training could be formalized and performance measures and indicators for the Bank's disbursement processes could be enhanced and monitored to help ensure Credit Administration staff remains aware of updates to industry best practices and are able to effectively measure progress toward meeting its goals. We also identified an "other matter" related to EXIM Bank's inability to provide timely validated disbursement data to the OIG.

We made nine recommendations to address the identified areas of improvements.

## Finding 1: A Disbursement Policy and Procedures Should Be Developed and Documented and Existing Guidelines Should Be Enhanced

We determined that EXIM Bank's long-term direct loans and medium and long-term loan guarantees were generally disbursed in accordance with EXIM Bank's guidelines and for the correct amounts and purposes. In fact, during the audit, we only identified one disbursement that was approved by Credit Administration without receiving a required document. Specifically, a disbursement totaling $1,276,930.81 did not have the required exporter's certification statement on file before the disbursement was approved. This certification was important to obtain prior to loan disbursement approval to ensure the loan was used for the intended purposes. Credit Administration was able to obtain the certification from the letter of credit bank after we brought this oversight to the Bank's attention. For all other disbursements reviewed during the audit, the Bank was able to justify their appropriateness. However, we found that EXIM Bank's disbursement processes for long-term direct loans and long and medium-term loan guarantees could be improved by developing, documenting and enhancing a policy and procedures. We found that EXIM Bank does not have a formal policy or procedures for the disbursement processes and existing guidelines are not sufficient to address the Credit Administration's reliance on other sources during its disbursement processes, evidence of payment, and an exception for aircraft transactions.

*EXIM Bank Does Not Have a Formal Policy or Procedures for its Disbursement Processes*

We found that EXIM Bank does not have a formal policy or procedures for its disbursement processes. EXIM Bank established a "Credit Administration Handbook" for its disbursement processes; however, it considers the Handbook to be guidance rather than a formal policy and staff is allowed to deviate from the Handbook. This leads to a lack of accountability because management is unable to enforce compliance and prevent inconsistencies in disbursement practices. GAO's Standards for Internal Control in the Federal Government states "management is responsible for designing the policies and procedures to fit an entity's circumstances and building them in as an integral part of the entity's operations." It further states, control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system. While the Credit Administration Handbook is dated in 2016, based on our interviews with EXIM Bank staff, reviews of documentation, and the gaps identified in the Handbook which are discussed in detail below, we determined that EXIM Bank has not developed a comprehensive disbursement policy or procedures that align with its current procedures and best practices. Credit Administration staff has generally relied on the institutional knowledge of its staff and stated it would be difficult to capture all the unique disbursement scenarios within a policy. However, a comprehensive policy is critical to ensure disbursements are made for the correct amount and purpose.

*Existing Disbursement Guidelines Should be Enhanced and Formalized*

The documentation in the disbursement file alone was not always complete or sufficient to determine if the disbursement was made for the correct amount and purpose. Instead we had to review documentation from other Bank divisions, an external lender and an exporter to ensure the disbursements were proper. As a result, we determined that disbursement guidelines should be enhanced and incorporated into a formal policy and procedures to ensure proper documentation is reviewed and maintained in the disbursement file by Credit Administration to validate the appropriateness of disbursements. Specifically, we found EXIM Bank's guidelines should be enhanced and formalized to (1) require documentation to be included in the disbursement file when information from other sources are relied upon to validate disbursements, (2) ensure proper evidence of payment, and (3) document an exception for aircraft transactions:

- **Reliance on documentation from other sources.** For 14 of the 45 long-term transaction disbursements reviewed totaling $162,971,067.38, documentation maintained in EXIM Bank's disbursement files alone was not sufficient to demonstrate that the disbursements were for the correct amount and purpose. We found that Credit Administration (1) approved disbursements based on an exporter's certification without obtaining documentation to reconcile what goods and services were being financed, (2) did not document its reliance on the Transportation Division's loan closing process to substantiate evidence of export and payment, (3) did not provide the correct acquisition list which was later obtained from the Engineering and Environment Divison (E&E), and (4) did not conduct or document necessary discussions with E&E to reconcile what goods and

services were financed. While EXIM Bank stated there was no reason for Credit Administration to receive information from E&E to reconcile goods and services, some letter of credit agreements require a description of goods and services on the invoice which matches the item(s) on the acquisition list and the Bank's guidelines require Credit Administration to ensure the letter of credit terms are met. Therefore, it is our conclusion that this information should have been documented.

