EXIM
EXPORT-IMPORT BANK
OF THE UNITED STATES

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

Evaluation of EXIM's Additionality Policy and Procedures

November 27, 2018
OIG-EV-19-01

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

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

This evaluation was conducted in accordance with the 2012 Quality Standards for Inspection and Evaluation as defined by the Council of Inspectors General on Integrity and Efficiency. This report does not constitute a government audit and therefore, it was not conducted following the Generally Accepted Government Auditing Standards (GAGAS).

EXIM
EXPORT-IMPORT BANK OF THE UNITED STATES

Office of Inspector General

To: James Cruse, Acting Vice Chair and First Vice President

From: Jennifer Fain, Acting Assistant Inspector General for Audits and Evaluations

Subject: Evaluation of EXIM's Additionality Policy and Procedures

Date: November 27, 2018

Attached please find the final report on the Evaluation of EXIM's Additionality Policy and Procedures. The report outlines four recommendations for corrective action. On November 15, 2018, EXIM provided its management response to a draft of this report agreeing with the recommendations. We consider management's corrective actions to be responsive. The recommendations will be closed upon completion and verification of the implementation of those recommendations.

We appreciate the courtesies and cooperation extended to us during the evaluation. If you have any questions or comments regarding the final report, please contact me at (202) 565-3439 or jennifer.fain@exim.gov.

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Attachment: Evaluation of EXIM's Additionality Policy and Procedures, OIG-EV-19-01, November 2018

EXECUTIVE SUMMARY

Evaluation of Additionality Policy
OIG-EV-19-01, November 2018

Why We Did This Evaluation

We completed an evaluation of EXIM's additionality policy and procedures. We initiated the review as part of our annual review plan. The objective of the Office of Inspector General's (OIG) evaluation was to ascertain the methodology and criteria used to comply with the Bank's additionality requirements, the adequacy of EXIM's due diligence and analysis, and the extent to which the analysis is documented and available for examination.

What We Recommend

To improve controls over additionality, we made four recommendations:

1. For medium-term transactions, ensure the reason for Bank support is documented in the decision memo as required.
2. For long-term transactions, ensure the required checklists and/or appendixes for additionality are completed and documented in the credit file.
3. Revise the additionality policy and procedures to require the confirmation of information to be documented in the credit file.
4. Re-evaluate the current additionality policy and procedures for short-term transactions to identify an approach to improve how determinations are supported and verifiable at the transaction level.

What We Found

In extending financial support for a transaction, section 2(b)(1)(B) of EXIM's charter requires it to "neutralize the effect of such foreign credit on international sales competition" and "supplement and encourage" private capital as opposed to competing with it. The Bank meets the statutory mandate by focusing on financing transactions where the probability/likelihood of a transaction involving U.S. exports is unlikely to proceed without Bank support (i.e., termed "additionality"). In addressing additionality, EXIM considers the availability of competing private or other export credit agency financing for a transaction.

To achieve our objective, we judgmentally sampled 32 transactions with a total authorized amount of $3,183.9 million for review. We found that EXIM generally conducted sufficient due diligence and adequately interpreted the need for additionality when authorizing transactions. The Bank generally complied with its additionality policy and procedures. Application forms for the 28 medium and long-term transactions that required an application contained the reason for EXIM support, which was summarized in the decision memo for 25 of the 29 transactions reviewed. To address additionality for short-term transactions, the Bank's policy is to price the transactions just above market to not compete with the private sector. Accordingly, EXIM has a process in place that requires a periodic review of the pricing of its short-term products.

Nonetheless, EXIM can improve controls over additionality determinations, particularly in the context of short-term transactions, but also more broadly in terms of improving internal controls. Absent a complete record, there is an increased risk that EXIM did not consider all relevant information in its determination. Moreover, insufficient record keeping makes it difficult for the Bank to provide a basis for its actions. Thoroughly documenting the assessment of a transaction is important for ensuring that the Bank's decisions regarding additionality are supported and can be verified. We made four recommendations for improvement.

