



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

**Audit of the
Export-Import Bank's
Short-Term Multi-Buyer
Insurance Program**

March 23, 2015
OIG-AR-15-04

Insurance policy tracking numbers have been redacted from the publicly released version of this report to protect commercial and financial information submitted to Ex-Im Bank that is privileged or confidential.

EXPORT-IMPORT BANK
of the **UNITED STATES**

INSPECTOR GENERAL

To: Annette Maresh
Vice President, Trade Finance Division

From: Terry Settle *TLS*
Assistant Inspector General for Audits

Subject: Audit of the Export-Import Bank's Short-Term Multi-Buyer Insurance Program, Report Number: OIG-AR-15-04

Date: March 23, 2015

This final report presents the results of our audit of Export-Import Bank's ("Ex-Im Bank" or "the Bank") Short-Term Multi-Buyer Insurance Program. The objective of this audit was to determine if the internal control environment and activities for the Short-Term Multi-Buyer program were designed, operated, and updated to provide reasonable assurance of (1) compliance with applicable laws and regulations and (2) the efficiency and effectiveness of internal operations for underwriting and issuing insurance policies.

The report contains seven recommendations for corrective action. In response to our report, management concurred with all seven recommendations. Management's comments are included as Appendix IV 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 cooperation and courtesies provided to this office during the audit. If you have questions, 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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Why We Did This Audit

The Export-Import Bank provides insurance to U.S. exporters. Short-Term Multi-Buyer insurance provides coverage for losses resulting from non-payment due to commercial reasons and political events. Short-Term Multi-Buyer insurance policies comprised only 7 percent of the Bank's total authorized dollars and 18 percent of the Bank's total claim dollars for fiscal years 2012 and 2013, but represented 62 percent of the Bank's total number of authorizations and 74 percent of the total number of claims in those years. We conducted the audit to determine if the internal control environment and activities for the Short-Term Multi-Buyer program were designed, operated, and updated to provide reasonable assurance of (1) compliance with applicable laws and regulations and (2) the efficiency and effectiveness of internal operations for underwriting and issuing insurance policies.

What We Recommended

We recommended that the Bank (1) ensure underwriting summaries clearly present the credit standards and how they were met or mitigated so that a third party reviewer can validate the underwriter's credit decision in order to avoid questioned costs; (2) ensure operating profit information is collected for Express transactions; (3) develop a procedure to ensure CRTI checks are completed and determine the proper CRTI document retention requirements; (4) provide additional training and enhance communication among underwriters and directors; (5) consider using the full functionality of EOL to approve lower risk transactions in order to focus resources on higher risk transactions and improve underwriting consistency; (6) develop procedures and controls to ensure management can validate and verify that data is appropriate, current, complete, accurate, accessible and can be provided in a timely manner; and (7) make the necessary changes to ensure exporter scores are properly calculated. Management concurred with all seven recommendations.

What We Found

We found that Ex-Im Bank's internal control environment and activities for the Short-Term Multi-Buyer insurance program were generally designed, operated, and updated to provide reasonable assurance of compliance with applicable laws and regulations. However, improvements can be made to ensure the efficiency and effectiveness of internal operations for underwriting and issuing Short-Term Multi-Buyer insurance policies. The program is generally meeting its mission and has experienced a low loss rate. Since our 2012 audit of the Short Term Insurance Programs, the Bank has documented and implemented comprehensive policies and procedures and a monitoring process for periodically reviewing a sample of credit decisions to ensure the due diligence performed complied with program policies and procedures. Our audit found, however, that improvements should be made to ensure (1) underwriters comply with the Bank's policies and procedures, (2) underwriters consistently document their credit decisions, and (3) data is complete and accurate.

Overall, based on our review of 23 transactions totaling approximately \$25 million in credit limits, we found that underwriters did not comply with the Bank's policies and procedures for 5 transactions. While the remaining 18 transactions met the Bank's credit standards, the underwriting decisions for 15 of these transactions, along with the 5 noncompliant transactions, were not sufficiently documented.

We found that 5 transactions, totaling over \$5 million in credit limits, were approved even though the required credit standards were not met or the required Character, Reputational and Transaction Integrity (CRTI) check was not performed prior to approval. Three of the nine required credit standards were not met for one transaction, which resulted in a \$486,855 claim payment by the Bank. Although the claim was fully recovered, a questioned cost of \$118,000 resulted from recovery expenses that were incurred by the Bank for this transaction. For three other transactions, we did not find evidence to support that the exporters had an operating profit in the recent fiscal year as required. We found one other transaction that was approved without completing the required CRTI check. We also found that underwriters were not consistently documenting their credit decisions. Without sufficient documentation, third party reviews may not be able to validate the underwriters' credit decisions.

Further, we found that the Bank was unable to provide a complete listing of Short-Term Multi-Buyer transactions as requested by the auditors. As a result, we could not determine the population of Short-Term Multi-Buyer transactions for the audit period. Finally, we found that some of the exporter scores used to assess exporter risk were incorrectly calculated by the Bank's automatic underwriting system or not calculated in accordance with guidance. Incorrect exporter scores could result in under or over-stated assessments of exporter risk which could in turn, provide exporters with less or more favorable credit terms than what would be appropriate.

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

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Introduction

This audit report presents the results of our audit of Export-Import Bank’s (“Ex-Im Bank” or “the Bank”) Short-Term Multi-Buyer Insurance Program. The objective of this audit was to determine if the internal control environment and activities for the Short-Term Multi-Buyer program were designed, operated, and updated to provide reasonable assurance of (1) compliance with applicable laws and regulations and (2) the efficiency and effectiveness of internal operations for underwriting and issuing insurance policies. To answer this objective, we reviewed the *Ex-Im Bank Short Term Credit Standards*; the Bank’s *Loan, Guarantee, and Insurance Manual*; the Government Accountability Office’s *Standards for Internal Control in the Federal Government*; and the Office of Management and Budget’s Circular No. A-123, *Management’s Responsibility for Internal Control*. We also reviewed a prior audit report conducted by the OIG and assessed the status of the recommendations from this report.¹

We conducted a survey and interviewed Bank officials from the Trade Credit Insurance Division (TCID), the Credit Review and Compliance (CRC) Division, the Credit Policy Division, and the Library to assess the adequacy of training, quality control, communication, and internal controls in the Short-Term Multi-Buyer insurance program. Finally, we judgmentally selected and reviewed 23 Short-Term Multi-Buyer transactions totaling \$25 million in credit limits from listings of Short-Term Multi-Buyer transactions provided by the Bank for the period October 1, 2011 to June 30, 2014. We reviewed these transactions to determine if they were underwritten and approved in compliance with Ex-Im Bank’s policies and procedures and to assess the efficiency and effectiveness of operations. See Appendix I for more details on our scope and methodology. See Appendix II for a listing of the 23 transactions reviewed and a summary of the deficiencies identified.

