EXIM
EXPORT-IMPORT BANK
OF THE UNITED STATES

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

Fiscal Year 2019 Financial Statements Audit Management Letter

November 14, 2019
OIG-AR-20-03

Information about specific vulnerabilities in IT systems has been redacted from the publicly released version of this report. The information withheld was compiled in connection with OIG law enforcement responsibilities and consists of information that, if released publicly, could lead to the circumvention of the law.

To: Mary Jean Buhler
Chief Financial Officer

Howard Spira
Senior Vice President and Chief Information Officer

From: Jennifer Fain
Acting Inspector General

Subject: Fiscal Year 2019 Financial Statements Audit Management Letter (OIG-AR-20-03)

Date: November 14, 2019

This memorandum transmits KPMG LLP's management letter on the Export-Import Bank of the United States' (EXIM) financial statements for fiscal years ended September 30, 2019, and 2018. Under a contract monitored by this office, we engaged the independent public accounting firm of KPMG to perform an audit of EXIM's financial statements. The contract required the audit be performed in accordance with U.S. generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements.*

This report contains comments and recommendations relating to internal control deficiencies and other matters. KPMG identified five deficiencies in EXIM's internal control over financial reporting. The five internal control deficiencies noted in this report were not significant and therefore, the deficiencies were not required to be reported in EXIM's independent audit report. KPMG's observations and recommendations, and management's responses regarding such matters are presented in the attachment.

KPMG LLP is responsible for the attached management letter dated November 13, 2019, and the conclusions expressed therein. We do not express opinions on EXIM's financial statements or internal control, or conclusions on compliance and other matters.

We appreciate the cooperation and courtesies provided to KPMG LLP and this office during the audit. If you have questions, please contact me at (202) 565-3439 or jennifer.fain@exim.gov or Courtney Potter at (202) 565-3976 or courtney.potter@exim.gov. You can obtain additional information about the EXIM OIG and the Inspector General Act of 1978 at www.exim.gov/about/oig.

Attachment

cc: Kimberly A. Reid, President and Chairman
David Fogel, Senior Vice President and Chief of Staff
Adam Martinez, Chief Management Officer
Lauren Fuller, Senior Advisor to the President and Chairman
Stephen Renna, Chief Banking Officer
Kenneth Tinsley, Senior Vice President and Chief Risk Officer
David Slade, Senior Vice President and General Counsel
David Sena, Senior Vice President of Board Authorized Financed
Inci Tonguch-Murray, Deputy Chief Financial Officer
Patricia Wolf, Vice President and Controller
Nathalie Herman, Vice President and Treasurer
Maria Fleetwood, Vice President of Acquisition and Business Services
Cristopolis Dieguez, Director, Internal Controls and Compliance
James P Hauer III, Partner, KPMG LLP
Courtney Potter, Deputy AIG for Audits and Evaluations, OIG
Amanda Myers, Counsel, OIG

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

November 13, 2019

Office of Inspector General
Export-Import Bank of the United States
Washington, DC

Office of the Chief Financial Officer
Export-Import Bank of the United States
Washington, DC

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of Export-Import Bank of the United States (EXIM) as of and for the years ended September 30, 2019 and 2018, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, we considered EXIM's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of EXIM's internal control. Accordingly, we do not express an opinion on the effectiveness of EXIM's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated November 13, 2019 on our consideration of EXIM's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

During our audit, we identified deficiencies in internal control, which are summarized in Exhibit I. EXIM's responses to the findings identified in our audit are also included in Exhibit I. EXIM's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

This purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Exhibit I
FY2019 Export- Import Bank of the United States
Management Letter Comments

IT-NFR-2019-01 (b) (4) **– Segregation of Duties**

Condition

Controls are not properly designed and implemented to ensure the provisioning (b) (4) appropriately to support proper separation of duties. Specifically, during our review of (b) (4)

Cause

Management's control for account provisioning for (b) (4) was not designed to prevent a user from being improperly provisioned (b) (4)

Effect

Ineffective control activities, (b) (4) , increases the risk that unauthorized or errant changes could be introduced to the application or application's data and not be detected.

