



SEMIANNUAL  
REPORT TO CONGRESS  
APRIL 1, 2014 TO SEPTEMBER 30, 2014





**EXPORT-IMPORT BANK OF THE UNITED STATES** (Ex-Im Bank) is the official export credit agency of the United States. Ex-Im Bank supports the financing of U.S. goods and services in international markets, turning export opportunities into actual sales that help U.S. companies of all sizes to create and maintain jobs in the United States.

Ex-Im Bank assumes the credit and country risks that the private sector is unable or unwilling to accept. Ex-Im Bank also helps U.S. exporters remain competitive by countering the export financing provided by foreign governments on behalf of foreign companies. More than 80 percent of Ex-Im Bank's transactions have been made available for the direct benefit of U.S. small businesses in recent years.

More information about Ex-Im Bank is at [www.Ex-Im.gov](http://www.Ex-Im.gov).

**THE OFFICE OF INSPECTOR GENERAL** (OIG), an independent office within Ex-Im Bank, was statutorily created in 2002 and organized in 2007. The mission of Ex-Im Bank OIG 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.

The OIG is dedicated to acting as an agent of positive change to help Ex-Im Bank improve its efficiency and effectiveness. It keeps Ex-Im Bank's Chairman and President and Congress fully informed about problems and deficiencies along with any positive developments relating to Ex-Im Bank administration and operations.

More information about the OIG including reports of audits, inspections, and evaluations is at [www.Ex-Im.gov/oig](http://www.Ex-Im.gov/oig).

Information about inspectors general in the U.S. government is at [www.ignet.gov](http://www.ignet.gov).



## Contents

3	From the Inspector General
5	Highlights
11	Ex-Im Bank Management Challenges
17	Office of Inspector General Management Initiatives
21	Government Accountability Office
27	Office of Audits
28	Summary of audit activities
28	Reports issued
30	Ongoing audits
33	Office of Inspections and Evaluations
34	Summary of Inspections activities
34	Reports issued
36	Other ongoing assignments
39	Office of Investigations
40	Summary of accomplishments
40	Summary of investigations
41	Summary of investigative results
42	Ex-Im Bank employee integrity
42	Export Credit Insurance Program
43	Loan Guarantee Program
45	Other investigative results
47	Hotline activity
49	<i>Appendix A</i> Recommendations from prior reporting periods
51	<i>Appendix B</i> Peer review reporting
53	<i>Appendix C</i> Inspector General Act Reporting Requirements





## From the Inspector General

In the second half of FY 2014, the Export-Import Bank Office of Inspector General continued its work in advising the management of the Export-Import Bank and the Congress on recommendations for improving Bank operations and detecting, preventing, and prosecuting fraud.

As Congress considers reauthorization of the Bank's charter, the goal of our office is to provide timely, accurate, and credible information to aid legislators and Bank officials in making policy decisions. Inspector General Osvaldo Gratacós testified before the House Committee on Financial Services in June 2014 and before the Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Financial and Contracting Oversight, in April 2014 to discuss challenges facing the Bank, opportunities for reform, and oversight issues.

In this semiannual report we provide the OIG's assessment of the major management challenges facing Ex-Im Bank, as required by statute and based on our audit, inspection, and investigative work. The key management issues identified and discussed in this report are managing risk, including agency-wide risk management, underwriting and due diligence, and internal controls; human capital management; and information technology management.

During this period, the OIG published two audit reports and two inspection reports, making recommendations to Ex-Im Bank across a range of subjects, including improving the due diligence process, enhancing monitoring, improving access to records to enable validation of costs, and strengthening internal controls and reporting on sponsored travel and improper payments. In addition, our office continued its focus on investigating fraud related to Ex-Im Bank transactions and strengthening our ability to investigate and prosecute export fraud globally. Specifically, the OIG obtained a \$3.5 million civil fraud settlement and obtained a criminal conviction and several sealed indictments in export finance fraud cases. Although most OIG investigations address external attempts to defraud the Ex-Im Bank, the OIG also conducted ongoing employee integrity investigations that resulted in the removal of Bank employees from their positions.

The Office of Audits and Office of Investigations each received peer reviews during this semiannual period. I am pleased to report that both offices passed the peer review with no deficiencies and were found to be in full compliance with required standards. None of these accomplishments would be possible without the hard work, professionalism, and dedication of our excellent staff. In the coming months, we will continue to work professionally and collaboratively with Ex-Im Bank management and the Congress to address the challenges facing the Ex-Im Bank.

**Michael T. McCarthy** ACTING INSPECTOR GENERAL





## Highlights

The **Office of Audit** completed two audits during the six months ending on September 30, 2014:

### ***Export-Import Bank Complied with Improper Payments Reporting Requirements but Should Improve Its Risk Assessment Process***

(OIG-AR-14-06, April 15, 2014)

Improper payments are payments made in the wrong amount, to the wrong entity, or for the wrong reason. They can result from processing errors, a lack of information, or fraud. In accordance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Inspectors General are required to annually review their agency's compliance with improper payments legislation and evaluate agency efforts to assess, report, and reduce improper payments. We reviewed Ex-Im Bank's improper payments assessment and reporting activities for its FY 2012 improper payments assessment and found that Ex-Im Bank complied with IPERA by reporting its improper payments risk assessment and analysis in its Annual Financial Report (AFR). However, we identified two internal control concerns that we believe reduce the overall reliability of Ex-Im Bank's improper payment assessment. While the risk assessment was performed during FY 2013, it was not finalized or approved before the issuance of the FY 2013 AFR. Secondly, the AFR did not include Ex-Im Bank's analysis, justification and decision not to conduct recapture audits. The report outlines two recommendations for corrective action. Management agreed with the recommendations and its proposed actions are responsive.

### ***Export-Import Bank's Sponsored Travel: Improvements Made but Opportunities Exist to Fully Comply with the Federal Travel Regulation***

(OIG-AR-14-05, April 23, 2014)

We conducted this audit to follow up on previous OIG recommendations related to sponsored travel; evaluate Ex-Im Bank's approval, acceptance, and collection of payments from non-Federal sources for travel and related expenses; and determine whether Ex-Im Bank complied with Federal and agency regulations pertaining to sponsored travel.

We found that Ex-Im Bank established adequate controls over some aspects of its sponsored travel program. Specifically, employees generally submitted all relevant documentation, officials followed procedures to accept sponsored travel requests, and the bank properly billed and collected reimbursement for all sponsored transactional trips reviewed.

However, in order to fully comply with the FTR, we found that improvements are needed to ensure travel vouchers are submitted within five work days after the

completion of a trip and all sponsored conference trips are reported to the Office of Government Ethics as required.

The report outlines three recommendations for corrective action. Management agreed with the recommendations and its proposed actions are responsive. As of September 30, 2014, the corrective actions were completed and the recommendations were closed.

The **Office of Inspections and Evaluations** completed two transaction inspections during the six months ending on September 30, 2014:

***Report on the PNG LNG Project Financing, AP084099XX***

(OIG-INS-14-01, June 2014)

The PNG LNG Project is a vertically-integrated Liquefied Natural Gas (“LNG”) project in Papua New Guinea (PNG). Project Sponsors include ExxonMobil and several global energy companies. Ex-Im Bank provides \$3 billion in loan facilities including a local cost component for the financing of local goods and services originating in Papua New Guinea.

OIG’s inspection found that the PNG LNG transaction is well-structured and supported by strong and experienced sponsors. However, certain internal practices and procedures can be improved to ensure compliance with Ex-Im Bank’s policies and to better protect Ex-Im Bank from potential risks. For example, we observed that the overall level of character, reputational and integrity due diligence conducted for this transaction could have been more comprehensive to protect Ex-Im Bank from potential fraud and reputational risks.

In addition, the OIG was unable to validate the origin of \$576.9 million in local costs financed by Ex-Im Bank. Of this amount, 70 percent was billed in non-local currencies. Although Ex-Im Bank relied on the certifications of the Borrower, Ex-Im Bank’s credit documentation did not require sufficient information nor did it provide the right to inspect the records of the Borrower to confirm compliance with Ex-Im Bank’s Local Cost Policy. OIG also found that although Ex-Im Bank took several proactive measures to address potential cost overruns, it did not sufficiently analyze the foreign exchange risk during construction. The unhedged exposure significantly contributed to the project cost overruns. Finally, the OIG notes that the current level of staffing assigned to monitor complex structured transactions may not be sufficient to ensure a proactive approach and effective coverage.

The report outlines three recommendations for corrective action. Management agreed with OIE’s recommendations and its proposed actions are responsive.



## **Report on Punj Lloyd Solar Power, Ltd., AP085995XX**

(OIG-INS-14-02, September 2014)

The Punj Lloyd Solar Power project involves the development of a five-megawatt solar photovoltaic power plant in the state of Rajasthan, India. With a total cost of approximately \$16.7 million, the project utilizes cadmium telluride photovoltaic technology to convert sunlight into electric energy for transmission over the grid. The solar modules were manufactured and exported by Abound Solar, Inc. and financed by Ex-Im Bank through a comprehensive guarantee to PNC Bank.