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

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ABBREVIATIONS AND GLOSSARY

Term	Description
Additionality	Additionality is defined as the likelihood that a transaction would not go forward without EXIM support. The typical factors that influence additionality are: (1) the existence of foreign officially supported export credit for a competing foreign good or service; and/or (2) the existence of financing gaps, where commercial financing is not available on economically viable terms, but EXIM can still find a reasonable assurance of repayment.
Bank or EXIM	Export-Import Bank of the United States
Board	The Board of Directors, EXIM, is responsible for approving all medium and long-term transactions over $10 million or exceeding seven years repayment.
Board Memo	A memorandum submitted to the EXIM Board as part of the process for approving a transaction for Bank support.
Buyer or Borrower	A foreign buyer of U.S. capital goods and/or services.
Credit Memo	A memorandum submitted to EXIM management with appropriate lending authority as part of the process for approving a transaction for Bank support.
Decision Memo	Board Memo or Credit Memo
ECA	Export Credit Agency. An ECA is a private or quasi-governmental institution that acts as an intermediary between national governments and exporters to issue export financing.
EOL	EXIM Online
ERS	EXIM Bank Reporting System
Loan Manual	EXIM's Loan, Guarantee and Insurance Manual, which sets forth the policies and procedures for due diligence, structuring and monitoring of Bank transactions.
TRC	Transaction Review Committee, EXIM. The TRC is responsible for reviewing and providing guidance on transactions that will go before the Board for approval.
OIG	Office of Inspector General, EXIM

INTRODUCTION

We completed an evaluation of the Export-Import Bank of the United States' (EXIM or Bank) additionality policy and procedures. The objective of the Office of Inspector General's (OIG) evaluation was to ascertain the methodology and criteria used to comply with the Bank's additionality requirements, the adequacy of EXIM's due diligence and analysis, and the extent to which the analysis is documented and available for examination. We initiated the review as part of our annual work plan.

SCOPE AND METHODOLOGY

To achieve our objective, we employed a combination of qualitative techniques and document reviews. We judgmentally sampled 32 transactions (three short-term, 20 medium-term, and nine long-term) for review, with a total authorized amount of $3,183.9 million, to test for compliance with the Bank's policy and procedures.[1] The transactions were authorized by the Bank in fiscal years 2014 to 2017.

To understand the Bank's methodology for assessing additionality and substantiating eventual determinations thereof, we reviewed applicable laws and regulations, policies and procedures; and internal Bank reports and correspondence pertaining to additionality. We interviewed Bank management and staff from the Office of Policy Analysis and International Relations, the Office of Global Infrastructure, the Office of Export Credit Insurance, the Office of Trade Credit Insurance, the Office of Credit Policy, and the Office of the Chief Financial Officer. We also reviewed information in the credit files for the sampled transactions, related internal Bank reports and correspondence, information contained in the EXIM Bank Reporting System (ERS) and EXIM Online (EOL). The evaluation was performed at EXIM's main location in Washington, DC.

We conducted this evaluation from January 2018 to October 2018 in accordance with the *Quality Standards for Inspection and Evaluation* issued by the Council of Inspectors General on Integrity and Efficiency.[2] We believe the evidence obtained provides a reasonable basis for our findings and conclusions.

BACKGROUND

Established in 1934 through Executive Order, and subsequently made an independent agency of the United States (U.S.) through congressional charter in 1945, EXIM is a wholly owned government corporation whose fundamental mission is to aid in the financing and to facilitate the export of U.S. goods and services, and to contribute to the employment of U.S. workers. EXIM's charter, through its enabling legislation, establishes the Bank's operations and programs and is reauthorized on a periodic basis. With the passage of the

[1] *See* Appendix B for a list of the transactions reviewed.

[2] *See* https://www.ignet.gov/sites/default/files/files/committees/inspect-eval/iestds12r.pdf.

Export-Import Bank Reform and Reauthorization Act of 2015, the authorization of the Bank's charter was extended through September 30, 2019.[3]

The Bank's core financing programs include direct loans and guarantees to foreign buyers, export credit insurance for exporters and foreign buyers, and working capital finance to U.S. small business exporters. The charter requires "reasonable assurance of repayment" for all Bank transactions, which are backed by the full faith and credit of the U.S. Government.[4]

EXIM Additionality

A core element of EXIM's mission is that its activities promote the development or maintenance of U.S. jobs through the export of U.S. goods and services. In extending financial support for a transaction, section 2(b)(1)(B) of the charter requires the Bank to "neutralize the effect of such foreign credit on international sales competition" and "supplement and encourage" private capital as opposed to competing with it. According to EXIM's Policy Handbook, the policy of the Bank is to support transactions that "fosters additional exports." The Bank meets the statutory mandate by focusing on financing transactions where the probability/likelihood of a transaction involving U.S. exports is unlikely to proceed without Bank support (i.e., termed "additionality"). In addressing additionality, EXIM considers the availability of competing private or other export credit agency (ECA) financing for a transaction.