Recommendations

We recommend that EXIM management:

1. Improve the account provisioning controls to ensure that the process has features to prevent or detect improper provisioning.

2. Perform periodic reviews to ensure that users, (b) (4) , were not provisioned access and roles (b) (4)

Management's Response

Management concurs with the factual accuracy of all NFR conditions.

EXIM-FISMA-2019-01 Weakness in Information Security Continuous Monitoring (ISCM)

Condition

In FY 2018, we reported that the EXIM did not fully implement (b) (4) (b) (4)

As of June 2019, EXIM installed (b) (4) however, (b) (4) , the software was not configured (b) (4) Additionally, for the full reporting period, (b) (4)

Cause

Due to the government shutdown, and the impact on procurement time, the implementation (b) (4) was delayed.

Effect

Without full implementation (b) (4) EXIM may not have full capabilities in place to (b) (4)

Recommendations

We recommend that EXIM management:

3. Fully implement and configure (b) (4)
4. Configure (b) (4)
5. Perform and document evidence of a periodic review (b) (4) and perform research and resolution, as appropriate.

Management's Response

Management concurs with the Notification of Finding and Recommendation and will develop a corrective action plan, with milestone dates, to address the condition. EXIM is following a project plan with milestones that includes fully implementing (b) (4) and to perform and document evidence of a periodic review of the reported activity and perform research and resolution, as appropriate.

<u>FSA-NFR-2019-01 Foreign Currency Adjustment Accounting</u>

Condition

Controls are not designed and implemented at an appropriate level of precision to ensure the (b) (4) is executed appropriately to support the foreign currency exchange adjustment recorded in FMS. Specifically, during our testing of guarantee loans we identified one instance where the foreign currency adjustment was not appropriately calculated for a credit causing an understatement of the outstanding balance of $760 thousand, as of June 30, 2019. Additionally, EXIM performed an analysis of all guaranteed loans denoted in a foreign currency and found an additional three credits where the foreign currency adjustment was not calculated correctly due to parameter constraints. The total understatement of the guaranteed loan outstanding amount was $790 thousand as of June 30, 2019 and EXIM adjusted its records accordingly, prior to August 31, 2019.

Cause

The data input parameters for the (b) (4) were incorrectly configured to exclude guarantee loan schedules with negative amounts outstanding, and a detective control was not in place to ensure that the foreign currency adjustments were accurately posted each month.

Effect

Each month, EXIM adjusts the dollar amount of the outstanding balances for guaranteed loans denoted in a foreign currency based on foreign currency exchange rates. The total adjustment for fiscal year 2019 was a net increase in exposure of $296 million for a total outstanding exposure of $3,338 million of foreign currency denominated guarantees. Although the factual misstatement was determined to be $790 thousand, as of June 30, 2019, ineffective controls over the (b) (4) could result in a miscalculation of this foreign currency adjustment and a misstatement of the guaranteed loan exposure amount disclosed in the financial statements and utilized to calculate the liability for loan guarantees.

Recommendations

We recommend that EXIM management:

6. Develop and implement a correction to the data input parameters for the (b) (4)

7. Develop and implement controls, at an appropriate level of precision, to ensure that the (b) (4) is executed appropriately to support the foreign currency adjustment recorded in FMS.

Management's Response

Management concurs with the factual accuracy of all NFR conditions.

FSA-NFR-2019-02 Subsidy Re-estimate Source Data File 3 Review

Condition

Controls are not properly designed and implemented to ensure the formulas and amounts within File 3 of the CSC inputs were accurately summarized and reported. Specifically, during our testing of the File 3, we identified the following:

- For the Long Term Guarantee program, cohorts 1992 through 2011, the fiscal year 2018 "Re-estimate SOY" amounts were incorrect and did not agree to the prior year's audited start of the year re-estimate amount.