The inspection found that the financing was current in its interest and principal payments; however, certain internal due diligence procedures had not been fully applied to all transaction parties including the Sponsor Punj Lloyd, Ltd. and the Exporter. The Exporter's bankruptcy nullified the project's solar modules' 5-year Defect Warranty and 25-year Degradation Warranty and triggered a technical default under the terms of the Credit Agreement. In addition, we found that Ex-Im Bank's Character, Reputational, and Transaction Integrity (CRTI) due diligence procedures may not be sufficiently comprehensive to protect the Bank from potential reputational risks, fraud and abuse.

In reviewing the Borrower's financial statements, OIG noted that the Borrower had potentially breached the debt service coverage requirement in the restricted payment covenant set forth in the Credit Agreement. Finally, we found that Ex-Im Bank's current post-operative monitoring policy and resource allocation for PMCG credits should be updated to provide more proactive coverage and timely response to credit developments in the portfolio. Specifically, PMCG's policy prescribes only one credit review per annum and allocates over fifty accounts to each monitoring officer.

The report outlines three recommendations for corrective action. Management agreed with OIE's recommendations and its proposed actions are responsive.

The **Office of Investigations** concluded the following actions during the six months ending September 30, 2014:

### ***Obtained a \$3.5 million settlement in a civil fraud lawsuit.***

On September 10, 2014 in the Southern District of New York, DOJ prosecutors filed a civil frauds lawsuit against Hasan Besneli, a Turkish business agent, and Saba, Inc., an exporter based in Memphis, Tenn.; for fraudulently obtaining a loan for a construction project in Turkey from Deutsche Bank that was guaranteed by Ex-Im Bank. The civil complaint alleges that, in applying for the loan and the loan guarantee, Besneli and Saba misrepresented key aspects of the transaction,

including how much of the loan proceeds would be spent on “local costs” in Turkey rather than on U.S.-made goods, and whether the borrower, a Turkish non-profit organization, would furnish a 15% down payment. The court approved a settlement agreement in which Saba will pay \$3.5 million to settle the civil fraud charges. The case will proceed against the broker in Turkey.

### ***Obtained criminal convictions in a loan guarantee fraud scheme.***

On July 10, 2014 in the Southern District of Florida, Jose Mirabent-Paez pled guilty to one count of making a false statement on a loan and credit application and was sentenced to time served and 24 months’ probation for his role in a 2006 scheme to defraud Ex-Im Bank of approximately \$1 million. According to court documents, Mirabent falsely stated to a Miami, FL, bank that Mirabent was going to use Ex-Im Bank guaranteed loan proceeds to purchase approximately \$1 million worth of construction equipment. In reality, Mirabent did not use the loan proceeds to purchase the equipment as purported to the Miami bank and to Ex-Im Bank. A related defendant, Victor Arana de la Garza, pleaded guilty to conspiracy to commit wire fraud in 2011 and was sentenced to six months in prison and 24 months’ probation. Arana was also ordered to pay \$17,500 in forfeiture. The Ex-Im Bank guaranteed loan defaulted, causing a loss of approximately \$299,849. The original loan amount was close to \$1 million, but approximately \$700,000 was paid on the loan before default. Upon Arana’s sentencing, all of the restitution was repaid to Ex-Im Bank.

### ***Referred information to Ex-Im Bank resulting in administrative actions.***

OIG Special Agents work collaboratively to share investigative intelligence with Ex-Im Bank to help identify potential and suspected fraudulent activity within Bank transactions and to protect Bank funds at risk. During this reporting period, OIG made 57 referrals of investigative information to OGC concerning potential fraud and funds at risk for enhanced due diligence by Ex-Im Bank. Referrals of investigative information resulted in two companies entering into a voluntary exclusion agreement barring them from conducting business with any U.S. government agency for five years, after findings that the companies had submitted false documents to a private lender and ultimately to Ex-Im Bank. OIG investigative information sharing also led Ex-Im Bank to cancel an insurance policy issued to a company under investigation by another federal agency, protecting funds at risk of \$2.7 million.

### ***Investigated employee integrity matters.***

During this reporting period, OIG investigated three cases involving allegations of serious misconduct by Ex-Im Bank employees. In one of these cases, we reported in our prior semiannual report that two Bank employees had been proposed for removal based on investigative information referred to Ex-Im Bank management



by the OIG. Both employees have now been separated from employment. During this reporting period, in a separate case, Ex-Im Bank removed another employee based on investigative information referred by the OIG. In the third case, Ex-Im Bank management placed an employee on administrative leave as an OIG investigation proceeds. As of September 30, 2014, these investigations were still open.





## Ex-Im Bank management challenges

Beginning in February 2012, under the Government Performance and Results Act (GPRA) Modernization Act of 2010, Ex-Im Bank must prepare a performance plan to establish performance goals and indicators, describe how the goals will be achieved and measured, and describe major management challenges and plans to address such challenges. The law defines “major management challenges” as “programs or management functions... that have greater vulnerability to waste, fraud, abuse, and mismanagement (such as issues identified by an Inspector General) where failure to perform well could seriously affect the ability of an agency to achieve its mission or goals.” The Reports Consolidation Act of 2000 requires a summary of what the Inspector General considers to be the most serious management and performance challenges facing the agency and a brief assessment of the agency’s progress in addressing those challenges.

This year, the OIG has focused on what we consider, based on our audit, inspection, and investigative work, the three top management challenges facing Ex-Im Bank. These include managing risk, human capital management, and information technology management. Addressing these challenges would provide Ex-Im Bank with a more efficient capability to meet its mission of creating and maintaining jobs in the U.S. through export financing. We will review and update these challenges annually.

### MANAGING RISK

We have reported on several challenges facing the Export-Import Bank in managing the risks inherent in its core business activities in a manner that reduces the risks of loss to the Treasury, and by extension, the taxpayer. Ex-Im Bank has experienced significant asset growth during the past several years, yet its resources and policies have not kept pace with the increased risks posed by such growth. The management challenge for Ex-Im Bank is to implement policies and practices that ensure credit and non-credit risks are assessed and priced accurately and that policy considerations are also fully considered. Key areas for consideration include the design and implementation of an agency-wide risk management framework that encompasses both credit and non-credit risks; improving the quality of underwriting and the due diligence process to capture risks associated with all parties to a transaction, including long-term and reputational risks; and improving internal controls to document compliance with clear policies and practices.

- Agency-Wide Risk Management

The OIG has stated that Ex-Im Bank should proactively manage the risk of its growing portfolio in line with common practices of commercial and multilateral development banks. Specifically, we recommended that Ex-Im Bank should establish a Chief Risk Officer or create a risk management office with independent reporting requirements to the

## Ex-Im Bank management challenges

Chairman; assess risks on an agency-wide basis; conduct periodic stress testing on its entire portfolio reflecting different market, industry, and macroeconomic scenarios; and actively monitor industry, geographic and obligor exposure levels.

Ex-Im Bank has taken steps towards improving its risk management framework such as establishing the Chief Risk Officer position and an Enterprise Risk Committee and separating origination and risk management functions. Also, the Bank has conducted stress testing and monitoring of exposure levels. We recommend that management attention to these initiatives be sustained. In particular, Ex-Im Bank should assess whether the composition of the credit portfolio produces disproportionate exposure to certain regions, industry sectors, or single obligors. The Bank should also ensure that the risk management function appropriately informs the credit analysis and origination functions.

- Underwriting and Due Diligence

Ex-Im Bank uses a decentralized under-writing process and a risk-based due diligence model. Given the lessons learned from incidences of fraud in the Medium-Term program, the increase in the number of transactions, and insufficient credit information and history from borrowers in some regions, it is vital that Ex-Im Bank enhances credit underwriting and due diligence practices in order to identify and prevent fraud.

In July 2010, Ex-Im Bank's Board of Directors issued an Individual Delegated Authority (IDA) resolution authorizing certain individual Ex-Im Bank officers to approve loans, guarantees, and insurance up to \$10 million. Prior to this delegated authority, Ex-Im Bank approved these transactions through a credit committee. The IDA decentralized underwriting and decision-making authority. However, absent strong policies and procedures, decentralized underwriting and due diligence practices may cause inconsistent criteria to be applied in different programs.

Furthermore, the lack of due diligence efforts by delegated lenders, specifically lenders with a history of defaulted transactions in certain products, is a pattern the OIG has observed. Since Ex-Im Bank guarantees that these lenders will receive payment, their incentives to conduct thorough due diligence are reduced. Effective implementation of Know Your Customer practices by lenders, and appropriate controls by Ex-Im Bank to ensure that delegated lenders adhere to these requirements, could help minimize or prevent fraudulent activity. The Bank issued a revised Know Your Customer policy in May 2014.