During the audit, we were able to obtain documentation or explanations from other Bank divisions, an external lender, and an exporter to demonstrate the disbursements were proper. This included closing documents from the Transportation Division, detailed explanations of transactions from E&E, and additional documentation supporting disbursements from an external lender and exporter. During the audit, we learned that Credit Administration often consults with other Bank divisions and external lenders, but does not always document its reliance upon these other sources. As a result, the Bank's guidelines should be enhanced to ensure Credit Administration documents its reliance upon other sources in determining the appropriateness of a disbursement.

- **Sufficient Evidence of Payment Needed.** Eight disbursements reviewed totaling $148,992,498.92 were approved with a paid stamp signed by the U.S. exporter on the invoice or a letter from the U.S. exporter confirming payment of the invoice serving as the only evidence of payment. Additionally, the accepted "paid stamps" were generic and located in areas of the invoices that could have been easily altered or falsified and alone provided very little assurance of authenticity. While disbursement based on a paid stamp or exporter letter was allowed by EXIM Bank guidelines, according to Bank staff, mitigating procedures were deployed to obtain confirmation of payment such as phone calls with the exporter and borrower. However, there was no evidence provided to show these phone calls occurred. Any mitigating procedures deployed by Credit Administration to confirm payment should be documented in the disbursement files.

  EXIM Bank's Credit Administration Handbook for disbursements allows a paid stamp or letter from the U.S. exporter to be considered acceptable evidence of payment. Specifically, the Credit Administration Handbook for Disbursements states "All loan and guarantee programs require confirmation that the U.S. exporter's invoice has been paid" and the following evidences of payment are acceptable: "(a) paid stamp signed by the U.S. exporter on the invoice (b) photocopy of commercial bank's advice of payment to the U.S. exporter; (c) photocopy of both sides of a cancelled check made payable to the U.S. exporter; and/or (d) letter from the U.S. exporter confirming payment of the invoices." As supported by EXIM Bank's Office of General Counsel (OGC) and previous investigations, we determined the lowest forms of acceptable evidence of payment allowed by EXIM Bank - a paid stamp on the invoice signed by the U.S. exporter or a letter from the U.S. exporter - do not prove a payment actually occurred. According to OGC, sending confirmation of payment (i.e. a letter or paid stamp) instead of wire advice itself is a red flag for fraud. Although not related to the transactions in this audit, previous OIG investigations identified that invoices with falsified "paid stamps" or falsified paid in

full letters were accepted by EXIM Bank as evidence of payment. While the Bank has made improvements to its programs, these investigations still provide examples of the type of fraud that can occur without proper internal controls.

The Bank's guidelines for evidence of payment should be enhanced to require true evidence of payment such as a photocopy of a commercial bank's advice of payment to the U.S. exporter or photocopy of both sides of a cancelled check made payable to the U.S. exporter. Bank employees should be discouraged from accepting only a paid stamp signed by the exporter or a letter from the exporter confirming payment. If these forms of evidence continue to be accepted, additional controls should be in place to ensure they are validated.

- **Aircraft Exception.** During our audit, we learned that Credit Administration does not require an acquisition list from E&E for aircraft transactions although there is no such exception noted in the Handbook or documented in its disbursement files. While we found that acquisition lists were sometimes provided for aircraft transactions, the Transportation Division explained that they were not necessary because of the documentation obtained as part of the extensive closing process. This exception should be noted and explained in the disbursement policy and procedures.

## *RECOMMENDATIONS, MANAGEMENT COMMENTS AND OIG RESPONSE*

To improve EXIM Bank's disbursement processes, we recommend the Vice President of Operations and Management Reporting:

1. Develop a comprehensive written policy and procedures for the disbursement processes. The policy and procedures should address reoccurring variations in disbursement practices and require unique circumstances necessitating a deviation from a policy or procedure to be documented and justified within the disbursement files.

   **Management Comments**

   Management agreed with this recommendation. EXIM will develop a comprehensive written policy and procedures for the disbursement processes, which will require unique circumstances necessitating a deviation from a policy or procedure to be documented and justified within the disbursement files.

   **OIG Response**

   Management's proposed actions are responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

2. Within the disbursement policy and procedures, document the process for coordination between Credit Administration, other divisions within the Bank (such as E&E and Transportation), and other sources including in what circumstances the coordination is required and how the coordination should be documented within the disbursement files.