Cause

Management's review of File 3 was not designed, at the appropriate level of precision, to identify the incorrect summarization and reporting of all relevant historical data.

Effect

Ineffective control activities resulted in an understatement of $255 million for cohort years 1992 through 2012, as of August 31, 2019, which was reported to a third party authoritative body. Although the incorrect amounts, noted above, did not impact the current year's re-estimated amount recorded on the financial statements, we note that the inadequate controls over the review of formulas and inputs, within re-estimate cash flow model files, could result in potential errors in the re-estimate calculation and a misstatement in the financial statements.

Recommendations

We recommend that EXIM management:

8. Enhance EXIM's review control over the re-estimate cash flow model files used within the model to ensure all relevant data is appropriately summarized and reported.

9. Notify OMB of the error in File 3 historic data provided for display purpose only so that OMB can decide if a resubmission of File 3, including related inputs, is necessary.

Management's Response

Management concurs with the factual accuracy of all NFR conditions.

FSA-NFR-2019-03 Cash Flow Model Documentation

Condition

During our audit, we reviewed EXIM's models, management processes, documentation, and controls related to the financial statement re-estimates, which affect the allowance for losses and liability for loan guarantees reported in the financial statements. In addition, we reviewed EXIM's corrective action plan for prior year finding FSA-NFR-2018-01.

The CF model combines historical data, with the probability of default (PD), recovery rate assumptions, the output from the GK and LRF models, as well as data from the Economist Intelligence Unit (EIU) country ranking data, to calculate future cash flows for each deal. These future cash flows, are then input into the format required by the OMB Credit Subsidy Calculator (CSC), a required present value discount tool for agencies with credit reform programs, to generate subsidy re-estimates in accordance with the FCRA. We noted the following matters relating to the CF model:

- Management should continue to provide more details on the qualitative considerations (i.e., in addition to the qualitative factors applied in the model), such as the effects of the Project Finance deals, supporting overall model results that are more conservative than historical performance.

- In FY 2017 and previous years, the LRF model calculates lifetime PDs, i.e., the estimated PDs over the entire term of each deal. As deals age and show performance, industry practice would suggest that the total PD over the remaining life of a deal should be different from the lifetime PD. In other words, a deal with a lifetime PD of 10 percent in year 1, should have a remaining PD smaller than 10 percent in year 6, because it has performed as scheduled for 5 years. In the prior years, we noted that the PD was constant over the life of the deal. Starting in FY 2018, EXIM implemented a partial change to remedy this matter. The current LRF model shows that at 7 years for long-term deals, or 5 years for medium term deals, the remaining PD is calculated and is gradually reduced over the remaining term. The model documentation should be enhanced to sufficiently support EXIM's PD assumption, including an analysis that a static PD in the early years of a deal will not have a significant impact on the overall results of the model.

Cause

The existing CF model and credit reform re-estimate process documentation does not clearly articulate, with supporting analyses and rationale, the relevance and reliability of key qualitative assumptions and the static PD assumption.

Effect

Management re-estimates calculation, using the aforementioned models, relies on complex computations and qualitative considerations. As a result, if key qualitative and quantitative assumptions are not sufficiently analyzed and documented, it could inhibit proper review, transparency, and governance of the FCRA re-estimate process, which could lead to a misstatement of the financial statements.

Recommendations

With respect to the cash flow model, we recommend that EXIM management:

10. Assess the need to further modify the cash flow model to adjust the PD assumption to account for the age and performance of each specific deal, or document the determination as to how such a model change would have an insignificant effect on the model results.

11. Document, in sufficient detail, additional qualitative considerations used by management to calculate re-estimates for financial statement reporting, that clearly bridges the gap between model historical performance and the resulting calculations. The documentation should include a quantification of the impact of these qualitative considerations on the outputs of the cash flow model.

12. Document, in sufficient detail, all assumptions made in preparing the cash flow model and the rationale for selecting these key assumptions. Documentation should be complete and stand on its own.

Management's Response

Management concurs with the factual accuracy of all NFR conditions.

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