In accordance with the Policy Handbook, the assessment of the need for EXIM support (i.e., the test for additionality) for a prospective transaction begins at application.[5] The Bank has developed a series of questions to facilitate the process. The questions and the related responses, for example, are found in the respective application for medium and long-term transactions. For short-term transactions, EXIM's policy is to price its products just above market to not compete with the private sector. Annually the Bank performs a short-term pricing analysis for the program. The reason for EXIM support is presented in the transaction's decision memo (e.g., Board Memo or Credit Memo).

Categorization

Section 8(h) Categorization of Purpose of Loans and Long-Term Guarantees of EXIM's charter requires the Bank:

> "… [to] categorize each loan and long-term guarantee made by the Bank in the fiscal year covered by the [annual] report, and according to the following purposes: (1) [t]o assume commercial or political risk that [the] exporter or private financial institutions are unwilling or unable to undertake, (2) [t]o overcome maturity or

[3] *See* the *Export-Import Bank Reform and Reauthorization Act of 2015*, included in "Division E—Export-Import Bank of the United States" of the "FAST Act," which became public law on December 4, 2015 (Pub. L. No. 114-94) at https://www.congress.gov/114/bills/hr22/BILLS-114hr22enr.pdf.

[4] *See The Charter of the Export-Import Bank of the United States* at http://www.exim.gov/sites/default/files/2015_Charter_-_Final_As_Codified_-_02-29-2016.pdf.

[5] EXIM Policy Handbook, Additionality, June 2005.

> other limitations in private sector export financing, (3) [t]o meet competition from a foreign, officially sponsored, export credit competition, [or] (4) 'Not identified,' and the reason why the purpose is not identified."[6]

Accordingly, EXIM reported this information in its annual reports beginning in fiscal year (FY) 2012. However, the lack of a board quorum since July 20, 2015, has precluded EXIM from approving transactions over $10 million or exceeding seven years repayment. Therefore, the Bank did not have any long-term transactions to report in its annual report beginning FY 2016.

Prior Reviews

This is the first evaluation of EXIM's additionality policy and procedures. Prior to this evaluation, the EXIM OIG's Office of Audits conducted an audit of the Bank's underwriting of direct loans and an audit of early problem credits. The audits, discussed more fully below, contained deficiencies relating to support for additionality, of which one report made a recommendation to address the identified vulnerability. Separately, the Export-Import Bank Reform and Reauthorization Act of 2012 (2012 Reauthorization Act) required the General Accountability Office (GAO) to conduct a performance audit of EXIM's underwriting processes and fraud practices for loans and guarantees.[7] The performance audit was not specific to additionality. However, the report identified similar deficiencies as it relates to support for additionality. The recommendations made in the prior audit reports are closed.

EXIM OIG Report (OIG-AR-13-05)

On September 26, 2013, EXIM OIG issued an audit report entitled, *Export-Import Bank's Management of Direct Loans and Related Challenges*.[8] The objective of the audit was to determine whether EXIM effectively managed their direct loan transactions and complied with federal and agency credit program policies and procedures. The review of a sample of six direct loans disclosed instances of noncompliance with federal and agency policies. Specifically, as it relates to additionality, OIG found that loan officers did not always document sufficient evidence for borrower statements regarding the need for EXIM financing. The report included a recommendation for the Bank to update its Loan, Guarantee and Insurance Manual (Loan Manual) to require loan officers to maintain detailed documentation regarding the need for Bank support. To address the recommendation, EXIM updated the Loan Manual for medium and long-term transactions. In addition, the Bank added the Additionality Procedures Checklist to the Transaction Summary (Appendix 7-N) which is completed for long-term transactions that are reviewed

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[6] *Supra* note 4.

[7] *See* the *Export-Import Bank Reform and Reauthorization Act of 2012*, which became public law on May 30, 2012 (Pub. L. No. 112-122) at https://www.congress.gov/112/plaws/publ122/PLAW-112publ122.pdf.