OIG inspection reports have also found weaknesses in Ex-Im Bank's Character Reputational Transactional Integrity (CRTI) screening process, finding that the process as structured did not identify potentially relevant information about key transaction participants and that the



screening did not cover all individuals and entities participating in transactions. Ex-Im Bank has agreed with our recommendations to improve the CRTI process and should continue to implement these recommendations.

- Internal Controls

One of the consistent observations arising out of audits, evaluations, and investigations conducted by the OIG are weaknesses in governance and internal controls for business operations. We have reported that internal policies providing clear guidance to staff and establishing clear roles and authorities have not been prevalent at Ex-Im Bank. The management challenge for Ex-Im Bank is to set clear policies and controls to account for the risks in Ex-Im Bank's operations and document compliance with those controls.

A recent audit of direct loans found that loan officers did not always document sufficient evidence of the borrower's need for Ex-Im Bank financing, ensure or document borrower eligibility and compliance with Ex-Im Bank credit policies and standards, and document that comprehensive due diligence reviews were completed prior to loan approval. These conditions occurred, in part, as a result of inadequate recordkeeping and reliance on institutional knowledge.

Another issue is the Bank's reliance on self-certification by transaction participants without sampling or verification by Ex-Im Bank. A recent audit of Ex-Im Bank's Content Policy found that for the majority of transactions, Ex-Im Bank primarily relies on exporter self-certification and criminal penalty warnings to ensure content requirements are met and to deter exporters from making false content representations. For example, in FY 2012, only three percent of all Ex-Im Bank transactions were subject to content requirement oversight procedures. Without proper verification efforts, there is no assurance only eligible exports are financed and that Ex-Im's mission of maintaining or increasing U.S. employment is being met. Similarly, inspections have found that Ex-Im Bank relies on self-certifications that local costs incurred in connection with U.S. exports are in compliance with law and policy. Without a process to verify at least a sample of invoices, or the right to inspect relevant records, Ex-Im Bank does not have assurance that local costs financed by Ex-Im Bank are supporting U.S. exports.

These areas need to be addressed to ensure compliance with Federal and Ex-Im Bank policies and create a better corporate governance culture. Improvement in these areas will also reduce the vulnerability of the Bank to fraud.

## Human Capital Management

The OIG has noted an imbalance between the number of Ex-Im Bank underwriters, asset managers, and compliance personnel relative to the increasing size of its asset exposure. During the past five years, Ex-Im Bank has witnessed significant asset growth from less than \$70 billion in fiscal year (FY) 2009 to approximately \$112 billion in FY 2013. During this same period, Ex-Im Bank's workforce has grown very little.

During a recent audit of Ex-Im Bank's management of direct loans, employees expressed concerns about the impact of the growing demand for Ex-Im support on their continued ability to provide quality service. The audit found that the Credit Administration Group experienced a 100 percent increase in its workload from FY 2010 to FY 2012 without any increase to the number of employees responsible for the work. Previous reports from GAO, KPMG, LLC and CC Pace Systems also expressed concerns over the strained capacity of the Ex-Im workforce and the potential for operational risks, inadequate monitoring of credits and elongated deal cycle times. GAO reported that Ex-Im Bank had not developed benchmarks for the level of business it can properly support with the given level of resources.

In addition to the number of employees and employee workload, the Bank also faces management challenges in recruitment and retention and employee morale. To recruit and retain personnel with specialized skill sets in executing complex financial transactions, Ex-Im Bank competes not just with the private sector, but also with multilateral development agencies such as the World Bank and other federal financial agencies such as the Federal Reserve and the Securities and Exchange Commission, all of which offer a higher pay scale. According to Bank officials, uncertainty about Ex-Im Bank's long-term authorization is also hindering recruitment. Bank officials also described lack of succession planning for key positions as a concern.

In the course of our investigations and in discussions with Bank officials, OIG has received information that employee morale is low. This anecdotal information is corroborated by the results of the 2013 Federal Employee Viewpoint Survey. In that survey, the percentage of positive response from Ex-Im Bank employees significantly trailed the federal government average in many categories. Employees are especially dissatisfied about the physical conditions of the work environment and health and safety issues, and ratings of confidence in leadership trail the federal average. In addition, OIG investigations have identified management problems in human resources functions.

During FY 2014, Ex-Im Bank added 59 positions to its staffing plan, which should address some of the challenges related to employee workload. The other human capital management issues such as morale and succession planning require sustained management attention.



## Information Technology (IT) Management

We have previously reported that Ex-Im Bank uses an ineffective, inefficient, and fragmented IT platform and infrastructure in several systems and databases. These systems and databases do not effectively and accurately interface—compromising data integrity, producing duplicative information, and creating unreliable files. These systems make data mining burdensome and time-consuming. The ineffective IT platform compromises the ability of Ex-Im Bank to provide timely service, effectively manage and track its programs, measure progress, identify transaction patterns, conduct portfolio risk analysis, and increase productivity.

A 2012 audit of Information Technology Support for Export-Import Bank's Mission found that the Bank's IT systems do not always capture and manage all necessary data for business needs and that antiquated IT applications cause workflow inefficiencies. For example, Ex-Im Bank's Application Processing Systems (APS) is critical to the bank as it is used to track the applications for long-term guarantee and direct loans. Nevertheless, it was developed decades ago and does not capture all necessary underwriting data. Further, data integrity is at risk in this system due to required manual entry of the transactions.

The audit also found that Ex-Im Bank does not have practices to effectively manage its strategic planning, IT spending, Systems Development Life Cycle and Program Change Management processes.

To address the management challenges related to information technology, we have recommended that Ex-Im Bank develop formal data management policies and procedures to ensure complete and accurate participant and transaction data is captured and reported, and develop a clear and comprehensive IT strategic plan in accordance with OMB requirements.

Since 2012, Ex-Im Bank has engaged in an IT infrastructure modernization effort focused on replacing legacy systems and improving quality and access of its data. In the 2012 reauthorization, Ex-Im Bank was authorized to spend up to \$20 million from its surplus specifically to modernize its information technology systems. Ex-Im Bank is currently implementing a new comprehensive financial management system to improve its operations. The new system is scheduled for full implementation on October 1, 2014. We note, however, that this new system will not yet encompass APS and therefore, challenges will continue to exist after implementation of the new system. Management should continue to upgrade its information technology infrastructure using the funding available for this purpose to improve data reliability and meet the business needs of Ex-Im employees and customers.





# Office of Inspector General Management Initiatives

## Inspector General departs

On June 27, 2014, Inspector General Osvaldo L. Gratacós resigned to accept a position as Vice President, Compliance Advisor Ombudsman for the International Finance Corporation and Multilateral Investment Guarantee Agency in the World Bank Group. Mr. Gratacós served with the Ex-Im Bank OIG since 2008 and was confirmed as the Inspector General on September 29, 2010. He led the OIG through a period of significant growth. During his tenure, the OIG obtained dozens of criminal convictions against parties who defrauded the Ex-Im Bank. The OIG also issued numerous audit and inspection reports which led to improvements in Ex-Im Bank's risk management, governance, and internal control. Deputy Inspector General Michael T. McCarthy is serving as Acting Inspector General pursuant to the Vacancies Act.

## New senior staff

Terry Settle joined the OIG as Assistant Inspector General for Audits. She is responsible for directing audits of Ex-Im's programs and operations to promote efficiency and effectiveness and to prevent fraud, waste and abuse. Prior to joining Ex-Im, Ms. Settle served for 16 years at the Small Business Administration Office of Inspector General (SBA OIG). She began her career as an auditor with the SBA OIG and prior to her departure, was serving as the Director of Credit Programs. In this role, Ms. Settle was responsible for directing audits of SBA's loan and investment programs. She holds a B.S. in Accounting from Salisbury University and is a Certified Public Accountant.

## Senate subcommittee hearing

On April 10, 2014, Inspector General Gratacós testified at a hearing of the Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Financial and Contracting Oversight, on "Oversight of Small Agencies." His testimony focused on the unique challenges facing the Ex-Im Bank OIG during its startup phase, issues facing small agencies and small OIG offices generally, and proposals for improving oversight of small agencies. One proposal discussed at the hearing was expanding the responsibility of the Ex-Im Bank OIG to also serve as the Inspector General for the Overseas Private Investment Corporation.

## House committee hearing

On June 25, 2014, Inspector General Gratacós testified at a hearing of the House Committee on Financial Services on reauthorization of the Ex-Im Bank. His testimony focused on the challenges facing the Bank and recommendations the OIG has made to improve operations and accountability at Ex-Im Bank.



## International and domestic collaboration

The OIG participates in meetings with the Berne Union, the worldwide organization of export credit, insurance, and investment agencies. These meetings allow the OIG to discuss areas of interest in the export credit field and to benchmark Ex-Im Bank's practices with other export credit agencies. Since the majority of OIG investigations and inspections are focused on international transactions, the OIG continually seeks to partner with international organizations to collaborate and exchange ideas and information on how to work together in identifying, preventing, and investigating fraud.