   **Management Comments**

   Management agreed with this recommendation. EXIM will document, within the disbursement policies and procedures, the process for coordination between Credit Administration and other divisions and sources, to include, in what circumstances the coordination is required and how the coordination should be documented within the disbursement files.

   **OIG Response**

   Management's proposed actions are responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

3. Within the disbursement policy and procedures, require evidence of actual payment such as a photocopy of a commercial bank's advice of payment to the U.S. exporter or photocopy of both sides of a cancelled check made payable to the U.S. exporter. If confirmation of payment via letter or "paid stamp" continues to be allowed, require documentation of the mitigating controls put in place to ensure payment is valid.

   **Management Comments**

   Management agreed with this recommendation. EXIM will provide detailed guidance within the disbursement policy and procedures related to the required evidence of actual payment, including documentation of the mitigating controls in cases where a letter or "paid stamp" is allowed.

   **OIG Response**

   Management's proposed actions are responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

4. Within the disbursement policy and procedures, document any exceptions to obtaining acquisitions lists (such as for aircraft transactions) and the mitigating internal controls.

   **Management Comments**

Management agreed with this recommendation. EXIM will document exceptions to obtaining acquisitions lists (such as aircraft transactions) and the mitigating internal controls.

**OIG Response**

Management's proposed actions are responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

## Finding 2: EXIM Bank Should Implement Additional Internal Controls for Procedures that Rely on Third-Party Review or Self-Certifications

Our audit identified three areas in which the Bank relies on third-party review or self-certifications during its disbursement processes, including (1) reliance on exporter certification to demonstrate the eligibility of goods and services for letter of credit disbursements, (2) reliance on medium-term guarantee lenders for the review of disbursement documentation, and (3) reliance on exporter certification for evidence of payment of local costs when the exporter also serves as the local cost provider for transactions involving a U.S. supply contract. Per OMB Circular No. A-123, "agency managers must continuously monitor, assess, and improve the effectiveness of internal control associated with those internal control objectives identified as part of their risk profile." Per OMB Circular A-129, risk management functions are generally expected to have clearly-defined responsibilities and accountability, which typically include "supporting implementation of effective controls, which may include a quality control or loan review function that monitors for underwriting errors or other deviations from acceptable practice."

EXIM Bank's Credit Review and Compliance division (CRC) acts as a mitigating post-disbursement control (second line of defense) by conducting post-authorization Program Compliance Reviews with sampling based on a randomly selected sample of lenders in the Bank's entire portfolio of lenders. CRC judgmentally adds additional transactions to the review if it determines there is a risk-based need to do so. However, there is no assurance that the areas relying on third-party and self-certification will receive enhanced coverage as part of the sampling process. The following presents the risks associated with each area of reliance identified during our audit that could be mitigated with an enhanced second line of defense by CRC.

*Reliance on exporter certification to demonstrate the eligibility of goods and services for letter of credit disbursements*

According to the Credit Administration Handbook, for reimbursements, the invoice numbers, payment information, description of goods and services, and bill of lading reference numbers should be compared to the attached disbursement documents and to the acquisition list for accuracy. These same requirements are not in place, however, for letter of credit disbursements. As a result, for letter of credit disbursements, EXIM Bank

relies on exporter certifications and mitigating controls within the underwriting process and pre-negotiated letter of credit terms. However, without proper verification of the invoices to the acquisition list and shipping documentation, EXIM Bank cannot ensure it is making disbursements for eligible goods and services and is in compliance with requirements for use of U.S.-flagged shipping vessels.[1] The below example emphasizes the need for a second line of defense to ensure EXIM Bank's reliance on the exporter certification is not putting the bank at an unacceptable risk. For one disbursement totaling $1,276,930.81, the auditors determined that neither EXIM Bank nor the Letter of Credit Bank possessed all required documentation to demonstrate the disbursement was made for eligible good and services. Although the Letter of Credit agreement states invoices "must describe item(s) on the acquisition list", funds were disbursed based upon an invoice that contained no description of the U.S. goods and services financed. When the auditors brought this to the attention of the Letter of Credit Bank, the Vice President stated the exporter's certification statement was on file. When Credit Administration staff was questioned on this practice of relying on the certification statement with no verification by either EXIM Bank or the Letter of Credit Bank, Credit Administration staff stated they considered reliance on the exporter certification to be acceptable. According to Credit Administration personnel, the staff has competing priorities, with a significant workload administering disbursement procedures for direct credits and medium and long-term guarantees.