[8] *See* the *Export-Import Bank's Management of Direct Loans and Related Challenges*, which was issued on September 26, 2013, at https://www.exim.gov/sites/default/files/oig/audit/OIG-Final-Report-Audit-of-Ex-Im-Bank-s-Management-of-Direct-Loans-and-Related-Challenges-09-26-13-2.pdf.

by the Transaction Review Committee (TRC).[9] This checklist includes a series of questions such as whether "(2) Correspondence from obligor/buyer sufficiently explaining need for Ex-Im Bank financing support is documented in [the] transaction file in Part I of the Board Memo for the TRC's Final Review" and "(3) Unavailability of local financing for terms requested is documented in the transaction file and summarized in Part I of the Board Memo for the TRC's Final Review." The Additionality Procedures Checklist was effective for use on cases that went before the TRC on or after June 18, 2014. The recommendation was closed by OIG as of September 2014.

GAO Report (GAO-14-574)

On September 9, 2014, GAO issued an audit report entitled, *Export-Import Bank: Enhancements Needed in Loan Guarantee Underwriting Procedures and for Documenting Fraud Processes*.[10] GAO limited the performance audit to loan guarantees because of EXIM OIG's recent audit of the Bank's management of direct loans (OIG-AR-13-05). The objectives of the performance audit were to determine whether EXIM (1) adequately designed and implemented procedures to reasonably assure compliance with its underwriting process requirements for loan guarantee transactions and consistency with federal guidance, and (2) adequately designed procedures to prevent, detect, and investigate fraudulent applications for loan guarantees. Whereas the performance audit was not specific to additionality, the report identified similar deficiencies as it relates to "support for statements regarding additionality" in its sample of working capital, and medium and long-term guarantees reviewed. The GAO report acknowledged the Bank's updates to the verification procedures of additionality for long-term transactions in the Loan Manual. The GAO report made six recommendations to improve the Bank's "... loan guarantee underwriting process with additional procedures for ensuring compliance with Ex-Im and federal requirements ... ." All six recommendations are closed.

EXIM OIG Report (OIG-AR-18-06)

On September 26, 2018, EXIM OIG issued an audit report entitled, *Audit of the Export-Import Bank's Medium-Term Early Problem Credits*.[11] The objectives of this audit were to determine (1) what caused the problems for EXIM's medium-term guarantees that experienced early problems and (2) if the origination, claims, and recovery processes for these guarantees were in accordance with the Bank's policies, procedures, and Federal guidelines. Specifically, as it relates to additionality, OIG found that EXIM's policy and procedures do not require Bank staff to obtain documentation to support additionality

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[9] EXIM Loan, Guarantee and Insurance Manual, Chapter 7. Standard Long-Term Preliminary Commitments and Final Commitments, Appendix 7-N, Transaction Summary, Additionality Procedures Checklist (February 2015).

[10] *See* the *Export-Import Bank Enhancements Needed in Loan Guarantee Underwriting Procedures and for Documenting Fraud Processes*, which was issued on September 9, 2014, at https://www.gao.gov/assets/670/665621.pdf.

[11] *See* the *Audit of the Export Import Bank's Medium-Term Early Problem Credits*, which was issued on September 26, 2018, found here https://www.exim.gov/sites/default/files/oig/reports/FINAL%20-%20Audit%20Report%20Medium-Term%20Early%20Problem%20Credits%20-%2009262018_Redacted.pdf.

determinations. The audit report did not include a recommendation to address the related issue identified pending the issuance of this evaluation report.

RESULTS IN BRIEF

We completed an evaluation of EXIM's additionality policy and procedures. The objective of OIG's evaluation was to ascertain the methodology and criteria used to comply with the Bank's additionality requirements, the adequacy of EXIM's due diligence and analysis, and the extent to which the analysis is documented and available for examination.

We found that EXIM generally conducted sufficient due diligence and adequately interpreted the need for additionality when authorizing transactions. The Bank generally complied with its additionality policy and procedures. However, EXIM can improve controls over additionality determinations, particularly in the context of short-term transactions, but also more broadly in terms of improving internal controls. Confirming information provided and documenting an applicant's reason for EXIM support provides a level of assurance that a prospective transaction is additional. Absent a complete record, there is an increased risk that EXIM did not consider all relevant information in its determination. Moreover, insufficient record keeping makes it difficult for the Bank to provide a basis for its actions. Thoroughly documenting the assessment of a transaction is important for ensuring that the Bank's decisions regarding additionality are supported and can be verified. We made four recommendations for improvement.

Finding 1: EXIM can improve controls over additionality determinations when approving transactions for Bank support.