## Council of Inspectors General on Integrity and Efficiency

The OIG participates in the activities of the Council of Inspectors General on Integrity and Efficiency (CIGIE), including the Legislation Committee and the CIGIE Inspection and Evaluation Committee, as well as the Council of Counsels to the Inspectors General.

## Review of legislation and regulations

Pursuant to section 4(a)(2) of the Inspector General Act of 1978, as amended, the OIG reviews proposed and existing legislation and regulations related to Ex-Im Bank's programs and operations. During the reporting period, the OIG worked through the CIGIE Legislation Committee to monitor and comment on proposed legislation on Inspector General reforms.





# Government Accountability Office

The Inspector General (IG) Act states that each IG shall give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and ensuring effective coordination and cooperation. During the reporting period, the OIG shared information with GAO and met with GAO officials to discuss ongoing and planned work.

The Government Accountability Office issued three reports during this reporting period that addressed Ex-Im Bank procedures or mission. The three reports are summarized below.

### ***Information on Export Credit Agency Financing Support for Wide-Body Jets***

(GAO-14-642R, July 8, 2014)

This report included briefing slides describing (1) trends in financial support for wide-body jet exports by Ex-Im and European Export Credit Agencies (ECA); (2) international arrangements relevant to ECA support for wide-body jet exports; and (3) financing options, including non-ECA financing and support, used to procure wide-body jets.

The audit found that since 2004, Ex-Im's financing support for Boeing wide-body jets has generally increased, and in FYs 2008 through 2012, Ex-Im's total authorizations increased significantly in the wake of the 2007 and 2009 financial crisis. As of March 31, 2014, Ex-Im's financial exposure in wide-body jets was about \$32 billion, or about 28 percent of Ex-Im's total financial exposure. Large commercial aircraft deliveries supported by Ex-Im and European ECAs rose sharply in 2009 and declined in 2011 and 2013.

There are three international arrangements that affect Ex-Im's and other ECAs' support for wide-body jets—the 2011 Aircraft Sector Understanding (ASU), the 2006 Cape Town Convention (CTC), and the "Home Country Rule." The ASU dictates uniform terms and conditions for ECA support of commercial aircraft exports. The CTC was designed to ease repossession of aircraft in cross-border transactions that use aircraft as collateral. The Home Country Rule is an informal understanding among the US, France, Germany, Spain, and the United Kingdom that airlines based in those countries are not eligible to receive support from any of those countries ECAs for large commercial aircraft transactions.

From 2008 through 2013, Ex-Im and European ECAs supported 26 percent of large commercial aircraft deliveries. In addition to using ECA financing support, buyers can use various commercial financing options such as cash, bank loans, or aircraft-backed bonds. Further, according to Boeing data, from 2004 through 2013, over 10 percent of wide-body jet sales were to lessors.



### ***Monitoring of Dual-Use Exports Should Be Improved***

(GAO-14-719, August 28, 2014)

Since 1994, Ex-Im Bank has had the authority to facilitate the financing of U.S. exports of defense articles and services, provided that it determines these items are nonlethal and primarily meant for civilian use. These “dual-use” exports include aircraft that are used by foreign militaries mainly for humanitarian purposes. After a 9-year hiatus, Ex-Im financed three dual-use exports in FY 2012. These three transactions accounted for \$1.03 billion, or just under 3 percent of Ex-Im’s \$35.8 billion of financing for that year. Federal law requires GAO to report annually on the end uses of dual-use exports financed by Ex-Im during the second preceding fiscal year. This report (1) examined how Ex-Im has complied with its requirements for monitoring the end uses of the dual-use exports it financed in FY 2012 and (2) identified what dual-use exports, if any, Ex-Im financed in FY 2013.

The review found that as of July 31, 2014, Ex-Im had received most of the information it required in its credit agreements regarding the three dual-use transactions it financed in FY 2012, but some of the information it received was late. Ex-Im officials told GAO they made efforts to obtain missing documentation for all three transactions, and did not think the missing documentation risked the exports being used in a lethal manner or for primarily military purposes. However, GAO found Ex-Im’s efforts were often not timely or documented. Ex-Im therefore did not have complete and timely information about whether the items were actually being used in accordance with the terms of the agreements and Ex-Im policy. GAO recommended that Ex-Im strengthen its guidance for monitoring end use in cases where borrowers do not submit required documentation within specified time frames. Ex-Im agreed with GAO’s recommendation and said it would revise its guidance.

The review also found that Ex-Im did not finance any exports under its dual-use authority in FY 2013, according to Ex-Im officials and Ex-Im authorizations data.

### ***Enhancements Needed in Loan Guarantee Underwriting Procedures and for Documenting Fraud Processes***

(GAO-14-574, September 9, 2014)

GAO was mandated by the Export-Import Bank Reauthorization Act of 2012 to review the extent to which Ex-Im (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. GAO’s review of a statistical sample of loan guarantees indicated that Ex-Im implemented many key aspects of the underwriting process as required by its Loan, Guarantee and Insurance Manual. However, GAO found that the Manual did not (1) include certain procedures or sufficiently detailed instructions to verify compliance with Ex-Im’s requirements and consistency with federal guidance, such as a procedure to verify that loan guarantee

transaction applicants did not have delinquent federal debt; (2) include instructions for loan officers to use credit reports and for the inclusion of all required documents and analyses in the loan file prior to approval; and (3) call for assessments of collateral, as required by federal guidance, for certain loan guarantee transactions prior to approval. Further, Ex-Im did not have mechanisms to verify compliance with certain established procedures, including documenting certain loan guarantee eligibility procedures. In addition, Ex-Im's current risk-based approach for scheduling examinations to monitor lenders with delegated authority to approve guaranteed loans was not documented. Improvements in these areas would help enhance the assessment of transaction participant eligibility and the reasonable assurance of repayment, as well as help prevent fraud.

GAO also found that while Ex-Im has processes to prevent, detect, and investigate fraud, it has not documented its overall processes for doing so. Such documentation is recommended by several authoritative auditing and antifraud organizations as a key step in evaluating and updating these processes.

GAO made a number of recommendations to Ex-Im to enhance its loan guarantee underwriting process with additional procedures for ensuring compliance with Ex-Im and federal requirements, as well as for documenting fraud processes. Ex-Im concurred with GAO's recommendations.







# Office of Audits

## Summary of Audit Activities

The Office of Audits (OA) conducts and oversees independent and objective audits relating to Ex-Im Bank programs to improve Ex-Im Bank operations. All OIG audits are performed in accordance with generally accepted government auditing standards promulgated by the Comptroller General of the United States. Furthermore, OA refers irregularities and other suspicious conduct detected during audits to the Office of Investigations for investigative consideration.

OA completed two audits during the six months ended September 30, 2014:

- Audit of Export-Import Bank's Compliance with the Improper Payments Information Act of 2002 for Fiscal Year 2012
- Audit of Export-Import Bank's Controls over Sponsored Travel

At the end of the reporting period, OA had four audits in progress:

- Audit of Export-Import Bank of the United States Fiscal Year 2014 Financial Statements
- Audit of the Fiscal Year 2014 Information Security Program and Practices
- Audit of the Internal Controls over Short-term, Multi-buyer Insurance Policies
- Audit of Export-Import Bank's Development and Implementation of FMS-NG (Financial Management System—Next Generation)

## Reports Issued

### *Export-Import Bank Complied with Improper Payments Reporting Requirements but Should Improve Its Risk Assessment Process*

(OIG-AR-14-06, April 15, 2014)

[www.Ex-Im.gov/oig/reports/upload/Final-Report-Improper-Payments-Reporting-OIG-AR-14-06-signed.pdf](http://www.Ex-Im.gov/oig/reports/upload/Final-Report-Improper-Payments-Reporting-OIG-AR-14-06-signed.pdf)

Improper payments are payments made in the wrong amount, to the wrong entity, or for the wrong reason. They can result from processing errors, a lack of information, or fraud. In accordance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Inspectors General are required to annually review their agency's compliance with improper



payments legislation and evaluate agency efforts to assess, report, and reduce improper payments. With OMB's approval, Ex-Im Bank performs its improper payments assessment one year in arrears, meaning the analysis for FY 2012 was reported in Ex-Im Bank's FY 2013 Annual Financial Report (AFR). We reviewed Ex-Im Bank's improper payments assessment and reporting activities for its FY 2012 improper payments assessment.

We found that Ex-Im Bank complied with IPERA by reporting its improper payments risk assessment and analysis in its AFR. However, we identified two internal control concerns that we believe reduce the overall reliability of Ex-Im Bank's improper payment assessment. Specifically, while the risk assessment was performed during FY 2013, it was not finalized or approved before the issuance of the FY 2013 AFR. Secondly, the AFR did not include Ex-Im Bank's analysis, justification and decision not to conduct recapture audits.