Although not related to the transactions reviewed during this audit, an OIG investigation found a letter of credit bank disbursed funds although goods were marked up by 300 percent or more in some instances and invoices did not always match the acquisition list. As a result of this fraud, the government incurred millions of dollars in losses because the borrower defaulted on its loan after making just one payment. This may have been detected earlier, if the Bank established adequate internal controls for letter of credit disbursements. While the Bank has made improvements to its programs, this investigation provides an example of the type of fraud that can occur without proper internal controls.

*Reliance on medium-term guarantee lenders for the review of disbursement documentation*

EXIM Bank approves disbursements for medium-term guarantees without reviewing the disbursement documentation prior to approval. As further described in the Background Section, the guaranteed lender submits an ECP checklist to Credit Administration, demonstrating that the lender reviewed and certified the underlying disbursement documentation. Credit Administration does not obtain the underlying disbursement documentation, and instead relies on the lenders review and certification. EXIM Bank provides 100 percent unconditional guarantees to commercial lenders for medium-term guarantees, while relying on these lenders to perform documentation reviews for

[1] Public Resolution 17, codified at 46 USC 55304, requires for certain U.S. government agency supported export cargoes shipped on ocean-going vessel, to be shipped on U.S.-flag vessels, unless the Maritime Administration issues (i)a Determination for Use in EXIM Bank Financing Evaluation Process or (ii) a Certification of Vessel of Non-availability.

disbursements. EXIM Bank considers CRC's post-disbursement reviews an adequate mitigating internal control. However, CRC's post-disbursement reviews are based on a selection of lenders based on all EXIM Bank authorizations. While CRC stated medium-term guarantees have been sampled, since the sampling is not based on a specific program or product, it provides no assurance that a representative sample of medium-term guarantees will be reviewed to determine if the disbursement controls are effective. According to EXIM Bank, the ECP process was established and approved by the Board for efficiency purposes given limited staffing, and to mitigate fraud risks. EXIM Bank has not reassessed the disbursement process for medium-term guarantees since 2011.

*Reliance on exporter certification for evidence of payment of local costs*

EXIM Bank does not require evidence of payment from local cost suppliers when the exporter is considered the local cost provider for transactions involving a U.S. supply contract. For example, for disbursements in our sample totaling $3,093,044.43, the Bank provided no evidence of payment from local cost providers. Engineering personnel stated it was not feasible to obtain evidence of payment directly from the suppliers for a project related transaction associated with a turn-key construction contract where the suppliers do not have a contractual relationship with the buyer. Local costs are a high risk area because the Bank does not have a contractual relationship with these suppliers. Without obtaining evidence of payment from the local cost provider, there is an increased risk that local costs will be for the incorrect amount or purpose. Furthermore, control of third parties is an area of vulnerability for fraud, bribery, and corruption. The OIG's Office of Inspections and Evaluations (OIE) previously identified deficiencies related to local costs and made recommendations which were recently implemented by the Bank. Additionally, OIE is currently completing an evaluation of local cost disbursements. As a result, we are not making any new recommendations specific to local costs in this report.

Due to the inherent risks caused by the reliance on third-parties and self-certifications, EXIM Bank should improve its second line of defense to ensure the reliance is not presenting unacceptable risk to the Bank. Rather than focusing on a randomly selected sample of lenders from the Bank's entire loan portfolio every year, CRC should implement a more risk-based approach to ensure high risk areas, including those relying on third-party review and self-certifications, receive a more in-depth review periodically.

## RECOMMENDATIONS, MANAGEMENT COMMENTS AND OIG RESPONSE

To improve EXIM Bank's disbursement processes, we recommend the Vice President of Credit Review and Compliance:

5. Develop a risk-based approach for reviews performed by CRC to ensure adequate coverage of all areas relying on third-party review and self-certification, such as letter of credit and medium-term guarantee disbursments. The CRC reviews should be used to determine if the front-end internal controls prior to EXIM Bank disbursement approval require modification.

**Management Comments**

Management agreed with this recommendation. In addition to the randomly selected sample reviews currently in place, EXIM will also develop a risk-based approach for reviews performed by CRC to ensure adequate coverage of all areas relying on third-party review and self-certification. Further, EXIM will use these reviews to determine if the front-end internal controls prior to EXIM Bank disbursement approval require modification.

**OIG Response**

Management's proposed actions are responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

To improve EXIM Bank's disbursement processes, we recommend the Vice President of Operations and Management Reporting in coordination with the Enterprise Risk Committee:

6. Reassess and document the rationale for providing 100 percent unconditional guarantees under the medium-term guarantee program given the reliance on the guaranteed lenders to review disbursement documentation.