EXIM generally complied with its additionality policy and procedures for the 29 medium and long-term transactions reviewed. Application forms for the 28 transactions that required an application contained the reason for EXIM support which was summarized in the decision memo for 25 of the 29 transactions reviewed. To address additionality for short-term transactions, the Bank's policy is to price the transactions just above market to not compete with the private sector. Accordingly, EXIM has a process in place that requires a periodic review of the pricing of its short-term products. Nonetheless, we determined that the Bank can improve controls over additionality determinations when approving transactions for EXIM support.

Additionality Policy and Procedures

According to the Policy Handbook, the assessment of the need for EXIM support (i.e., the test for additionality) for a prospective transaction begins at application. The Bank has developed a series of questions to determine the reason for requesting EXIM support. The questions and check boxes with responses, for example, are found in the respective application used for medium and long-term transactions. For working capital guarantees, the questions and the check box with responses are found in the credit memorandum for a transaction.[12] In response to a recommendation made in an EXIM OIG audit report, the Bank added the Additionality Procedures Checklist (checklist) to the Transaction Summary, which is completed for long-term transactions that are reviewed by the TRC.[13] The

[12] The sample of transactions reviewed did not include working capital guarantees.

[13] *Supra* note 9 and 11.

checklist includes a series of questions such as whether "(2) Correspondence from obligor/buyer sufficiently explaining need for Ex-Im Bank financing support is documented in [the] transaction file in Part I of the Board Memo for the TRC's Final Review" and "(3) Unavailability of local financing for terms requested is documented in the transaction file and summarized in Part I of the Board Memo for the TRC's Final Review." The checklist was effective for use on long-term transactions that went before the TRC on or after June 18, 2014.

The Bank's Policy Handbook also requires the relationship manager/loan officer for the transaction to "confirm the information provided [by the applicant] and report the reason Ex-Im Bank [support] is needed in the final decision memo" (e.g., the Board Memo or Credit Memo). According to interviews with Bank staff, the confirmation is usually done verbally. Neither the Policy Handbook nor the Bank's Loan, Guarantee and Insurance Manual require Bank staff to obtain documentation to support additionality determinations. Furthermore, neither resource addresses how the confirmation of applicant information is to be documented in the credit file for transactions. However, the Bank's application form and/or decision memo includes a certification made by the applicant that are made under the penalty of law. For example, the application form for a long-term loan or guarantee includes the following certification: "The representations made and the facts stated in this application and its attachment are true and Applicant has not misrepresented or omitted any material facts."[14] During the exit conference, EXIM staff explained that the Bank relies on the applicant's certification to mitigate any associated risk with respect to additionality.

Pursuant to the 2012 Reauthorization Act, in FY 2012, EXIM began to categorize long-term loans and guarantees authorized by the additionality purposes (i.e., codes) in its annual report.[15] To facilitate the categorization of transactions, the Bank created the Categorization of Transaction Guide (Appendix 7-D) which is completed by the loan officer.[16]

Federal Guidance on Internal Controls

In accordance with GAO's *Standards for Internal Control in the Federal Government*, management is responsible for designing control activities to achieve an entity's objectives and to respond to risks in its internal control system.[17] A common control activity identified in the GAO standards is "appropriate documentation of transactions and internal control." Specifically, the standards states that, "Management clearly documents internal control and all transactions and other significant events in a manner that allows the document to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are to be properly managed and maintained.

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[14] *See* https://www.exim.gov/sites/default/files//forms/eib95-10all.pdf.

[15] *Supra* note 7.

[16] EXIM Loan, Guarantee and Insurance Manual, Chapter 7. Standard Long-Term Preliminary Commitments and Final Commitments, Appendix 7-D, Categorization of Transaction Guide (February 2014 and 2015).

[17] *See* http://www.gao.gov/assets/80/76455.pdf and http://www.gao.gov/assets/670/665712.pdf.

Twenty-Nine Medium and Long-Term Transactions Tested

To evaluate compliance with the statutory mandate, we selected a judgmental sample of 29 transactions authorized between fiscal years 2014 and 2017 for review (see Appendix B). The sample included 20 medium-term and nine long-term transactions with a total authorized amount of $3,183.3 million. We reviewed the credit file for each transaction to ascertain (i) what information was considered in making a determination of additionality, (ii) whether adequate information had been provided in support of the determination made, and (iii) whether the Bank's determination of additionality was consistent with the Bank's policies and procedures.