This audit recommended that Ex-Im Bank (1) ensure that the risk assessments is completed before the improper payments information is reported in the AFR and ensure it considers bank-wide internal controls that may affect the improper payments assessment process beyond payments controls and (2) include in the AFR its analysis, justification and decision of whether or not it would be cost effective to conduct payment recapture audits. Management concurred with the recommendations.

***Export-Import Bank's Sponsored Travel: Improvements Made but Opportunities Exist to Fully Comply with the Federal Travel Regulation***

(OIG-AR-14-05, April 23, 2014)

[www.Ex-Im.gov/oig/reports/upload/OIG-Final-Report-No-OIG-AR-14-05\\_508\\_comp.pdf](http://www.Ex-Im.gov/oig/reports/upload/OIG-Final-Report-No-OIG-AR-14-05_508_comp.pdf)

We conducted this audit to follow up on previous OIG recommendations related to sponsored travel; evaluate Ex-Im Bank's approval, acceptance, and collection of payments from non-Federal sources for travel and related expenses; and determine whether Ex-Im Bank complied with Federal and agency regulations pertaining to sponsored travel.

Under certain circumstances, pursuant to the Federal Travel Regulation (FTR), agencies and their employees may accept gifts of official travel and related expenses from non-Federal sources (referred to as sponsored travel). In addition, the Export-Import Bank Act of 1945, as amended, enables Ex-Im Bank to accept reimbursement for travel and subsistence expenses incurred as a result of employee attendance at meetings or similar events that are directly related to the mission of Ex-Im Bank. The authority was provided so that Ex-Im Bank could "be more aggressive in promoting its Export programs" given its "severely limited" annual restrictions on its overall administrative expenses.

In approving and accepting sponsored travel, Ex-Im Bank management is required to prevent abuse and ensure that Ex-Im Bank's interest in employee attendance at sponsored events and meetings outweighs concern that acceptance of gifts of official travel from

non-Federal sources may cause a reasonable person to question the integrity of Ex-Im Bank's programs and operations. In addition, when sponsors agree to reimburse Ex-Im Bank for certain travel expenses, Ex-Im Bank must accurately and timely bill sponsors and collect reimbursements to ensure that limited administrative funds are not unnecessarily or inefficiently expended. Finally, the FTR requires Ex-Im Bank to report to the Office of Government Ethics (OGE) all payments over \$250 received from non-federal sources for sponsored "conference" trips.

In following up on previous recommendations, we found that Ex-Im Bank established adequate controls over some aspects of its sponsored travel program. Specifically, the audit found that employees generally submitted all relevant documentation and officials followed procedures to accept sponsored travel requests. Further, we found that Ex-Im Bank properly billed and collected reimbursement for all sponsored transactional trips reviewed.

However, in order to fully comply with the FTR, the audit found that improvements are needed to ensure the submission of travel vouchers within five work days after the completion of a trip. From our statistical sample review, we projected that vouchers were submitted untimely for more than half of all sponsored transactional trips occurring from January 2011 to April 2013. In fact, we identified two vouchers that were submitted 260 calendar days or more after the required submission date.

The audit also found that Ex-Im Bank did not report 15 percent of the 60 sponsored conference trips from March 2011 to March 2013 to OGE as required by the FTR. This occurred because the Office of General Counsel did not have strong internal controls to ensure its data was complete and accurate.

The audit recommended that Ex-Im Bank establish effective control activities over the submission of sponsored travel vouchers, reporting procedures that allow for information to be communicated timely, and mechanisms to obtain specific, measurable, and reliable data. Management concurred with the recommendations. As of September 30, 2014, the corrective actions were completed and the recommendations were closed.

### Ongoing Audits

#### **Audit of Export-Import Bank of the United States Fiscal Year 2014 Financial Statements**

An independent public accountant (IPA), working under OIG supervision, is conducting an audit to issue an opinion on the accuracy and completeness of Ex-Im Bank's financial statements for FY 2014.



### **Audit of the Fiscal Year 2014 Information Security Program and Practices**

The Federal Information Security Management Act of 2002 (FISMA) requires agencies to develop, document, and implement agency-wide information security programs to protect their information and information systems. FISMA also requires agencies to undergo an annual independent evaluation of their information security programs and practices, as well as an assessment of their compliance with FISMA. To fulfill its FISMA responsibilities, the OIG has contracted with an IPA for an independent evaluation of Ex-Im Bank's information security program and practices and its overall compliance with FISMA requirements.

### **Audit of the Internal Controls over Short-term, Multi-buyer Insurance Policies**

Ex-Im Bank offers export credit insurance to assist U.S. exporters in selling their goods overseas by protecting them against the risk of foreign-buyer or other foreign-debtor default for political or commercial reasons. This allows U.S. exporters to extend competitive credit terms to their international customers with reduced risk. Insurance policies may cover short- or medium-term sales, commercial and political risks, and shipments to one or multiple buyers.

We are conducting an audit to determine if the Bank's internal control environment and control activities for short-term multi-buyer insurance products provide reasonable assurance of compliance with applicable laws and regulations and the efficiency and effectiveness of operations. We expect to issue an audit report in the semiannual period ending March 31, 2015.

### **Audit of Export-Import Bank's Development and Implementation of FMS-NG (Financial Management System—Next Generation)**

In FY 2012, Ex-Im Bank began a project to replace its legacy financial and administrative information technology systems. The new system utilizes a Commercial Off The Shelf solution that has been tailored for the Federal Government and has been certified by the Financial Systems Integration Office. The new system is known as the Financial Management System Next Generation (FMS-NG) and was placed into production in October 2014. The OIG has contracted with an IPA to develop and perform a set of agreed-upon procedures to assess the quality of Ex-Im Bank's implementation of FMS-NG. We expect to issue a report in the semiannual period ending March 31, 2015.





# Office of Inspections and Evaluations

## Summary of Activities

The Office of Inspections and Evaluations (OIE) conducts independent inspections and policy evaluations to assess the efficiency and effectiveness of Ex-Im Bank's programs, operations, and transactions. All OIE assignments are performed in accordance with Council of Inspectors General on Integrity and Efficiency guidelines and standards including the 2010 Quality Standards for Inspections and Evaluations. OIE works in tandem with the Office of Audit and the Office of Investigations whenever appropriate. Moreover, OIE refers irregularities and other suspicious conduct detected during its reviews to the Office of Investigations for investigative consideration.

During the second half of FY 2014, OIE completed two transaction inspections:

1. Report on the PNG LNG Project Financing (OIG-INS-14-01, June 2014)
2. Report on Punj Lloyd Solar Power, Ltd. (OIG-INS-14-02, September 2014)

In addition, at the end of the reporting period, OIE had four inspections/evaluations in progress:

1. Follow up report on Ex-Im Bank's Economic Impact Procedures.
2. Follow-up report on Ex-Im Bank loss reserve and portfolio risk management practices.
3. Inspection of Sasan Power Limited Project Financing.
4. Inspection of Ridge Hospital Complex Renovation and Expansion Loan.

## Reports Issued:

### ***Report on the PNG LNG Project Financing, AP084099XX***

(OIG-INS-14-01, June 2014)

[www.Ex-Im.gov/oig/reports/upload/PNG-LNG-INSPECTION-REPORT-508-Final-Redacted.pdf](http://www.Ex-Im.gov/oig/reports/upload/PNG-LNG-INSPECTION-REPORT-508-Final-Redacted.pdf)

PNG LNG is a vertically integrated liquefied natural gas project in Papua New Guinea, consisting of gas fields in the highlands, an on-shore and off-shore pipeline of over 400 miles, a gas liquefaction plant on the coast, marine export facilities, and in-country infrastructure. Construction started in 2010 and is scheduled for completion in 2015.

Ex-Im Bank has commitments totaling \$3 billion, including a local cost component for the financing of local goods and services originating in Papua New Guinea.

OIG's inspection focused primarily on Ex-Im Bank's performance and adherence to internal policies and procedures. The scope of our work involved a thorough analysis of project documents, financial projections, and industry best practices, as well as interviews with Ex-Im Bank staff and outside consultants.



In the aggregate, our inspection found that the PNG LNG transaction was well structured and properly documented with Ex-Im Bank confident of full repayment. However, certain internal practices and procedures can be improved to ensure compliance with Ex-Im Bank's policies and to better protect Ex-Im Bank from potential risks. For example, we observed that the overall level of character, reputational and integrity due diligence conducted for this transaction could have been more comprehensive to protect Ex-Im Bank from potential fraud and reputational risks. It did not fully vet the directors of the project owners, nor other relevant persons and entities connected with the project.

In addition, the OIG was unable to validate the origin of \$576.9 million in local costs financed by Ex-Im Bank. Of this amount, 70 percent was billed in non-local currencies. Although Ex-Im Bank relied on the certifications of the Borrower, Ex-Im Bank's credit documentation did not require sufficient information nor did it provide the right to inspect the records of the Borrower to confirm compliance with Ex-Im Bank's Local Cost Policy. OIG also found that although Ex-Im Bank took several proactive measures to address potential cost overruns, it did not sufficiently analyze the foreign exchange risk during construction. The unhedged exposure significantly contributed to the project cost overruns. Finally, the OIG noted that the current level of staffing assigned to monitor complex structured transactions may not be sufficient to ensure a proactive approach and effective coverage.