**Management Comments**

Management agreed with this recommendation. EXIM's Vice President of Operations and Management Reporting in coordination with the Enterprise Risk Committee will reassess and document the rationale for providing 100 percent unconditional guarantees under the medium-term guarantee program. The results of this assessment will be presented to the Board of Directors with recommendations for possible changes to the products offered by EXIM Bank.

**OIG Response**

Management's proposed actions are responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

## FINDING 3: Opportunities Exist for Credit Administration to Formalize Training and Enhance and Monitor its Performance Measures and Indicators

*Credit Administration should formalize training for staff on disbursement processes*

GAO's Standards for Internal Control in the Federal Government states training is needed to help an entity achieve its objectives and to meet expectations of competence. Competence requires relevant knowledge, skills, and abilities, gained in part from training.

When management recruits, develops, and retains competent personnel to achieve the entity's objectives, one consideration is tailoring training based on the needs of the role. Training is also an aspect of an entity's human capital, essential to operational success.

Credit Administration created a document that provides a high-level overview of the disbursement processes which is available to staff for reference. While this document is also periodically presented via webinar, the audience is primarily external parties. EXIM Bank does not provide or procure formalized training relevant to the disbursement processes for its staff. According to Credit Administration personnel, formalized training has not been established because Credit Administration Officers are experienced. However, more formalized training could ensure Credit Administration staff remain aware of new risks identified in the industry and any updates to industry best practices. Additionally, formalized training for staff could reduce the risk of errors occurring. Finally, without a formalized training program, there is a much greater risk the Credit Administration division may not be adequately prepared for changes in staff.

*EXIM Bank should enhance and monitor its performance measures and indicators for Credit Administration*

GAO's Standards for Internal Control in the Federal Government states, "Management establishes activities to monitor performance measures and indicators. These may include comparisons and assessments relating different sets of data to one another so that analyses of the relationships can be made and appropriate actions taken." Further, OMB Circular A-129 states, "Agencies must have robust management and oversight frameworks for credit programs to monitor the program's progress towards achieving policy goals within acceptable risk thresholds, and to take action where appropriate to increase efficiency and effectiveness. This framework must be reinforced with appropriate internal controls… senior management must also establish appropriate performance and other indicators for the program, and establish risk thresholds to balance policy goals with risks and costs to the taxpayer. Such indicators should be reviewed periodically, and coordinated with OMB." During our audit, Credit Administration personnel stated data is captured and used for metrics at an individual level, such as individual performance reviews, but is not captured for measurement at the program level. By not monitoring performance measures and indicators at the program level, the Bank cannot effectively measure the program's progress toward meeting its goals within acceptable risk thresholds and cannot properly compare and assess the program's performance data. As a result, unexpected results or unusual trends may go unidentified without corrective action being taken.

## RECOMMENDATIONS, MANAGEMENT COMMENTS AND OIG RESPONSE

To improve EXIM Bank's disbursement processes, we recommend the Vice President of Operations and Management Reporting:

7. Formalize training for employees specific to the disbursement processes.

**Management Comments**

Management agreed with this recommendation and stated EXIM has a comprehensive training plan for employees specific to the disbursement process and has recently completed an effort to formalize it into the Credit Administration Training Protocol.

**OIG Response**

Management's proposed actions are responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

8. Enhance and monitor performance measures and indicators for the disbursement processes.

**Management Comments**

Management agreed with this recommendation and stated EXIM has enhanced performance measures and indicators and developed the Credit Adminstration Target Metrics Protocol for the disbursement processes.

**OIG Response**

Management's proposed actions are responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

## Other Matter: EXIM Bank Should Develop a Mechanism to Provide Complete, Timely, and Accurate Disbursement Data Upon Request

According to the Government Accountability Office's Standards for Internal Control in the Federal Government, "Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements." As part of our audit, we requested validated disbursement data in order to pull a sample of disbursements to review. EXIM Bank, however, did not provide a validated disbursement dataset until months after our initial request and as a result, our sample was selected from unvalidated data from EXIM Online, the system that Credit Administration uses to enter disbursements.

The OIG initially requested validated disbursement data from the Bank on October 4, 2016 during the entrance conference but did not receive a fully validated disbursement dataset until March 28, 2017. While there were multiple discussions and clarifications provided to the Bank and several unvalidated data sets provided throughout this time period, the significant lapse of time to arrive at a validated dataset indicates the Bank needs to develop a better mechanism for providing validated disbursement data when it is requested.