We conducted this performance audit from April 2014 through January 2015 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 Export-Import Bank of the United States (“Ex-Im Bank” or “the Bank”) is an independent executive agency and a wholly-owned U.S. government corporation. Ex-Im Bank is the official export-credit agency of the United States. Its mission is to support U.S. jobs by facilitating the export of U.S. goods and services, providing competitive export financing, and ensuring a level playing field for U.S. goods and services in the global marketplace. One initiative to support the Bank’s mission is the Export-Credit Insurance Program. The Export-Credit Insurance Program allows U.S. exporters to increase its export sales by providing protection against foreign-buyer or other foreign-debtor default. The program limits the exporters’ international risks and gives them the ability to extend competitive credit terms (e.g. payment terms) to international buyers. The

¹ OIG-AR-12-05, Audit of Export-Import Bank’s Short-Term Insurance Program, September 28, 2012

Export-Credit Insurance Program offers multiple insurance products for short-term and medium-term export sales.

The Short-Term Multi-Buyer Credit Insurance Program is one of the insurance products offered by the Export-Credit Insurance Program and is managed by the Trade Credit Insurance Division (TCID). The Short-Term Multi-Buyer insurance product provides insurance coverage for losses resulting from non-payment due to commercial reasons (e.g. bankruptcy, protracted default) and political events (e.g. war, government seizure of goods, revoked export or import licenses, and foreign exchange inconvertibility). The Short-Term Multi-Buyer product has several types of insurance policies depending upon the size and experience of the applicant, the product being exported, and the applicant's needs. A Short-Term Multi-Buyer insurance policy may also include a Discretionary Credit Limit (DCL) for the exporter, which provides a per buyer maximum credit limit. The DCL grants the exporter the authority to approve insurance coverage to their customers up to this limit. Potential customers that require a credit limit above the DCL must be approved by TCID through a Special Buyer Credit Limit application. In addition to insurance coverage of export products, TCID also provides an Enhanced Assignment (EA) insurance provision which protects lenders, who financed the insured export products, from exporter performance risks (non-compliance with the insurance policy).

In order to be eligible for a Short-Term Multi-Buyer insurance policy, the exporter's product and/or service, at a minimum, must contain more than 50 percent U.S. content (i.e. labor and materials) and be shipped from the U.S. to a foreign buyer. Exporters may apply for a Short-Term Multi-Buyer insurance policy via the Bank's application system, Ex-Im Online (EOL). EOL is an interactive, web-based system that allows exporters to apply for an insurance policy, monitor the application status, receive and accept insurance quotes, report shipments, and file claims.

Once the exporter completes the online application, EOL performs automated underwriting, such as evaluating the credit standards and calculating financial ratios. Although EOL has the functionality to automatically approve transactions, TCID has decided not to activate this feature. Therefore, EOL submits the application for manual underwriting with a policy recommendation and any special issues identified (i.e. unmet credit standard). A TCID underwriter reviews the application in accordance with the *Ex-Im Bank Short Term Credit Standards*, the *Short-Term Multibuyer Insurance Policy Underwriting Manual* (the Manual), and the *Character, Reputational and Transaction Integrity (CRTI) Transaction Due Diligence Guidelines*.² The credit standards vary depending upon the insurance policy amount. For example, Special Buyer Credit Limit policies insured for \$100,000 or less may only require a favorable credit report, the same line of business for three years and no material adverse issues, while Special Buyer Credit Limit policies up to \$1 million would require all of these credit standards plus favorable trade references, and audited financial statements. TCID underwriters will perform the manual underwriting by reviewing the following (as applicable):

- Line of business (history)
- Credit reports

² The *Short-Term Multibuyer Insurance Policy Underwriting Manual* and the *CRTI Transaction Due Diligence Guidelines* are part of the Bank's *Loan, Guarantee and Insurance Manual*.

- Character, Reputational and Transaction Integrity (CRTI)
- Trade references
- Financial statements
- Financial and operation ratios
- Country conditions
- Material adverse issues
- Internet searches

If a required credit standard was not met or was partially met by the applicant, the underwriters have the latitude to mitigate the missed credit standard(s). According to the Manual, the underwriters' credit decision and credit standard mitigations should be documented in the Bank's underwriting summary. The TCID underwriters have the authority to approve Short-Term Multi-Buyer policies within their authorized policy limits, referred to as Individual Delegated Authority (IDA). The IDAs are approved by Ex-Im Bank's senior officers of TCID for each underwriter in accordance with their experience and expertise.

Short-Term Multi-Buyer insurance policies only comprise a small percentage of the Bank's total authorized dollars but represent a large percentage of the Bank's total number of authorizations and claims. Specifically, according to Ex-Im Bank's Reporting System (ERS), TCID approved an average of approximately 2,400 authorizations valued at approximately \$2 billion in each fiscal year (FY) for FY 2012 and FY 2013. These authorizations represented 62 percent of the total number of authorizations approved by the Bank and 7 percent of total dollar amount of Bank authorizations for this timeframe. In terms of claims, according to EOL data, there were on average more than 100 claims totaling approximately \$7.6 million paid on Short-Term Multi-Buyer policies in each FY for FY 2012 and FY 2013. These claims represented 74 percent of the total number of claims paid and 18 percent of the dollar amount of claims paid by the Bank during this timeframe. While the dollar amount of claims represents a low loss rate of 0.4 percent, the number of claims paid represents a significant majority of all claims paid by the Bank. Each Short-Term Multi-Buyer policy can have multiple transactions associated with it, such as amendments, policy limit changes, and assignments.

Results

We determined that the Bank's internal control environment and activities for the Short-Term Multi-Buyer program were generally designed, operated, and updated to provide reasonable assurance of compliance with applicable laws and regulations. However, improvements can be made to ensure the efficiency and effectiveness of internal operations for underwriting and issuing Short-Term Multi-Buyer insurance policies. Based on the 23 transactions we reviewed, we found that the Short-Term Multi-Buyer Insurance Program is generally meeting its mission by providing insurance to qualified exporters in the appropriate amounts and for the intended purposes. The program experienced a low loss rate of approximately 0.4 percent in FY 2012 and FY 2013.³ Furthermore, since our 2012 audit of Ex-Im Bank's Short Term Insurance Programs, the Bank has documented and implemented comprehensive policies and procedures for the program, including enhanced procedures for applications that have elevated business risk or fraud. Additionally, the Bank developed and implemented a monitoring process for periodically reviewing a sample of credit decisions to ensure the due diligence performed complied with program policies and procedures. Our audit found, however, that improvements should be made to ensure (1) underwriters comply with the Bank's policies and procedures, (2) underwriters consistently document their credit decisions, and (3) data is complete and accurate.