The report outlines three recommendations for corrective action. Management agreed with OIG's recommendations and its proposed actions are responsive.

### ***Report on Punj Lloyd Solar Power, Ltd., AP085995XX***

(OIG-INS-14-02, September 2014)

[www.Ex-Im.gov/oig/reports/upload/PUNJ\\_Final-09-23-14-Redacted.pdf](http://www.Ex-Im.gov/oig/reports/upload/PUNJ_Final-09-23-14-Redacted.pdf)

The Punj Lloyd Solar Power, Ltd. ("Punj" or "Borrower") project involves the development of a five-megawatt solar photovoltaic power plant in the state of Rajasthan, India. The project utilizes photovoltaic technology to convert sunlight into electric energy for transmission over the grid. The solar modules were manufactured and exported by Abound Solar, Inc. ("Abound" or the "Exporter") and financed by Ex-Im Bank through a comprehensive guarantee to PNC Bank. The \$9.1 million Punj transaction is part of a portfolio of over 700 loans in amounts of \$20 million or less, representing an aggregate outstanding balance of \$822.2 million. This portfolio is monitored by Ex-Im Bank's Portfolio Monitoring and Control Group ("PMCG"). At the time of this report, the financing is current in its interest and principal payments.

OIG's inspection focused primarily on Ex-Im Bank's performance and adherence to internal policies and procedures. The scope of our work involved a thorough analysis of project documents, financial projections, and industry best practices, as well as interviews with Ex-Im Bank staff.

Our inspection found that certain internal due diligence procedures had not been fully applied to all transaction parties including the Sponsor Punj Lloyd, Ltd. and the Exporter. The Exporter's bankruptcy nullified the project's solar modules' 5-year Defect Warranty and 25-year Degradation Warranty and triggered a technical default under the terms of the Credit Agreement. In addition, we found that Ex-Im Bank's CRTI due diligence procedures may not be sufficiently comprehensive to protect the Bank from potential reputational risks, fraud and abuse.

In reviewing the Borrower's financial statements, OIG noted that the Borrower had potentially breached the debt service coverage requirement in the restricted payment covenant set forth in the Credit Agreement. Finally, we found that Ex-Im Bank's current post-operative monitoring policy and resource allocation for PMCG credits should be updated to provide more proactive coverage and timely response to credit developments in the portfolio. Specifically, PMCG's policy prescribes only one credit review per annum and allocated over fifty accounts to each monitoring officer.

The report outlines three recommendations for corrective action. Management agreed with OIE's recommendations and its proposed actions are responsive.

### Other ongoing assignments

#### Follow up report on Ex-Im Bank's Economic Impact Procedures

Ex-Im Bank's Economic Impact Procedures are intended to provide a methodological framework to assure that that Ex-Im Bank's projects do not have an adverse impact on U.S. industry. First introduced to Ex-Im Bank's Charter in 1968, the procedures have been the subject of Congressional scrutiny and public interest. In prior years, both the OIG and the GAO have identified opportunities for improvement in Ex-Im Bank's economic impact procedures. The most recent version of the procedures was approved by Ex-Im Bank's Board of Directors on November 19, 2012 and took effect April 1, 2013. This evaluation complements OIG's prior report by analyzing the new procedures in the context of OIG's prior findings and recommendations. OIE expects to publish the results of its evaluation during the semi-annual period ending March 31, 2015.



### **Follow-up report on Ex-Im Bank loss reserve and portfolio risk management practices**

In separate reports, both OIG and GAO have identified opportunities for Ex-Im Bank to strengthen its loss reserve and risk management practices. OIE's follow-up report seeks to assess Ex-Im Bank's progress to date on the various recommendations put forth in the two reports. OIE expects to publish the results of its evaluation during FY 2015.

### **Inspection of Sasan Power Limited Project Financing**

Ex-Im Bank provided a \$650 million commitment to Sasan Power Limited as part of a \$3.2 billion financing to fund the construction and operation of the Sasan 3,960 MW coal-fired power plant and mine in Singrauli, India. OIG seeks to assess the level of due diligence, credit analysis and monitoring conducted by Ex-Im Bank. In addition, OIG will validate compliance with Ex-Im Bank's policies and procedures, including social and environmental policies.

### **Inspection of Ridge Hospital Complex Renovation and Expansion Loan**

Ex-Im Bank provided a \$156.4 million loan to the Republic of Ghana to finance the renovation and expansion of the Ridge Hospital complex in Accra, Ghana. OIG seeks to assess the level of due diligence, credit analysis and monitoring conducted by Ex-Im Bank. In addition, OIG will validate compliance with Ex-Im Bank's policies and procedures.

### **Other activities**

OIE participated in several discussions with representatives from other export credit agencies and multilateral institutions to discuss and promote risk management and integrity due diligence best practices.

We are pleased to announce the hire of Ms. Jennifer Fain as Deputy Assistant Inspector General for Inspections and Evaluations. Ms. Fain joined Ex-Im Bank OIG with over sixteen years of federal government experience, including fourteen years with the OIG community.





# Office of Investigations

## Summary of Accomplishments

The Office of Investigations (OI) conducts and coordinates investigations relating to alleged or suspected violations of laws, rules, or regulations occurring in Ex-Im Bank programs and operations. The subjects of OI investigations can be program participants, contractors, Ex-Im Bank management or employees. OI Special Agents investigate suspected violations of Federal law, rules, or regulations, which may result in criminal or civil prosecution and/or administrative sanctions. OI's investigations are supported by Investigative and Financial Analysts whom conduct tactical and strategic intelligence analysis in support of OI's investigations.

During this reporting period, OI achieved several milestones and accomplishments towards meeting mission objectives of investigating and preventing waste, fraud, and abuse impacting Ex-Im Bank.

## Summary of Investigations

OI evaluates all reports of possible fraud or illegality affecting Ex-Im Bank programs and activities. Such reports are received from a variety of sources including Ex-Im Bank employees, Ex-Im Bank Office of General Counsel, participants in Ex-Im Bank transactions, other government agencies, and the Ex-Im Bank OIG Hotline. Evaluations that identify reasonable indications of possible fraud or illegality result in an investigation. These investigations are summarized in the table below.

Activity	Investigations
Open as of March 31, 2014	36
Opened during period	14
Closed during period	9
Open as of September 30, 2014	41



Of the 41 current open investigations, the following table depicts the category of Ex-Im program affected by the investigation based on the allegations received:

Program	Number of Investigations
Export Credit Insurance	19
Loan Guarantee	9
Working Capital Guarantee	4
Procurement Fraud	1
Program Integrity	4
Direct Loan	1
Employee Integrity	3

*\*Note: During previous Semi-Annual Reporting periods, OI reported the number of claims under investigation; however, this statistic did not accurately measure and reflect the types of investigations being conducted by OI. The claims statistic is more accurately captured under court ordered restitutions, which are appropriately reported under judicial actions in each Semi-Annual Report. The claims under investigation metric will no longer be reported in the OI statistics.*

## Summary of Investigative Results

The Office of Investigations obtained the following investigative actions during this reporting period.

Description	OIG	Joint Activities*	Total
Matters Referred for Prosecution Consideration	8	2	10
Criminal Indictments, Informations, Complaints	0	4	4
Civil Complaints	1	0	1
Pleas Entered	0	1	1
Criminal Judgments	0	1	1
Civil Judgments/Settlements	1	0	1
Civil Recoveries	\$3,500,000	0	\$3,500,000
Prison Time (months)	0	1	1
Probation (months)	0	24	24
Debarments (months)	264	0	264
Court Ordered Fines, Restitution, and Forfeiture	0	0	0
Administrative Actions**	0	1	1
Administrative Employee Actions***	0	1	1
Administrative Cost Savings and Repayments	0	\$2,700,000	\$2,700,000

\* Joint investigations with other law enforcement agencies.

\*\* Administrative actions are responses by Ex-Im Bank to stop transactions, cancel policies, or protect funds at risk based upon investigative findings.

\*\*\* Administrative employee actions are responses by Ex-Im Bank to terminate or discipline Ex-Im Bank employees based upon investigative findings.

## Export-Import Bank Employee Integrity

The Office of Investigations conducts investigations involving allegations of criminal activity or serious misconduct by Ex-Im Bank employees that could threaten its reputation, the quality or validity of executive decisions, the security of personnel or business information entrusted to Ex-Im Bank, or result in financial loss.