Upon receiving datasets from the Bank on October 11, 2016 and December 21, 2016, the OIG determined they were not valid as disbursements manually entered into the financial management system were missing from the datasets and some disbursement amounts were understated. After significant back and forth between the OIG and OCFO between January and March to identify and resolve discrepancies, an updated dataset was provided on March 22, 2017. Nevertheless, the OIG identified two additional discrepancies in this dataset. All discrepancies were finally resolved on March 28, 2017.

During our audit, we interviewed EXIM Bank personnel to gain a better understanding of why validated data was not provided in a timely manner. Based on these discussions and the issues we experienced during the audit, we believe EXIM Bank was not able to provide the requested data in a timely manner because: (1) EXIM Bank does not monitor disbursement data at the program office level, (2) Credit Administration Staff enters disbursement data into EXIM Online, a system without validated data, (3) FMS-NG was implemented at EXIM Bank at the start of the OIG's review period and the Bank was undergoing the conversion process from the legacy system and adjusting to the new system, and (4) EXIM Bank staff was balancing competing priorities. Although the OIG clearly requested validated data from the very start of the audit, OCFO staff stated they did not understand that the OIG required validated data and thought the OIG wanted raw data.

Without reliable, useful and timely data, EXIM Bank is unable to ensure the accuracy and consistency of its disbursement data. In addition, the Bank is unable to accurately monitor the disbursement processes without performance measures/indicators. Further, while we were able to select a judgmental sample of disbursements that met our needs for this audit, the lack of reliable data could potentially cause a scope limitation for future audits which would adversely impact OIG findings and conclusions.

## *RECOMMENDATIONS, MANAGEMENT COMMENTS AND OIG RESPONSE*

We recommend the Senior Vice President and Chief Financial Officer:

9. Implement a process for recording and validating disbursement data between EOL, FMS-NG, and the GL on at least a quarterly basis so that third-party requests for validated data can be completed in a timely manner and staff can effectively track program performance.

   **Management Comments**

   Management agreed with this recommendation. OCFO will implement a process for recording and validating disbursement data between EOL, FMS-NG, and the GL on at least a quarterly basis.

   **OIG Response**

Management's proposed actions are responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

Management's comments are included in their entirety in Appendix B.

# CONCLUSION

We determined that EXIM Bank's long-term direct loans and medium and long-term loan guarantees were generally disbursed in accordance with EXIM Bank's guidelines and for the correct amounts and purposes. However, EXIM Bank's underlying documentation and internal controls for disbursements need improvement. Specifically, we determined that the underlying documentation and internal controls for disbursements should be improved by (1) developing, documenting and enhancing a policy and procedures; (2) implementing additional internal controls for procedures that rely on third-party reviews or self-certifications; and (3) formalizing training and enhancing measurement and monitoring procedures for EXIM Bank's disbursement processes.

To assist the Bank with strengthening its documentation and internal controls for its disbursement processes, we made nine recommendations that address the areas for improvement.

# APPENDICES

## Appendix A: Scope and Methodology

We performed this audit from October 2016 through August 2017 at EXIM Bank Headquarters in Washington, DC 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 objective was to determine if loans and guarantees were disbursed in accordance with EXIM Bank's policies and procedures. Specifically, we focused on whether EXIM Bank long-term direct loans and medium and long-term guarantees were disbursed for the correct amounts and purposes. We reviewed federal laws, regulations and guidance as well as EXIM Bank's applicable policies, procedures and guidelines. We also interviewed EXIM Bank officials to gain an understanding of the disbursement processes. Specifically, we interviewed EXIM Bank management officials within Credit Administration, Office of General Counsel (OGC), Engineering and Environment (E&E) Division, Credit Review and Compliance Division, Office of Policy Analysis and International Relations, Office of the Chief Financial Officer (OCFO), an exporter on an EXIM transaction, and external lenders. We also developed an evaluation tool for the review of disbursements based on EXIM Bank's policies, procedures, and guidelines and other applicable criteria. We judgmentally selected and reviewed the supporting documentation for 52 disbursements totaling $424,773,372.34 from 11 transactions of the approximately $18 billion long-term direct loan and medium and long-term loan guarantee disbursements made by the Bank between October 1, 2014 and June 30, 2016.

**Review of Internal Controls**

We reviewed and evaluated the internal controls associated with EXIM Bank's disbursement processes. We found that improvements can be made to ensure more effective oversight of disbursements. Our recommendations, if implemented, should correct the weaknesses we identified.