For the 29 transactions, an application was required for 28 transactions.[18] We found that all 28 applications described the reason for requesting EXIM support as required by Bank policy and procedures. Furthermore, the reason for EXIM support was summarized in the decision memo prepared by Bank staff for 25 of the 29 transactions (16 medium-term and nine long-term). Although not required by Bank policy and procedures, the credit files for three of the transactions reviewed contained underlying support for the determination of additionality. For example, the credit file for transaction number (b) (4) included documentation from the lender stating that there was limited availability of long-term commercial financing at competitive pricing for the borrower. For transaction number (b) (4) and (b) (4) there was written documentation from the borrower explaining justification for EXIM financing in the credit file. The written documentation highlighted the fact that other financing was not available at the terms required to make the transaction viable. For the remaining 26 transactions, Bank staff explained that in most cases confirmation of additionality was done verbally over the phone. However, we did not find documentation in the credit files to support discussions between Bank staff and the applicants for the transactions. Whereas EXIM's Policy Handbook requires the loan officer to confirm information provided by the applicant, it does not specifically state that the loan officer is required to document the verification in the credit file. The absence of specificity in the Policy Handbook may have resulted in such information not being documented or retained in the credit file.

Checklists were available for five of the eight long-term transactions that required the completion of an Additionality Procedures Checklist.[19] The credit files for three of the five transactions contained documentation to support responses to questions two and three of the checklist (i.e., need for Bank support and/or unavailability of local financing terms). Categorization was documented for seven of the nine long-term transactions in the Board Memo and/or Appendix 7-D. Thorough documentation is critical for ensuring Bank decisions are supported and can be verified.

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[18] An EXIM application form was not required for medium-term transaction (b) (4) .(b) (4)

[19] The eight transactions were authorized after the effective date of the Additionality Procedures Checklist (i.e., June 18, 2014).

Additionality for Short-Term Transactions

To address additionality, the Bank's policy is to price short-term transactions just above market value, as to not compete with the private sector. Specifically, the pricing is "... intentionally set above comparable private market fees, to increase the likelihood that [the] Ex-Im Bank insured used Ex-Im Bank because they had a particular need that could not be met by the private sector." Accordingly, the Bank has a process in place that requires a periodic review of the pricing of its short-term products. In the past, EXIM has received feedback from insurers and brokers regarding the pricing of short-term products. Those comments generally were favorable, that is the current pricing was higher than market value and not competing with the private sector. This year to year change analysis is documented within the Bank's Credit Loss Factor's Policy.[20]

Notwithstanding the above, we interviewed Bank staff and reviewed the credit files for three short-term insurance transactions to understand how additionality is documented (see Appendix B). The transactions totaling $570,000 were authorized in fiscal years 2016 and 2017. According to Bank staff, most if not all of the additionality due diligence for short-term insurance transactions is completed during underwriting. Similar to medium and long-term transactions, the process starts with the receipt of the application for both single-buyer and multi-buyer insurance. In addition, the confirmation of the information provided by the loan officer is verified with a phone call. The reason for EXIM support is generally documented in the comments section of the decision memo or underwriting summary. Bank staff provided the decision memos for two short-term insurance transactions as examples where the applicant sought single-buyer cover because private sector cover was not available. The decision memos contained the reason for EXIM support within the body of the memos.

For the three transactions reviewed, the primary reason for applying for an EXIM insurance policy was risk mitigation, financing, and/or to extend more competitive terms.[21] The reason was documented in the EXIM application form for each transaction. However, we did not see the reason for Bank support in the decision memo or underwriting summary for two of the three transactions. Nor did we did find documentation in the credit files to support discussions between Bank staff and the applicants for the transactions. Whereas EXIM's Policy Handbook requires the loan officer to confirm information provided by the applicant and report the reason Bank support is needed in the decision memo, it is not clear whether this applies to short-term insurance transactions given the difference in approach to additionality (i.e., pricing just above market). Thorough documentation is critical for ensuring Bank decisions are supported and can be verified.

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[20] EXIM Credit Loss Factor Policy (July 2017).

[21] *See* https://www.exim.gov/sites/default/files//forms/eib92-64.pdf and https://www.exim.gov/sites/default/files//forms/eib92-50.pdf.