Overall, based on our review of 23 transactions totaling approximately \$25 million in credit limits, we found that underwriters did not comply with the Bank's policies and procedures for 5 transactions. While the remaining 18 transactions met the Bank's credit standards, the underwriting decisions for 15 of these transactions, along with the 5 noncompliant transactions, were not sufficiently documented.

We found that 5 transactions, totaling over \$5 million in credit limits, were approved by TCID underwriters even though the required credit standards were not met or the required Character, Reputational and Transaction Integrity (CRTI) check was not performed. For one transaction approved for \$1 million, the underwriter did not obtain a current credit report, current favorable trade references and audited or signed financial statements as required. We did not find evidence that these deficiencies were properly mitigated and this credit limit approval resulted in a \$486,855 claim being filed 18 months after the effective date of the policy. Although the claim was fully recovered, a questioned cost of approximately \$118,000 resulted from recovery expenses that were incurred by the Bank for this transaction.⁴ For 3 of 4 Small Business Express transactions we reviewed, we did not find evidence to support that the exporters had an operating profit in the recent fiscal year as required. Additionally, we found one transaction that was approved without completing the required Character, Reputational and Transaction Integrity (CRTI) check. We also found that the requirement for CRTI documentation retention was not followed for 16 transactions reviewed.

Our audit further found that underwriters were not consistently documenting their credit decisions. Three of the 23 transactions we reviewed had underwriting summaries that contained

³ For purposes of this report, the loss rate is defined as the total claims paid divided by the total authorizations in the Short-Term Multi-Buyer insurance program.

⁴ The questioned cost was calculated as follows: \$128,089 in recovery expenses less \$10,066 in transaction fees collected.

enough information to thoroughly document the final credit decisions. However, only one clearly presented the required credit standards with explanations of whether they were met or not met and detailed justifications for any mitigation of missed credit standards. We found that the other 20 underwriting summaries had missed credit standards without a clear explanation of how they were overcome. The credit standards or mitigating evidence for 15 of these 20 transactions could be identified by a detailed review of the credit files. However, the documentation of credit decisions should be consistent to allow for an audit trail and verifiable results as recommended by OMB Circular A-123 to achieve effective and efficient operations for Federal programs. Without underwriting summaries that clearly present (1) the required credit standards, (2) how the credit standards were met or not met, and (3) mitigation of each missed credit standard, third party reviews such as management reviews, quality control reviews, and external audits may not be able to validate the underwriters' credit decisions.

We also found that TCID was unable to provide a complete listing of Short-Term Multi-Buyer transactions as requested by the auditors. As a result, we could not determine the population of Short-Term Multi-Buyer transactions for the audit period. Lastly, we found that some of the exporter scores used to assess exporter risk were incorrectly calculated by EOL or not calculated in accordance with the Manual. In general, incorrect exporter scores could result in under or over-stated assessments of exporter risk which could in turn, provide exporters with less or more favorable credit terms than what would be appropriate.

We made seven recommendations to correct the identified deficiencies and management concurred with all seven recommendations.

Finding 1: Some TCID Underwriting Did Not Comply with the Bank's Policies and Procedures

Trade Credit Insurance Division (TCID) underwriters were required to follow the Bank's underwriting policies and procedures as prescribed by Ex-Im Bank's Short Term Credit Standards, the Manual, and CRTI Guidelines. However, we found that 5 of the 23 transactions reviewed during our audit were approved by TCID underwriters even though the required credit standards were not met or a required CRTI check was not performed prior to approval. We also found that CRTI documentation retention was not consistently followed.

A previous OIG audit⁵ found that the same individual within TCID frequently performs the underwriting, approval, and authorization of insurance policies and as a result, insurance policies may be authorized with risk levels higher than Ex-Im Bank would otherwise accept. As a result, the previous OIG audit report included recommendations for TCID to have separate individuals perform the underwriting and approving functions for higher risk transactions. While the Bank's official response to the audit report was not in agreement with the 2012 recommendations, during the course of this audit, the Bank agreed to take actions that will address the intent of these recommendations by September 2015. Implementation could help mitigate the noncompliance issued identified below.

⁵ OIG-AR-12-05, *Audit of Export-Import Bank's Short Term Insurance Program*, September 28, 2012

Special Buyer Credit Limit Approved Without Meeting Credit Standards Resulted in a \$118,000 Questioned Cost

Our audit identified that a \$1 million Special Buyer Credit Limit was approved even though three of the nine credit standards required by the Bank were not met. First, a favorable credit report dated within six months of the application was not obtained as required. Although there was a credit report in the file, it was 14 months old. Second, two current favorable trade references of similar amounts and payment terms dated within six months of the application were not obtained as required. We found that no trade references were provided. Finally, audited or signed unaudited financial statements for the last two fiscal years were not obtained as required to afford a reasonable basis for reliance on the provided information. Instead, the financial statements, which were almost a year old, were provided in an Excel spreadsheet. Overall, the underwriting of this transaction was difficult to follow and was not well documented.

In accordance with the Bank's Short Term Credit Standards and the Manual, the underwriter documented mitigating factors for the missed credit standards noting that the exporter had been a policy holder for two years with a loss ratio of zero and the buyer had been renewed under another exporter insurance policy six months prior. The auditors determined these factors were not adequate to overcome the missed credit standards. Without the required credit and financial information, there was no assurance the buyer had favorable credit references or the financial capacity and stability to support approval of the transaction.

Nine months after the effective date of this policy, the buyer defaulted on its payments to the exporter. The exporter filed a \$486,855 claim to the Bank due to a product dispute and partial payment by the buyer who had been approved under this Special Buyer Credit Limit transaction. Ex-Im Bank paid the claim on June 26, 2013. Although the claim was fully recovered, a questioned cost of approximately \$118,000 resulted from recovery expenses that were incurred by the Bank for this transaction.⁶ See Appendix III for additional details on the questioned cost.

Approved Express Transactions Did Not Fully Meet Ex-Im Bank Short-Term Credit Standards

Small Business Express (Express) Insurance is a Short-Term Multi-Buyer insurance policy that helps small businesses expand into new foreign markets, add new buyers, and transfer all foreign buyer credit decision making to Ex-Im Bank at an economical cost. In accordance with Ex-Im Bank's Short Term Credit Standards, Express policy applicants are required to have an operating profit in their most recent fiscal year. For three of the four Express transactions we reviewed, we did not find evidence to support that the exporter had an operating profit in the recent fiscal year. TCID Management stated that they were not requesting or collecting operating profit information for Express insurance transactions, as the Bank's Manual, which is inconsistent with the Short Term Credit Standards, inadvertently excluded Express policies from this credit standard. TCID management stated that the operating profit information was also inadvertently left off of the Express policy application form that is completed by applicants in paper form or in Ex-Im Online (EOL). TCID stated that the Express Policy application was updated and approved by

⁶ The questioned cost was calculated as follows: \$128,089 in recovery expenses less \$10,066 in transaction fees collected.