# Appendix B: Management Comments

EXIM
EXPORT-IMPORT BANK OF THE UNITED STATES

*Reducing Risk. Unleashing Opportunity.*

September 22, 2017

Terry Settle
Acting Inspector General
Office of the Inspector General
Export-Import Bank of the United States
811 Vermont Avenue, NW
Washington, DC 20571

Dear Ms. Settle,

Thank you for providing the Export-Import Bank of the United States ("EXIM Bank" or "the Bank") management with the Office of the Inspector General's ("OIG") audit report on "EXIM Bank's Disbursement Processes," dated September 6, 2017 (the "Disbursements audit report"). Management continues to support the OIG's work which complements the Bank's efforts to continually improve its processes. EXIM Bank is proud of the strong and cooperative relationship it has with the OIG.

EXIM Bank appreciates the OIG determination that disbursements selected for this audit for EXIM Bank's long-term direct loans and medium and long-term loan guarantees totaling $424,773,372.34 "were generally disbursed in accordance with EXIM Bank's guidelines and for the correct amounts and purposes."

Additionally, the Bank values that the OIG acknowledges that "the Bank has made improvements to its programs." The Bank would also like to note that the cited examples of fraud investigated by the OIG Office of Investigations were "not related to the transactions reviewed during this audit." The Bank further notes, that context relating to those examples of fraud, to include dates, damages incurred, and the Bank's response, is not noted in the report. Lack of such context makes it difficult to determine whether the cited examples of OIG investigated fraud highlight increased risk and inadequate internal controls as they relate to the reviewed transactions and programs.

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Further, EXIM appreciates OIG's finding that OIG "only identified one disbursement that was approved by Credit Administration for $1,276,930.81 without receiving the required exporter certification on the invoice", which is approximately 0.3 percent of all reviewed disbursements, totaling $424,773,372.34. The Bank notes that EXIM has since received "required certification on the invoice" from the letter of credit bank.

The Bank continuously strives to improve its policies and practices and agrees to all nine OIG recommendations in this report.

Recommendation 1: that the Vice President of Operations and Management Reporting develop a comprehensive written policy and procedures for the disbursement processes. The policy and procedures should address reoccurring variations in disbursement practices and require unique circumstances necessitating a deviation from a policy or procedure to be documented and justified within the disbursement files.

Management response: Management agrees with this recommendation. EXIM will develop a comprehensive written policy and procedures for the disbursement processes, which will require unique circumstances necessitating a deviation from a policy or procedure to be documented and justified within the disbursement files.

Recommendation 2: that the Vice President of Operations and Management Reporting within the disbursement policy and procedures, document the process for coordination between Credit Administration, other divisions within the Bank (such as E&E and Transportation), and other sources including in what circumstances the coordination is required and how the coordination should be documented within the disbursement files.

Management response: Management agrees with this recommendation. EXIM will document, within the disbursement policies and procedures, the process for coordination between Credit Administration and other divisions and sources, to include, in what circumstances the coordination is required and how the coordination should be documented within the disbursement files.

Recommendation 3: that the Vice President of Operations and Management Reporting within the disbursement policy and procedures, require evidence of actual payment such as a photocopy of a commercial bank's advice of payment to the U.S. exporter or photocopy of both sides of a cancelled check made payable to the U.S. exporter. If confirmation of payment via letter or "paid stamp" continues to be allowed, require documentation of the mitigating controls put in place to ensure payment is valid.

Management response: Management agrees with this recommendation. EXIM will provide detailed guidance within the disbursement policy and procedures related to the required evidence of actual payment, including documentation of the mitigating controls in cases where a letter or "paid stamp" is allowed.

EXIM notes that a blanket requirement to provide evidence of actual payment would be burdensome for customers and would affect the timeliness of the customer's receipt of

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funds. On average, EXIM processes over 11,000 invoices annually. Therefore, a requirement to provide additional documentation related to the evidence of payment would significantly impact the ease of doing business with EXIM and would dramatically increase the number of documents EXIM would have to review for every disbursement. EXIM also notes that the requirement to provide cancelled checks is an outdated business practice and infrequently used. EXIM has received clear direction from Congress and successive presidential administrations to improve its competitiveness and to streamline the procedures it uses to offer services to U.S. exporters. EXIM will balance these imperatives with the need to establish procedures which adequately protect the U.S. taxpayer from fraud.