RECOMMENDATIONS

To improve controls over additionality determinations, we recommend that EXIM:

1. For medium-term transactions, ensure the reason for Bank support is documented in the decision memo as required.
2. For long-term transactions, ensure the required checklists and/or appendixes for additionality are completed and documented in the credit file.
3. Revise the additionality policy and procedures to require the confirmation of information to be documented in the credit file.
4. Re-evaluate the current additionality policy and procedures for short-term transactions to identify an approach to improve how determinations are supported and verifiable at the transaction level.

Management Response:

Please see Appendix A, Management Response and OIG Evaluation.

CONCLUSION

In conclusion, EXIM generally conducted sufficient due diligence and adequately interpreted the need for additionality when authorizing transactions. The Bank generally complied with the additionality policy and procedures. However, EXIM can improve controls over additionality determinations, particularly in the context of short-term transactions, but also more broadly in terms of improving internal controls. Confirming information provided and documenting an applicant's reason for EXIM support provides a level of assurance that a prospective transaction is additional. Absent a complete record, there is an increased risk that EXIM did not consider all relevant information in its determination. Moreover, insufficient record keeping makes it difficult for the Bank to provide a basis for its actions. Thoroughly documenting the assessment of a transaction is important for ensuring that the Bank's decisions regarding additionality are supported and can be verified.

APPENDIXES

Appendix A: Management Response and OIG Evaluation

EXIM
EXPORT-IMPORT BANK OF THE UNITED STATES

Reducing Risk. Unleashing Opportunity.

November 15, 2018

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

Dear Ms. Salehi,

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") "Evaluation of EXIM's Additionality Policy and Procedures" dated November 7, 2018 (the "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.

The OIG conducted an evaluation of the Bank's additionality policies and procedures. The Bank appreciates OIG recognizing that "EXIM generally conducted sufficient due diligence and adequately interpreted the need for additionality when authorizing transactions" and that "the Bank generally complied with its additionality policies and procedures."

The OIG has made four new recommendations to improve controls over additionality. The Bank concurs with all four recommendations and will move forward with implementing the recommendations.

Recommendation 1: For medium-term transactions, ensure the reason for Bank support is documented in the decision memo as required.

Management Response: The Bank concurs with this recommendation.

For medium-term transactions, the Bank will ensure that the reason for Bank support is documented in the decision memo as required.

Recommendation 2: For long-term transactions, ensure the required checklists and/or appendixes for additionality are completed and documented in the credit file.

Management Response: The Bank concurs with this recommendation.

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For long-term transactions, the Bank will ensure that the required checklists and/or appendixes for additionality are completed and documented in the credit file.

Recommendation 3: Revise the additionality policy and procedures to require the confirmation of information to be documented in the credit file.

Management Response: The Bank concurs with this recommendation.

The Bank will revise the additionality policy and procedures to require a confirmation of information to be documented in the credit file.

Recommendation 4: Re-evaluate the current additionality policy and procedures for short-term transactions to identify an approach to improve how determinations are supported and verifiable a the transaction level.

Management Response: The Bank concurs with this recommendation.

The Bank will re-evaluate its current additionality policy and procedures for the overall short-program.

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,

Jeffrey Goettman
Executive Vice President & Chief Operating Officer
Export-Import Bank of the United States

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OIG Evaluation

On November 15, 2018, EXIM provided its management response to a draft of this report, agreeing with the four recommendations. The response identified the Bank's actions to address the recommendations. OIG considers the Bank's actions sufficient to resolve the reported recommendations, which will remain open until OIG determines that the agreed upon corrective actions are completed and responsive to the reported recommendations.

The Bank's management response to the reported recommendations and OIG's assessment of the response are as follows:

RECOMMENDATION 1

Recommendation 1: For medium-term transactions, ensure the reason for Bank support is documented in the decision memo as required.

Management Response: The Bank concurs with this recommendation. For medium-term transactions, the Bank will ensure that the reason for Bank support is documented in the decision memo as required.

Evaluation of Management's Response: Management's actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification that the actions have been implemented.

RECOMMENDATION 2

Recommendation 2: For long-term transactions, ensure the required checklists and/or appendixes for additionality are completed and documented in the credit file.

Management Response: The Bank concurs with this recommendation. For long-term transactions, the Bank will ensure that the required checklists and/or appendixes for additionality are completed and documented in the credit file.

Evaluation of Management's Response: Management's actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification that the actions have been implemented.

RECOMMENDATION 3

Recommendation 3: Revise the additionality policy and procedures to require the confirmation of information to be documented in the credit file.