OMB in February 2014, but as of January 2015, the Office of the Chief Information Officer had not yet updated EOL. Consequentially, we determined that TCID was not in compliance with the Bank's Short Term Credit Standards.

While other financial statement information and analyses can be used to determine the financial strength of an applicant, operating profit is the profit earned from the applicant's core business operations. It is important because it does not include any profit earned from the applicant's investments (such as earnings from other businesses in which the company has a partial interest) and the effects of interest and taxes. According to TCID management, identifying a negative operating profit could change the underwriting of an applicant and is therefore an important component that should be considered. While the operating profit information could have been requested manually after obtaining OMB approval in February 2014, TCID management did not do so and stated that a negative operating profit can be mitigated by other credit factors.

TCID approved at least 2,700 Express transactions between October 1, 2011 and June 30, 2014. We have no reason to believe that a large number of the approved Express Insurance transactions would have a negative operating profit. Nevertheless, the underwriters' inability to assess the operating profit or loss of Express policy applicants exposes the bank to unnecessary risk and should be corrected.

A CRTI Check Was Not Performed and Documentation Retention Guidance Was Not Consistently Followed

As part of the TCID's underwriting process, as outlined in the Manual, underwriters were required to submit all applicants (exporters and buyers) for a CRTI check to determine whether applicants were prohibited or restricted from obtaining any source of federal funds (i.e. Excluded Parties List, Specially Designated Nationals List). Short-Term Multi-Buyer transactions were not to be approved until the CRTI check was completed. During our review, we found one Special Buyer Credit Limit transaction, with a credit limit of \$100,000, was approved without completing the required CRTI process. This occurred because the underwriter was awaiting additional documentation for the file and overlooked the CRTI check requirement upon receipt. After our inquiry, TCID completed the CRTI check, noting no issues or matches, and the results were uploaded into EOL.

In addition to the one missed CRTI check, we also noted that the TCID did not retain the CRTI documentation as required by the Bank's CRTI Transaction Due Diligence Guidelines for 16 of the 23 transactions we reviewed. The guidelines require the results of the CRTI to be archived in EOL whether it was a positive (i.e. match to an excluded party listing) or negative (i.e. no match) response. In conflict with the guidelines, but due to the significant volume of Short-Term Multi-Buyer transactions, TCID management decided to retain only positive CRTI responses and negative responses for Special Buyer Credit Limit applicants with requested credit limits over \$300,000 in EOL. All other negative responses were simply documented in internal spreadsheets. We found that TCID did not obtain an exception or waiver from CRC to revise its procedures.

A previous OIG audit report on Ex-Im Bank's Short Term Insurance Program⁷ also found that CRTI due diligence was not always properly performed and recommended that officials authorizing insurance policies verify that the CRTI due diligence was completely performed and properly documented prior to approving the policy. The Bank closed this recommendation in February 2013 stating that it would follow the Bank's CRTI Transaction Due Diligence Guidelines. During this audit, however, we determined that the guidelines were not followed and there was no mechanism in place for the underwriters to verify the performance of CRTI.

Recommendations, Management Comments and OIG Response:

We recommend that the Vice President of the Trade Finance Division:

1. Develop and implement procedures to ensure underwriting summaries clearly present (1) the required credit standards, (2) how the credit standards were met or not met, and (3) mitigation of each missed credit standard so that a third party reviewer can validate the underwriter's credit decision in order to avoid questioned costs such as the \$118,000 questioned cost identified in this audit.

Management Comments

Management concurs with the recommendation. The Bank will update Ex-Im Online to incorporate a checklist of applicable Short-Term Credit Standards (STCS) into the underwriting summary. A line-by-line item comment on each credit standard will be included to assist a third party reviewer unfamiliar with the Bank's STCS to better understand the Bank's analysis, including any justification for missed credit standards.

Regarding the questioned cost of \$486,855 that resulted from the approval and subsequent claim of a \$1M Special Buyer Credit Limit renewal, it is important to note that some of the credit standards may be waived based on specific mitigating factors. In this case, all required underwriting standards were met at the time of underwriting and the Bank found that reasonable assurance of repayment existed. It is also important to note that the Bank recovered 100 percent of the claim payment in the amount of \$486,855 (less recovery expenses) that resulted from the payment default on the loan.

OIG Response

Management's proposed actions are responsive to the recommendation. The recommendation is considered resolved and will remain open pending completion of the final action. Although management stated that all required underwriting standards were met on the transaction that resulted in the questioned cost, it did not provide evidence to support that the missing credit and financial information was obtained. Furthermore, management did not provide evidence that the applicant had sufficient credit and financial capacity and stability to support approval of the transaction. As a result, we continue to support our finding that the mitigating factors were not

⁷ OIG AR-12-05, *Audit of Export-Import Bank's Short Term Insurance Program*, September 28, 2012

adequate to overcome the missed credit standards. We revised our report to reflect the Bank's recovery of the claim payment and adjusted the questioned cost amount. Although the \$486,855 claim was fully recovered, a questioned cost of \$118,000 resulted from recovery expenses that were incurred by the Bank for this transaction.

2. Update the Short-Term Multi-Buyer Insurance Policy Underwriting Manual and EOL to ensure operating profit information is collected for Express transactions and develop and implement mitigating controls while awaiting the EOL update.

Management Comments

Management concurs with the recommendation. The Bank has developed and implemented mitigating controls to ensure that operating profit information is collected for Express transactions. The form of Application for Express Insurance (EIB 10-02), as approved by OMB, has been updated to include a line item for "operating profit" and has been built into the EOL application process, effective February 15, 2015. This information will be incorporated into the updated Short-Term Multi-Buyer Insurance Policy Underwriting Manual ("Underwriting Manual") which will be completed by September 30, 2015.

OIG Response

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

3. Develop a procedure to ensure CRTI checks are completed and coordinate with the Credit Review and Compliance Division to determine the proper CRTI document retention requirements.

Management Comments

Management concurs with the recommendation. The Bank's current Character, Reputational, and Transaction Integrity ("CRTI") Due Diligence Process, effective March 1, 2015, includes guidelines for conducting CRTI checks and documenting and ensuring that the required documentation is stored in an appropriate location, i.e., the Document Management System (DMS) in EOL or the transaction file folder. The Bank's Trade Credit Insurance Division will adhere to the new CRTI procedures.

OIG Response

Management provided support for the recommended changes. Therefore, the recommendation is considered resolved and has been closed.