EXIM Bank has implemented robust internal controls to mitigate risks associated with "paid stamp" and a payment letter. First, for all evidence of payment the exporter certifies in the Exporter's Certificate that they have or will submit evidence of payment of their invoices issued in connection with the Supply Contract(s)/Purchase Order(s). Second, the borrower under long-term transactions certifies in their disbursement request that they have paid, or caused to be paid the amounts detailed in the Itemized Statement of Payments that is attached with their disbursement request. Such certifications are legally binding, and consequences of making a false certification may result in criminal prosecution. By making false certifications the parties risk suspension and debarment from doing business with the US Government for an indeterminate amount of time, jail time and monetary penalties. In addition, with respect to asset-based aircraft transactions, delivery and export of the aircraft; title transfer; mortgage registration; and payment to the aircraft manufacturer are highly structured and tightly monitored by all parties to the transaction.

Lastly, as a second line of defense, the Bank's Credit Review and Compliance (CRC) division as part of CRC's analysis, reviews actual evidence of payment, such as the bank advice, to verify that the payment evidence provided for the disbursement matches. To date, after several years of these reviews, CRC has uncovered no issues of fraud waste or abuse in this area. Any irregularities in the evidence of payment will be diligently reviewed as part of the CRC compliance checks, and will be communicated to the Operations and Management Reporting to determine whether additional forms of evidence of payment are necessary.

Recommendation 4: that the Vice President of Operations and Management Reporting within the disbursement policy and procedures, document any exceptions to obtaining acquisitions lists (such as for aircraft transactions) and the mitigating internal controls.

Management response: Management agrees with this recommendation. EXIM will document exceptions to obtaining acquisitions lists (such as for aircraft transactions) and the mitigating internal controls.

Recommendation 5: that the Vice President of Credit Review and Compliance develop a risk-based approach for reviews performed by CRC to ensure adequate coverage of all areas relying on third-party review and self-certification, such as letter of credit and medium-term guarantee disbursements. The CRC reviews should be used to determine if the front-end internal controls prior to EXIM Bank disbursement approval require modification.

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Management response: Management agrees with this recommendation. In addition to the randomly selected sample reviews currently in place, EXIM will also develop a risk-based approach for reviews performed by CRC to ensure adequate coverage of all areas relying on third-party review and self-certification. Further, EXIM will use these reviews to determine if the front-end internal controls prior to EXIM Bank disbursement approval require modification.

Recommendation 6: that the Vice President of Operations and Management Reporting in coordination with the Enterprise Risk Committee reassess and document the rationale for providing 100 percent unconditional guarantees under the medium-term guarantee program given the reliance on the guaranteed lenders to review disbursement documentation.

Management response: Management agrees with this recommendation. EXIM's Vice President of Operations and Management Reporting in coordination with the Enterprise Risk Committee will reassess and document the rationale for providing 100 percent unconditional guarantees under the medium-term guarantee program. The results of this assessment will be presented to the Board of Directors with recommendations for possible changes to the products offered by EXIM Bank.

Recommendation 7: that the Vice President of Operations and Management Reporting formalize training for employees specific to the disbursement processes.

Management response: Management agrees with this recommendation. EXIM has a comprehensive training plan for employees specific to the disbursement process and has recently completed an effort to formalize it into the Credit Administration Training Protocol.

Recommendation 8: that the Vice President of Operations and Management Reporting Enhance and monitor performance measures and indicators for the disbursement processes.

Management response: Management agrees with this recommendation. EXIM has enhanced performance measures and indicators and developed the Credit Administration Target Metrics Protocol for the disbursement processes.

Recommendation 9: that the Senior Vice President and Chief Financial Officer implement a process for recording and validating disbursement data between EOL, FMS-NG, and the GL on at least a quarterly basis so that third-party requests for validated data can be completed in a timely manner and staff can effectively track program performance.

Management response: Management agrees with this recommendation. OCFO will implement a process for recording and validating disbursement data between EOL, FMS-NG, and the GL on at least a quarterly basis.

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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 EXIM funds from fraud, waste, and abuse. We look forward to strengthening our working relationship and continuing to work closely with the Office of the Inspector General.

Sincerely,

Charles J. Hall
Chairman of the Board of Directors and President (acting)

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# ACKNOWLEDGEMENTS

This report was prepared by the Office of Audits, Office of Inspector General for the Export-Import Bank of the United States. Several individuals contributed to this report including Courtney Potter and Bryan Prince.

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