Management Response: The Bank concurs with this recommendation. The Bank will revise the additionality policy and procedures to require a confirmation of information to be documented in the credit file.

Evaluation of Management's Response: Management's actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification that the actions have been implemented.

RECOMMENDATION 4

Recommendation 4: Re-evaluate the current additionality policy and procedures for short-term transactions to identify an approach to improve how determinations are supported and verifiable at the transaction level.

Management Response: The Bank concurs with this recommendation. The Bank will re-evaluate its current additionality policy and procedures for the overall short-term program.

Evaluation of Management's Response: Management's actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification that the actions have been implemented.

Table 1: Summary of Management's Comments on the Recommendations				
Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date[22]	Resolved: Yes or No[23]	Open or Closed[24]
1.	The reason for EXIM support will be documented by the Bank in the decision memo for medium-term transactions.	No target completion date provided	Yes	Open
2.	The required additionality checklists/appendixes will be completed and documented by the Bank in the credit file for long-term transactions.	No target completion date provided	Yes	Open
3.	The policy and procedures for additionality will be revised by the Bank to require that the confirmation of information is documented in the credit file.	No target completion date provided	Yes	Open
4.	The current additionality policy and procedures for the short-term program will be re-evaluated by the Bank.	No target completion date provided	Yes	Open

[22] EXIM OIG has requested target completion dates for each of the outstanding recommendations.

[23] "Resolved" means that (1) Management concurs with the recommendation, and the planned, ongoing, and completed corrective action is consistent with the recommendation; or (2) Management does not concur with the recommendation, but alternate action meets the intent of the recommendation.

[24] Upon determination by the EXIM OIG that the agreed-upon corrective action has been completed and is responsive to the recommendation, the recommendation can be closed.

Appendix B: Transactions Reviewed

Table 2: Transactions Reviewed					
No.	FY	Deal No.	Program	Authorized Date	Authorized Amount
Short-Term Transactions					
1	2016	(b) (4)	Insurance	07/01/2016	$100,000
2	2017		Insurance	10/27/2016	$200,000
3	2017		Insurance	12/22/2016	$270,000
Medium-Term Transactions					
1	2015		Guarantee	12/18/2014	$40,712,000
2	2017		Guarantee	03/03/2017	$10,681,751
3	2016	(b) (4) [25]	Guarantee	08/24/2016	$10,593,000
4	2015	(b) (4)	Guarantee	06/12/2015	$10,533,000
5	2016		Guarantee	05/26/2016	$10,204,429
6	2015		Insurance	06/29/2015	$5,936,287
7	2015		Guarantee	02/20/2015	$3,290,719
8	2016		Insurance	08/25/2016	$2,563,626
9	2017		Insurance	09/08/2017	$10,022,566
10	2015		Guarantee	05/06/2015	$2,480,645
11	2014		Insurance	05/09/2014	$8,034,268
12	2017		Insurance	08/08/2017	$1,942,411
13	2017		Insurance	02/28/2017	$799,380
14	2017		Guarantee	12/15/2016	$1,406,380
15	2016		Insurance	04/19/2016	$1,589,213
16	2017		Insurance	01/12/2017	$1,060,000
17	2017		Guarantee	07/07/2017	$9,112,250
18	2015		Guarantee	12/08/2014	$3,549,600
19	2014		Insurance	09/23/2014	$246,942
20	2017		Guarantee	07/28/2017	$1,659,045.32
Long-Term Transactions					
1	2015		Guarantee	06/25/2015	$1,300,000,000
2	2015		Guarantee	06/25/2015	$170,787,573
3	2015	(b) (4) [26]	Loan	05/13/2015	-
4	2014	(b) (4)	Guarantee	09/08/2014	$1,125,575,956
5	2015		Guarantee	12/18/2014	$36,842,512
6	2014		Guarantee	06/12/2014	$246,301,780
7	2015		Guarantee	11/06/2014	$58,264,694
8	2015		Guarantee	04/16/2015	$57,894,898
9	2015		Guarantee	10/09/2014	$37,012,683
10	2015		Guarantee	11/13/2014	$14,242,572
Total					**$3,183,910,180**

Source: EXIM Bank Reporting System (ERS), Decision Memos, and Final Commitment Letter

[25] *Supra* note 18.

[26] We removed transaction (b) (4) from the judgmental sample. The transaction was an addendum to an earlier transaction the Bank authorized in November 2013.

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