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

Finding 2: TCID Underwriters Did Not Consistently Document Credit Decisions

The *Short-Term Multibuyer Insurance Policy Underwriting Manual* (the Manual) generally has effective procedures to guide the underwriting of multi-buyer products. However, we found that the manual did not have a well-defined process to address how the underwriters' credit decisions should be documented in the Bank's underwriter summary in EOL. We reviewed 23 Short-Term Multi-Buyer transactions and found several inconsistencies in how the underwriters' credit decisions were documented. Three of the transactions we reviewed had underwriting summaries that contained enough information to thoroughly document the final credit decisions. However, only one clearly presented the required credit standards with explanations of whether they were met or not met and detailed justifications for any mitigation of missed credit standards. We found that the other 20 underwriting summaries had missed credit standards without a clear explanation of how they were overcome. It was very difficult to understand how the missed credit standards were mitigated. The following are examples of inconsistencies in underwriting summaries:

- The underwriting summaries for three Special Buyer Credit Limit transactions sufficiently addressed or mitigated the required credit standards and justified the final credit decisions.
- For one Special Buyer Credit Limit transaction, the underwriting summary did not clearly document mitigation of five of the nine missed or partially missed credit standards and instead included a general overarching statement to mitigate all of the missed standards.
- For one Small Business Express policy (ENB-Express), the underwriting summary did not document (1) how the applicant met the SBA guidelines for small business and (2) verification that the applicant was not an existing Ex-Im Bank Multi-Buyer policyholder.
- Two transactions received Enhanced Assignment benefits without documentation of whether the exporters were borrowers under an Ex-Im Bank Global Credit Express (GCE) loan, which is prohibited.

We learned from TCID management that it was common practice for underwriters to provide general explanations to justify their credit decisions and that the underwriters had the latitude to mitigate any missed credit standards. The credit standards or mitigating evidence for 15 of the 20 transactions found to have insufficient underwriting summaries could be identified by a detailed review of the credit files.⁸ However, the documentation of credit decisions should be consistent to allow for an audit trail and verifiable results as recommended by OMB Circular A-123 to achieve effective and efficient operations for Federal programs.

The OMB Circular A-123 states that management is responsible for establishing and maintaining internal control to achieve effective and efficient operations and compliance with applicable laws and regulations. It further states that management should have a clear, organized strategy with well-defined documentation processes that contain an audit trail and verifiable results so that someone not connected with the procedures can understand the assessment process. Without

⁸ The remaining five transactions did not have sufficient mitigating evidence and are reported above as noncompliance issues.

underwriting summaries that clearly present (1) the required credit standards; (2) how the credit standards were met or not met; and (3) mitigation of each missed credit standard, third party reviews such as management reviews, quality control reviews, and external audits may not be able to validate the underwriters' credit decisions.

A previous OIG audit report on Ex-Im Bank's Short Term Insurance Program also found inconsistent adherence to procedures to ensure compliance with program requirements and proper credit risk management. As a result, the OIG recommended that the Bank develop and implement a due-diligence procedure checklist to be completed by individuals with delegated authority to approve transactions. While the Bank's official response to the audit report was not in agreement with our 2012 recommendation, during the course of this audit, the Bank agreed to implement the recommendation by September 2015.

We also noted that the Bank's Credit Policy Division completed a Special Buyer Credit Limit review in FY 2013 and questioned the adequacy and completeness of required documentation and whether or not any material adverse conditions were identified and appropriately mitigated.⁹ Further, we noted that TCID's 2014 annual review identified that improvements were needed to ensure consistency in attention to detail specifically in addressing that credit standards were met and whether special issues were mitigated.

In response to our internal control survey and during interviews, TCID staff expressed a desire for more professional training and enhanced communication amongst TCID underwriters and directors. Specifically, TCID staff stated that additional training and enhanced communication could improve knowledge sharing and underwriting consistency.

Implementing the automatic underwriting and approval functionality of EOL could also improve underwriting consistency. EOL currently underwrites transactions by evaluating the credit standards; calculating financial ratios and exporter scores; and analyzing industry loss history and country ratings. Less than one percent of all Short-Term Multi-Buyer transactions are declined, withdrawn, or cancelled. Therefore, having lower risk transactions automatically underwritten and approved through EOL could allow TCID resources to focus on higher risk transactions which could, in turn, help mitigate some of the noncompliance and inconsistencies identified during our audit.

Recommendations, Management Comments and OIG Response:

In addition to Recommendation 1 which applies to Findings 1 and 2, we recommend that the Vice President of the Trade Finance Division:

4. Provide additional professional training and enhance communication among TCID underwriters and directors.

⁹ Overview of new Special Buyer Credit Limits processed by Trade Credit Insurance in the first quarter of FY 2013.

Management Comments

Management concurs with the recommendation. The Bank will enhance its communication practices among loan specialists and management. The Bank will update the Underwriting Manual and expects to have this completed by September 30, 2015. The Bank's Trade Credit Insurance management team will schedule regular refresher "Multi-Buyer Policy Underwriting" training sessions with staff. The first refresher training session will be conducted prior to September 30, 2015.

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.

5. Consider using the full functionality of EOL to approve lower risk Short-Term Multi-Buyer transactions in order to focus resources on higher risk transactions and improve underwriting consistency.

Management Comments

Management concurs with the recommendation. The Bank will consider using the full functionality of EOL to approve lower risk Short-Term Multi-Buyer transactions, and provide the OIG with the results of that analysis by September 30, 2015.

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 IV.

Finding 3: Improvements Are Needed to Ensure EOL Data is Complete and Accurate

The Bank uses EOL to process and store all Short Term Multi-Buyer transactions. We requested a list of all transactions for the period under review. However, we found that TCID was unable to provide a complete listing of Short-Term Multi-Buyer transactions as requested by the auditors. A newly established data element (enhanced assignment indicator) and inadvertent data filters resulted in incomplete data being provided to the auditors. As a result, we could not determine the population of Short-Term Multi-Buyer transactions for the audit period. We also found that the Bank did not have an EOL data dictionary which is used to assist with common meanings of system data elements and to locate errors and omissions in the system. Lastly, we found that some of the exporter scores used to assess exporter risk were incorrectly calculated by EOL or not calculated in compliance with the Manual. Incorrect exporter scores could result in under or over-stated assessments of exporter risk which could in turn, provide exporters with less or more favorable credit terms than what would be appropriate.

Incomplete Short-Term Multi-Buyer Data Was Provided to the Auditors

As part of our audit, we requested a listing of all Short-Term Multi-Buyer transactions - including new, amended, and renewed authorizations; Special Buyer Credit Limits; and Enhanced Assignments from October 1, 2011 and June 30, 2014. On three separate attempts, TCID was unable to provide a complete set of data. After each attempt, the auditors assessed the reliability and completeness of the data and found problems. After our first request, we determined that a data filter was unintentionally set to only allow the last transaction impacting a policy to show in the data set. After the second attempt, we determined that the listing of Special Buyer Credit Limit transactions was incomplete because another filter eliminated certain transactions. After the third attempt, we found that the listing of Enhanced Assignment (EA) policies was incomplete. We determined that an EA indicator was added to EOL in FY 2012 and therefore, EA transactions approved prior to the establishment of the indicator did not always appear in the EA transaction query. Upon discovering these issues, we requested that TCID management validate the accuracy and completeness of the transactions by comparing the listings to monthly, quarterly or annual reports, but they were unable to do so. Therefore, TCID was unable to provide a complete listing of the transactions covering the population of Short-Term Multi-Buyer transactions for the audit period.