During this reporting period, OI investigated three cases involving allegations of serious misconduct by Ex-Im Bank employees. In one of these cases, we reported in our prior semiannual report that two Bank employees had been proposed for removal based on investigative information referred to Ex-Im Bank management by the OIG. Both employees have now been separated from employment. During this reporting period, in a separate case, Ex-Im Bank removed another employee based on investigative information referred by the OIG. In the third case, Ex-Im Bank management placed an employee on administrative leave as an OIG investigation proceeds. As of September 30, 2014, these investigations were still open.

## Export Credit Insurance & Loan Guarantee Program

One of Ex-Im Bank's key programs—the export credit insurance program—has been particularly susceptible to fraud schemes by foreign borrowers, U.S. based exporters, and other transaction participants. While there are several different programs in Ex-Im Bank, criminal activity exploits certain processes within the programs in order to induce Ex-Im Bank to approve insurance or guaranteed coverage.

## Export Credit Insurance Program

This program offers protection in the form of several different insurance policy types to U.S. exporters and their lenders against non-payment by foreign buyers due to commercial and political risks. Export credit insurance allows exporters to increase export sales by limiting international repayment risk, offering credit to international buyers, and enabling exporters to access working capital funds. One fraudulent scheme to exploit this program involves the falsification of shipping records to convince Ex-Im Bank that the described goods have been shipped when in fact they have not.

Successful investigative efforts within the export credit insurance program during the reporting period include the reports noted below.

### California and Florida Exporter Investigation

OI investigated allegations that ND Electronics, Inc. of Fremont, Calif., and ND Electronics of Miami, Inc., had submitted false documents to a private lender and ultimately to Ex-Im



Bank. Based on the investigation, OI shared investigative intelligence with OGC which led to the companies signing a five year voluntary exclusion agreement. The agreement barred both companies from conducting business with any U.S. government agency for five years.

### Ongoing Investigation

On September 16, 2014, OI agents obtained a sealed indictment related to subjects suspected of defrauding Ex-Im Bank's Export Insurance Program through false documents and other means. The investigation is ongoing.

## Loan Guarantee Program

Ex-Im Bank assists exporters by guaranteeing financing from a commercial lender to creditworthy international buyers, both private and public sector, for purchases of U.S. goods and services. Ex-Im Bank's guarantee of a lender's loan to an international buyer is used to finance purchases of U.S. goods and services. Criminals have exploited this program by submitting false financial statements of foreign borrowers in order to induce Ex-Im Bank to provide its guarantee coverage for a loan for which they might otherwise be ineligible, and by submitting false documentation to the guaranteed lender and Ex-Im Bank regarding the shipment, nature, or quantity of the U.S. goods allegedly being exported.

Successful investigative efforts within the loan guarantee program during the reporting period include the following:

### Miami, FL, Investigation with Two Defendants

On July 10, 2014 in the Southern District of Florida, U.S. District Judge Kathleen M. Williams sentenced Jose Mirabent-Paez, age 42, to time served and 24 months' probation for his role in a 2006 scheme to defraud Ex-Im Bank of approximately \$1 million. Simultaneous to the sentencing, Mirabent, a citizen of Mexico, pleaded guilty to one count of making a false statement on a loan and credit application.

According to court documents, Mirabent was the owner of Cauferrat, S.A., a construction company in Mexico City, Mexico. The court documents state that Mirabent falsely stated to a Miami, FL, bank that Mirabent was going to use Ex-Im Bank guaranteed loan proceeds to purchase approximately \$1 million worth of construction equipment. In reality, Mirabent did not use the loan proceeds to purchase the equipment as purported to the Miami bank and to Ex-Im Bank.

A related defendant, Victor Arana de la Garza, pleaded guilty to conspiracy to commit wire fraud in U.S. District Court in Miami before Judge Adalberto Jordan on August 18, 2011. On December 8, 2011, Judge Jordan sentenced Arana to six (6) months in prison and 24

months' probation. Arana was also ordered to pay \$17,500 in forfeiture. Arana, 52, of Houston, Texas, worked for Global Structured Trade Solutions and conspired to submit various false documents to a Miami, FL, bank and Ex-Im Bank on behalf of Cauferrat, S.A. The Ex-Im Bank guaranteed loan defaulted, causing a loss of approximately \$299,849. The original loan amount was close to \$1 million, but approximately \$700,000 was paid on the loan before default. Upon Arana's sentencing, all of the restitution was re-paid to Ex-Im Bank.

The U.S. Attorney's Office, Southern District of Florida, Miami Division prosecuted the case. The case was investigated by Ex-Im Bank OIG and Homeland Security Investigations in Houston, Texas.

### **\$3.5 Million Civil Settlement**

On September 10, 2014 in the Southern District of New York, prosecutors filed a civil frauds lawsuit in Manhattan federal court against Hasan Besneli, a Turkish business agent, and Saba, Inc., an exporter based in Memphis, Tenn.; for fraudulently obtaining a loan for a construction project in Turkey from Deutsche Bank that was guaranteed by Ex-Im Bank. The civil complaint alleges that, in applying for the loan and the loan guarantee, Besneli and Saba misrepresented key aspects of the transaction, including how much of the loan proceeds would be spent on "local costs" in Turkey rather than on U.S.-made goods, and whether the borrower, a Turkish non-profit organization, would furnish a 15% down payment. The lawsuit seeks civil penalties under the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) and damages and penalties under the False Claims Act.

Simultaneous with the filing of the lawsuit, the United States settled the claims against Saba pursuant to a settlement stipulation approved on September 18, 2014 by U.S. District Judge John F. Keenan. In the settlement, Saba admitted and accepted responsibility for submitting information to Ex-Im Bank in connection with applying for the loan guarantee without verifying the truth or accuracy of such information and for marking up the costs of certain goods—by as much as 300%—for purposes of generating "cash money." Saba also agreed to pay \$3.5 million and to abstain from participating in any Ex-Im loan or loan guarantee programs for seven years.

According to court documents in 2002, Besneli and Saba began working together to bid on contracts involving export of U.S. goods to be used in construction projects in Turkey. One of those projects involved TC Basbakani Baskanliginda Darussafaka Cemiyeti ("Darussafaka"), a Turkish non-profit organization, which planned to develop a retirement home complex in Urla. To ensure that they would be picked as the exporter for the Urla project, Besneli and Saba promised Darussafaka that they would obtain an Ex-Im Bank guaranteed loan to finance that project.



Besneli and Saba made that promise even though they knew that Darussafaka did not plan to comply with Ex-Im Bank’s loan guarantee requirements, including a 15% down payment by the borrower, i.e., Darussafaka, and capping “local costs” at 15%. To circumvent those requirements, Besneli and Saba made misrepresentations to Ex-Im Bank and to Deutsche Bank, the lender, regarding how much of the loan funds would be spent on local costs and whether Darussafaka would furnish a down payment. Further, after Besneli and Saba fraudulently obtained the loan from Deutsche Bank under an Ex-Im Bank loan guarantee, they orchestrated a scheme whereby Saba marked up the costs of the U.S.-made goods being exported to Turkey—sometimes by as much as 300%—in order to generate “cash money” that they funneled back to Darussafaka to fund local costs.

Finally, in 2007, Darussafaka defaulted on the loan from Deutsche Bank that was guaranteed by Ex-Im Bank. Pursuant to its loan guarantee, Ex-Im Bank reimbursed Deutsche Bank and, as a result, suffered millions of dollars in losses.

The claims against Besneli were not resolved by the Saba settlement and will go forward. The Government seeks civil penalties against Besneli for fraudulently obtaining the loan extended by Deutsche Bank, a federally insured financial institution.

The case is being handled by the United States Attorney’s Office for the Southern District of New York’s Civil Frauds Unit. Assistant U.S. Attorneys Cristine Irvin Phillips, Li Yu, and Ellen M. London are in charge of the case. This ongoing case is being investigated by the Ex-Im Bank OIG.

### **Ongoing Investigation**

On September 16, 2014, OI agents obtained two (2) sealed indictments related to subjects suspected of defrauding Ex-Im Bank’s Loan Guarantee Program through false documents and other means. The investigation is ongoing.

### **Exporter Investigation**

On June 26, 2014 OI agents shared with Ex-Im Bank investigative intelligence regarding an investigation of an exporter by another federal agency, resulting in Ex-Im Bank cancelling a \$2.7 million loan guarantee issued to an exporter, protecting taxpayer funds at risk.

## **Other Investigative Results**

### **Special Agents Work Collaboratively with Ex-Im Bank to Help Protect Funds at Risk**

To the extent permissible and within the confines and limitations of an investigation, OI Special Agents work collaboratively to share investigative intelligence with OGC, Credit and Risk Management Division, and Asset Management Division of Ex-Im Bank to help identify

potential and suspected fraudulent activity within Bank transactions and to protect Bank funds at risk.

During this reporting period, OI communicated with Ex-Im Bank management to enhance the monitoring of existing transactions and due diligence reviews of proposed transactions based on developed investigative leads. OI shared active law enforcement intelligence with OGC on several matters concerning suspected criminal activity by participants involved in active policies or transactions under review.