As prescribed by the *Standards for Internal Control in the Federal Government*, management should obtain relevant data from reliable sources to process into quality information. Quality information should be appropriate, current, complete, accurate, accessible, and provided on a timely basis. As a result of these data issues, we judgmentally selected our sample items from incomplete listings of Short-Term Multi-Buyer transactions. For example, the Special Buyer Credit Limit listing that was provided by the Bank and used in part to select our sample contained 24,283 transactions, but we later learned it was missing more than 3,000 transactions. Nevertheless, we assessed the data issues and determined other techniques could be used to fully answer our audit objective in regard to TCID's compliance with applicable laws and regulations and the efficiency and effectiveness of internal operations for underwriting and issuing Short-Term Multi-Buyer insurance policies. Our conclusions were based on our review of laws, regulations and policies; interviews and surveys of staff; and the review of source documents for our 23 judgmentally sampled transactions. However, management must ensure it can obtain complete, accurate and verifiable information from EOL because without this information, it cannot make informed decisions and evaluate the program's performance in achieving key objectives and addressing risks.

An EOL Data Dictionary Could Help the TCID Identify Data Issues

The Bank does not have a data dictionary for EOL. By definition, a data dictionary clearly identifies and defines the data elements within a system, to include: data name, description, attribute, process, access, and occurrence (frequency). A data dictionary would be helpful to assist users in understanding and requesting data elements and locating errors and omissions in the system. For instance, an EOL data dictionary could have noted that the EA indicator was added in FY 2012; thereby notifying the user that any EA policies approved prior to FY 2012 may not be identifiable. Further, the data limitation could have been communicated to the user or the data query could have been modified to ensure all EA transactions were captured using a

different analysis technique. Given the difficulties encountered in providing complete Short-Term Multi-Buyer transaction data to the auditors, the Bank should consider creating an EOL data dictionary to assist users in requesting and providing complete and accurate EOL data.

EOL Calculated Incorrect Exporter Scores

Ex-Im Bank's Manual includes an Exporter Score model that was developed to quantify exporter risk upon submission of policy applications and renewals in EOL. The Bank's EOL system calculates a numerical score for each of the ten exporter score components (i.e. export receivables greater than 90 days, net profit margin, Dun & Bradstreet's (D&B) Paydex, etc.) and computes the weighted value for each component to determine the exporter score (ranging from less than zero to 100 percent). The exporter score provides an objective assessment of exporter risk, with 100 percent being the best possible risk. It is used to make credit decisions and determine insurance policy parameters. During our audit, we noted that incorrect exporter score components resulted in incorrect exporter scores for two of the transactions reviewed. For two other transactions, we noted that exporter scores were not computed in accordance with the Manual.

Specifically, we found one transaction with incorrect numerical scores for two exporter score components - the Loss to Shipment Ratio and the Overdue Receivable Aging. We found another transaction that had an incorrect numerical score for the D&B Paydex component. The loss to shipment ratio and the percent of overdue receivables along with the years of export credit experience are used to determine the assigned numerical score. However, EOL used the incorrect years of export credit experience to calculate the numerical score for one transaction, which resulted in a lower exporter score. For the other transaction, EOL used the wrong Paydex from D&B which also resulted in a lower exporter score. Because the exporter score is only one factor used to determine the credit terms of a transaction, we were unable to quantify the effect of these errors. However, for the two transactions we found with errors, the incorrect exporter scores could have resulted in less favorable credit terms for the exporters. In general, incorrect exporter scores could provide exporters with less or more favorable credit terms than what would be appropriate.

For the last two transactions, we identified that the exporter scores were not computed in accordance with the Manual. During the audit, management informed us that EOL was designed to calculate a reduced exporter score for transactions with low export credit volumes. However, since the Manual did not reflect the correct EOL computation for these transactions, we cannot validate the calculations and determine if they were appropriate. Management stated it will update the Manual as a result of our finding.

An erroneous exporter score calculation was previously identified in our 2012 audit report on the Bank's Short-Term Insurance Program. In response to this previous report, TCID management stated that modifications to EOL would be made to ensure accurate calculations on multi-buyer policies. TCID also noted that the staff would manually validate the exporter score until EOL was properly calculating the exporter score. Although the 2012 recommendations were closed in April 2013, we did not find the controls to be effective during our review.

Recommendations, Management Comments and OIG Response:

We recommend that the Vice President of the Trade Finance Division:

6. Develop procedures and internal controls such as standard reporting, a data dictionary, and periodic data analyses to ensure TCID management can validate and verify that data for Short-Term Multi-Buyer transactions is appropriate, current, complete, accurate, accessible, and can be provided in a timely manner.

Management Comments

Management concurs with the recommendation. The Bank will work with the Office of Information Technology to develop procedures and internal controls such as standard reporting, a data dictionary, and periodic data analyses to ensure Trade Credit Insurance management can validate and verify that data for Short-Term Multi-Buyer transactions is appropriate, current, complete, accurate, accessible, and can be provided in a timely manner. Procedures and controls will be coordinated through the Office of Information Technology and implemented by September 30, 2015.

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.

7. Make the necessary changes to EOL and the Manual to ensure exporter scores are properly calculated and develop and implement mitigating controls while waiting for EOL to be corrected.

Management Comments

Management concurs with the recommendation. The Bank will develop and implement mitigating controls to ensure exporter scores are properly calculated by updating EOL and the Exporter Score tables in the Underwriting Manual to ensure that the exporter score components are consistent. The Bank expects to have this completed by September 30, 2015.

OIG Response

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

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

Appendix I: Scope and Methodology

The objective of this audit was to determine if the internal control environment and activities for the Short-Term Multi-Buyer insurance program were designed, operated, and updated to provide reasonable assurance of (1) compliance with applicable laws and regulations and (2) the efficiency and effectiveness of internal operations for underwriting and issuing insurance policies.

To answer this objective, we reviewed the *Ex-Im Bank Short Term Credit Standards*; the Bank's *Loan, Guarantee, and Insurance Manual*; the Government Accountability Office's *Standards for Internal Control in the Federal Government*; and the Office of Management and Budget's Circular No. A-123, *Management's Responsibility for Internal Control*.

We conducted a survey and interviewed Bank officials from the TCID, the CRC Division, the Credit Policy Division, and the Library. Our survey consisted of 36 questions about integrity and ethics; competence; management's philosophy and operating style; authority and responsibility; risk; information and communication; monitoring; and fraud, waste, and abuse. The survey was sent to 21 employees in the Trade Credit Insurance Division (TCID) and 19 individuals responded. We conducted interviews of four TCID underwriters, three TCID managers, two personnel from the Credit Review and Compliance Division, one manager from the Credit Policy Division and three personnel from the Library to assess the adequacy of training, quality control, communication, and internal controls in the Short-Term Multi-Buyer insurance program.

Finally, we judgmentally selected and reviewed 23 Short-Term Multi-Buyer transactions totaling \$25 million in credit limits. We reviewed these transactions to determine if they were underwritten and approved in compliance with Ex-Im Bank's policies and procedures and to assess the efficiency and effectiveness of operations. The 23 transactions were selected from listings of Short-Term Multi-Buyer transactions provided by the Bank. As part of our audit, we requested a listing of all Short-Term Multi-Buyer transactions - including new, amended, and renewed authorizations; Special Buyer Credit Limits; and Enhanced Assignments from October 1, 2011 and June 30, 2014. On three separate attempts, the Bank was unable to provide a complete set of data. After each attempt, we assessed the reliability and completeness of the data and found problems, the details of which are provided in the body of the report. Upon discovering these problems, we requested that management validate the accuracy and completeness of the transactions by comparing the listings to monthly, quarterly or annual reports, but they were unable to do so. Management was unable to provide a complete listing of the transactions covering the population of Short-Term Multi-Buyer transactions for the audit period. Nevertheless, we assessed the data issues and determined other techniques could be used to fully answer our audit objectives. Our conclusions were based on our review of laws, regulations and policies; interviews and surveys of staff; and the review of source documents for the 23 judgmentally sampled transactions.

We performed two sample selections during the audit. The first sample of 13 transactions was selected during the survey phase of the audit. From the listings provided by the Bank, we selected 10 transactions covering different transaction types and a range of authorization or credit limit amounts consisting of one Standard Policy (ESC), one Small Business Policy (ENB),

four Express transactions, and four Special Buyer Credit Limits. In addition, we selected three Enhanced Assignments based on the lenders with the most transactions and transactions with low exporter scores. During the fieldwork phase of the audit, we selected an additional 10 Special Buyer Credit Limits to cover different underwriters and based on credit limit and claim amounts. See Appendix II for a listing of the 23 transactions reviewed.

We conducted this performance audit from April 2014 through January 2015 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.

Review of Internal Controls

We reviewed and evaluated the internal controls associated with Ex-Im Bank's Short-Term Multi-Buyer program and relevant to our objectives. We found that improvements can be made to ensure the efficiency and effectiveness of internal operations for underwriting and issuing Short-Term Multi-Buyer insurance policies. Our recommendations, if implemented, should correct the weaknesses we identified.

Prior Audit Coverage

We reviewed a prior audit report conducted by the Office of Inspector General - AR-12-05, *Audit of Export-Import Bank's Short-Term Insurance Program*, issued on September 28, 2012. We assessed the status of the recommendations from this report.

Appendix II: Sample Summary

| Sample # | Tracking # | Credit Limit | Insufficient Underwriting Summary | Material Noncompliance | Other issue | Questioned Cost |
|---------------|------------|---------------------|-----------------------------------|------------------------|-------------|------------------|
| 1 | (b) (4) | \$10,000 | A | | | |
| 2 | (b) (4) | \$50,000 | A | | | |
| 3 | (b) (4) | \$50,000 | A | | | |
| 4 | (b) (4) | \$20,000 | A | | | |
| 5 | (b) (4) | \$50,000 | | | | |
| 6 | (b) (4) | \$100,000 | A | | | |
| 7 | (b) (4) | \$100,000 | A | | | |
| 8 | (b) (4) | \$700,000 | | | | |
| 9 | (b) (4) | \$1,000,000 | A | B | | \$118,000 |
| 10 | (b) (4) | \$500,000 | A | | | |
| 11 | (b) (4) | \$7,500,000 | A | | | |
| 12 | (b) (4) | \$2,000,000 | A | | E | |
| 13 | (b) (4) | \$3,000,000 | A | C | E | |
| 14 | (b) (4) | \$1,000,000 | A | C | | |
| 15 | (b) (4) | \$300,000 | A | | | |
| 16 | (b) (4) | \$100,000 | A | C | E | |
| 17 | (b) (4) | \$100,000 | A | D | | |
| 18 | (b) (4) | \$300,000 | A | | | |
| 19 | (b) (4) | \$1,000,000 | A | | | |
| 20 | (b) (4) | \$7,000,000 | | | | |
| 21 | (b) (4) | \$250,000 | A | | E | |
| 22 | (b) (4) | \$200,000 | A | | | |
| 23 | (b) (4) | \$125,000 | A | | | |
| Totals | | \$25,455,000 | 20 | 5 | 4 | \$118,000 |

| Legend | |
|--------|--------------------------------------|
| A | Insufficient Underwriting Summary |
| B | Unsupported Underwriting Decision |
| C | Operating Profit Not Determined |
| D | CRTI Missing |
| E | Incorrect Exporter Score Calculation |

Appendix III – Questioned Cost

In accordance with the Inspector General Act of 1978, as amended, the term “questioned cost” means a cost that is questioned by the Office of Inspector General because of: (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost was not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. The term “unsupported cost” means a cost that is questioned because the Office of Inspector General found that, at the time of the audit, such cost was not supported by adequate documentation.

As presented in our audit report, we identified a \$118,000 questioned cost. This questioned cost resulted from a \$1 million Special Buyer Credit Limit that was approved even though three of the nine credit standards required by the Bank were not met or adequately mitigated. On June 26, 2013, Ex-Im Bank paid a \$486,855 claim to the exporter due to a product dispute and partial payment by the buyer who had been approved under this Special Buyer Credit Limit transaction. Although the claim was fully recovered, a questioned cost of approximately \$118,000 resulted from recovery expenses that were incurred by the Bank for this transaction. The questioned cost was calculated as follows:

| | |
|---|--|
| | \$128,089 in recovery expenses |
| - | <u>\$ 10,066 in transaction fees collected</u> |
| | \$118,023 questioned cost |

As required, this questioned cost will be included in the next Office of Inspector General Semiannual Report to the Congress. It will be designated as an “unsupported cost” and will be reported with the following recommendation:

Recommendation 1. We recommend that the Vice President of the Trade Credit Insurance Division develop and implement procedures to ensure underwriting summaries clearly present (1) the required credit standards, (2) how the credit standards were met or not met, and (3) mitigation of each missed credit standard so that a third party reviewer can validate the underwriter’s credit decision in order to avoid questioned costs such as the \$118,000 questioned cost identified in this audit.

Appendix IV – Management Comments



EXPORT-IMPORT BANK
OF THE UNITED STATES

March 11, 2015

Michael McCarthy
Deputy Inspector General
Office of the Inspector General
Export-Import Bank of the United States
811 Vermont Avenue, NW
Washington, DC 20571

Dear Mr. McCarthy,

Thank you for providing the Export-Import Bank of the United States (“Ex-Im Bank” or “the Bank”) Management with the Office of the Inspector General’s (OIG) “Audit of the Export-Import Bank’s Short-Term Multi-Buyer Insurance Program” (February 9, 2015). Management continues to support the OIG’s work which complements the Bank’s efforts to continually improve its processes. Ex-Im Bank is proud of the strong and cooperative relationship it has with the OIG.

The Short-Term Multi-Buyer Insurance program authorized over 10,000 multi-buyer policies, including new policies, policy renewals, and policy amendments, during FY 2012 – FY 2014. The Bank appreciates the OIG recognizing that the Short-Term Multi-Buyer Insurance Program “has experienced a low loss rate” and that “the Bank has documented and implemented comprehensive policies and procedures and a monitoring process for periodically reviewing a sample of credit decisions to ensure the due diligence performed complied with program policies and procedures.” The OIG has made seven recommendations they believe will improve upon the Bank’s procedures. The Bank concurs with all seven recommendations.

Recommendation 1: Develop and implement procedures to ensure underwriting summaries clearly present (1) the required credit standards, (2) how the credit standards were met or not met, and (3) mitigation of each missed credit standard so that a third party reviewer can validate the underwriter’s credit decision in order to avoid questioned costs such as the \$486,855 questioned cost identified in this audit.

Management Response: The Bank agrees with this recommendation.

The Bank will update Ex-Im Online (“EOL”) to incorporate a checklist of applicable Short-Term Credit Standards (“STCS”) into the underwriting summary. While it is established and universally accepted underwriting practice to present a summary credit analysis, a line-by-line item comment on each credit standard will be included to assist a third party reviewer unfamiliar with the Bank’s STCS to better understand the Bank’s analysis, including any justification for missed credit standards.

Regarding the questioned cost of \$486,855 that resulted from the approval and subsequent claim of a \$1M Special Buyer Credit Limit renewal, it is important to note that some of the credit standards may be waived based on specific mitigating factors. In this case, all required underwriting standards were met at the time of underwriting and the Bank found that reasonable assurance of repayment existed. The analysis included the buyer’s payment history with the insured’s payments totaling approximately \$4.2 million. Management affirms that the decision on this transaction would have remained “approved” based on the entire fact pattern of the case submitted at time of the request. It is also important to note that the Bank recovered 100% of the claim payment in the amount of \$486,855 [less recovery expenses] that resulted from the payment default on the loan.

Management requests that the OIG review the Bank’s analysis of this credit taking the above information into consideration.

Recommendation 2: Update the Short-Term Multi-Buyer Insurance Policy Underwriting Manual and EOL to ensure operating profit information is collected for Express transactions and develop and implement mitigating controls while awaiting the EOL update.

Management Response: The Bank agrees with the recommendation.

The Bank has developed and implemented mitigating controls to ensure that operating profit information is collected for Express transactions. The form of Application for Express Insurance (EIB10-02), as approved by OMB, has been updated to include a line item for “operating profit” and has been built into the EOL application process, effective February 15, 2015. This information will be incorporated into the updated Short-Term Multi-Buyer Insurance Policy Underwriting Manual (“Underwriting Manual”) which will be completed by September 30, 2015.

Recommendation 3: Develop a procedure to ensure CRTI checks are completed and coordinate with the Credit Review and Compliance Division to determine the proper CRTI document retention requirements.

Management Response: The Bank concurs with this recommendation.

The Bank's current Character, Reputational, and Transaction Integrity ("CRTI") Due Diligence Process, effective March 1, 2015, includes guidelines for conducting CRTI checks and documenting and ensuring that the required documentation is stored in an appropriate location, i.e., the Document Management System (DMS) in EOL or the transaction file folder. The Bank's Trade Credit Insurance division will adhere to the new CRTI procedures.

Recommendation 4: Provide additional professional training and enhance communication amongst TCID underwriters and directors.

Management Response: The Bank concurs with this recommendation.

The Bank will enhance its communication practices among loan specialists and management. The Bank will update the Underwriting Manual and expects to have this completed by September 30, 2015. The Bank's Trade Credit Insurance management team will schedule regular refresher "Multi-Buyer Policy Underwriting" training sessions with staff. The first refresher training session will be conducted prior to September 30, 2015.

Recommendation 5: Consider using the full functionality of EOL to approve lower risk Short-Term Multi-Buyer transactions in order to focus resources on higher risk transactions and improve underwriting consistency.

Management Response: The Bank concurs with this recommendation.

The Bank will consider using the full functionality of EOL to approve lower risk Short-Term Multi-Buyer transactions, and provide the OIG with the results of that analysis by September 30, 2015. The Bank currently uses an auto underwriting feature in EOL as the first level of the underwriting approval process on Short-Term Multi-Buyer transactions. The auto underwriting feature reviews and comments on documentation as the first step, with staff finalizing credit decisions, as the second and final step. This conservative approach has been used as it has been deemed critical for ensuring the Bank maintains its excellent portfolio performance. It is important to note that this approach does not negatively impact the Bank's resources and efficiencies.

Recommendation 6: Develop procedures and internal controls such as standard reporting, a data dictionary, and periodic data analyses to ensure TCID management can validate and verify that data for Short-Term Multi-Buyer transactions is appropriate, current, complete, accurate, accessible, and can be provided in a timely manner.

Management Response: The Bank concurs with this recommendation.

Management apologizes for the confusion in processing of the requested data. The Bank created an Audit Liaison group to work with Bank staff and auditors to ensure that auditors receive accurate information in a timely manner. The Audit Liaison group will assist with and coordinate future OIG requests for data. The Bank will work with the Office of Information Technology to develop procedures and internal controls such as standard reporting, a data dictionary, and periodic data analyses to ensure Trade Credit Insurance management can validate and verify that data for Short-Term Multi-Buyer transactions is appropriate, current, complete, accurate, accessible, and can be provided in a timely manner. Procedures and controls will be coordinated through the Office of Information Technology and implemented by September 30, 2015.

Recommendation 7: Make the necessary changes to EOL and the Manual to ensure exporter scores are properly calculated and develop and implement mitigating controls while waiting for EOL to be corrected.

Management Response: The Bank concurs with this recommendation.

The Bank will develop and implement mitigating controls to ensure exporter scores are properly calculated by updating EOL and the Exporter Score tables in the Underwriting Manual to ensure that the exporter score components are consistent. The Bank expects to have this completed by September 30, 2015.

It is important to note that EOL is functioning as designed. As noted in the relevant finding of the report, two of the transactions reviewed indicated that the exporter calculations yielded conservative (low) exporter scores based on the policyholder's limited average annual export credit volume. This policy will be reflected in the updated Underwriting Manual.

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

Sincerely,



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



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