OI made 57 referrals of investigative information to OGC concerning potential fraud and funds at risk for enhanced due diligence by Ex-Im Bank.

These efforts are part of the OI objective to expeditiously protect funds at risk concurrent in monitoring, oversight, and collection efforts involving transactions in which fraud is uncovered.

### **Investigative Capabilities are Enhanced by Law Enforcement Partnerships and Other Coalitions**

During this reporting period, OI further strengthened its availability and use of resources and investigative support by conducting proactive liaison outreach to the Integrity and Investigations units of the World Bank Group, the African Development Bank, and the Inter-American Development Bank.

During this reporting period, OI also established liaison with the U.S. Department of Homeland Security, Homeland Security Investigations (HSI)-led National Intellectual Property Rights Coordination Center (IPR) in Washington, D.C. Based on initial meetings with IPR leadership, OI plans to become an IPR partner to facilitate commercial fraud, trade finance fraud, and intellectual property intelligence sharing to enhance OI operations.

OI continues its strong partnerships with the Export Enforcement Coordination Center, the Financial Crimes Enforcement Network (FinCEN), and INTERPOL.

As part of the OIG's mission to prevent and detect fraudulent activity, efforts have been made to meet with and educate stakeholders and other law enforcement partners about the various risks and fraud scenarios most commonly seen in trade finance, export credit fraud, and money laundering cases.

On April 7, 2014, OI representatives met with partner organizations at the Recovery Accountability and Transparency Board's Recovery Operations Center (ROC) in Washington, D.C. OI discussed common fraud scenarios and money laundering patterns often seen



in trade finance fraud investigations, and provided information regarding the role and responsibility of the OIG in combatting fraud, waste, and abuse in Ex-Im programs and related trade finance scenarios.

On July 9, 2014, OI representatives met with agents, analysts, and leaders of the Department of Homeland Security's HSI office in Miami, FL OI discussed common fraud scenarios and money laundering patterns often seen in trade-based money laundering and trade finance fraud investigations. OI also provided information regarding the role and responsibility of the OIG in combating fraud, waste, and abuse in Ex-Im programs and related trade finance and money laundering scenarios.

## Hotline Activity

The Ex-Im Bank OIG maintains a hotline to receive reports of fraud, waste, and abuse in Ex-Im Bank programs and operations. Hotline reports are evaluated by our investigative team and, based on the available evidence, may result in the initiation of an investigation, audit, referral to other law enforcement authorities having jurisdiction, or referral to management for administrative action.

The OIG received eight (8) hotline reports during the reporting period. Four (4) were referred for investigation and four (4) were resolved and closed by the hotline.

Hotline reports can be made by any of the following methods:

**PHONE AT** 1-888-OIG-Ex-Im (1-888-644-3946);

**E-MAIL TO** IGhotline@Ex-Im.gov, or;

**IN PERSON OR MAIL/DELIVERY SERVICE TO** Ex-Im Bank OIG Hotline, Office of Inspector General, 811 Vermont Avenue, NW, Room 138, Washington, D.C. 20571.

The OIG will not disclose the identity of a person making a report through the hotline without their consent unless the IG determines such disclosure is unavoidable during the course of an investigation.





# Appendix A

## Recommendations from prior reporting periods

This table shows that 30 recommendations from 11 reports issued prior to March 31, 2014 remain open at the end of this reporting period. Nine open recommendations are from reports issued in the first half of FY 2014 and 8 are from FY 2013. The remaining 13 open recommendations are from reports issued in FY 2011 and FY 2012. Reports from prior periods are no longer listed when all recommendations have been closed.

Report Date	Report Title	Total	Recommendations			Latest target closure date
			Open	Closed	Unresolved	
Last Period (10/1/13—3/31/14)						
Audits						
OIG-AR-14-03 26 Mar 2014	FY 2013 Information Security Program and Practices Audit	6	2	4	0	3/31/15
OIG-AR-14-04 21 Mar 2014	FY 2013 Financial Statement Audit-Management Letter	7	4	3	0	11/30/14
OIG-AR-14-01 11 Dec 2013	Audit of Ex-Im Bank's Content Policy	3	3	0	0	3/31/15
Prior Periods (prior to 10/1/13)						
Audits						
OIG-AR-13-05 26 Sep 2013	Audit of Ex-Im Bank's Management of the Direct Loan Program	4	2	2	0	12/31/14
OIG-AR-12-05 28 Sep 2012	Audit of Export-Import Bank's Short-Term Insurance Program	10	4	6	0	3/31/15
OIG-AR-12-04 24 Jan 2012	Audit of Information Technology Support for Export-Import Bank's Mission	11	1	10	0	10/31/14
Inspections and Evaluations						
OIG-INS-13-01 30 Sep 2013	Inspection Report on Minera y Metalurgica del Boleo S.A.	7	6	1	0	3/31/15
OIG-INS-12-02 27 Sep 2012	Report on Portfolio Risk and Loss Reserve Allocation Policies	7	2	3	2	12/31/14
OIG-INS-12-01 27 Mar 2012	Report on Performance Metrics for Operational Efficiency and Customer Service, Phase 1	8	1	7	0	12/31/14
OIG-EV-10-03 17 Sep 2010	Evaluation Reporting Relating to Economic Impact Procedures	16	2	14	0	12/31/14
Other Reports						
OIG-SR-11-01 7 Jun 2011	Review of the Export-Import Bank Nigeria Banking Facility	3	3	0	0	4/30/2015
<b>TOTALS</b>		<b>82</b>	<b>30</b>	<b>50</b>	<b>2</b>	





# Appendix B

## Peer review reporting

This appendix complies with Section 5(a)(14)-(16) of the IG Act of 1978, as amended.

### Of the Ex-Im Bank OIG Audit Function

On September 24, 2014, the National Labor Relations Board (NLRB) OIG issued its final report on the system of quality control for the Ex-Im Bank OIG's audit function. The NLRB OIG issued a rating of pass and found that the Ex-Im Bank OIG Office of Audits was in full compliance with the standards required by the Council of Inspectors General on Integrity and Efficiency. A copy of the NLRB OIG report can be found on the Ex-Im Bank OIG website at [www.Ex-Im.gov/oig/reports/upload/Ex-Im-Bank-OIG-Peer-Review-Final.pdf](http://www.Ex-Im.gov/oig/reports/upload/Ex-Im-Bank-OIG-Peer-Review-Final.pdf).

### Of the Ex-Im Bank OIG Investigation Function

As of June 10, 2011, Ex-Im Bank OIG derives its law enforcement authority from Section 6(e) of the IG Act of 1978, as amended. As such, the OIG is required to undergo an external peer review process of our investigative function every three years. During the week of May 19, 2014, the Office of Inspector General, Office of Investigations (OIG) for the Fair Housing Finance Agency (FHFA) conducted a peer review of all OI core functions. The FHFA OIG issued a report which indicated OI was in full compliance with the standards required by the Council of Inspectors General on Integrity and Efficiency and passed the peer review with no deficiencies. A copy of the FHFA OIG report can be found on the Ex-Im Bank OIG website at [www.Ex-Im.gov/oig/upload/Report-on-Quality-Assessment-052214.pdf](http://www.Ex-Im.gov/oig/upload/Report-on-Quality-Assessment-052214.pdf).

### Of other Offices of Inspectors General

On April 22, 2014, the Ex-Im Bank OIG issued its final report on the system of quality control for the audit function of the Commodity Futures Trading Commission (CFTC) Office of Inspector General. With the exception of three deficiencies, the peer review found that the CFTC OIG's system of quality control was suitably designed and complied with to provide the CFTC OIG with reasonable assurance of performing and reporting in conformity with professional standards. As a result, the CFTC OIG received a rating of pass with deficiencies. The identified deficiencies related to the completion of all required Continuing Professional Education hours, documentation of independence, and unfinalized policies and procedures. A copy of the report can be found on the CFTC OIG's website at [www.cftc.gov/ucm/groups/public/@aboutcftc/documents/file/oigpeerreview051914.pdf](http://www.cftc.gov/ucm/groups/public/@aboutcftc/documents/file/oigpeerreview051914.pdf)

No further reviews of other OIGs' Audit or Investigative units are scheduled until 2017.





# Appendix C

## Inspector General Act reporting requirements

Inspector General Act citation	Requirement definition	Page
Section 4(a)(2)	Review of Legislation and Regulations	19
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	None
Section 5(a)(2)	Recommendations for Corrective Actions	11-12, 15, 29-30
Section 5(a)(3)	Prior Significant Audit Recommendations Yet to Be Implemented	49
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	41
Sections 5(a)(5) and 6(b)(2)	Summary of Refusals to Provide Information	None
Section 5(a)(6)	Audit Products Issued Including Total Dollar Values of Questioned Costs, Unsupported Costs, and Recommendations that Funds Be Put to Better Use	None
Section 5(a)(7)	Summary of Particularly Significant Reports	28-30, 34-36
Section 5(a)(8)	Total Number of Reports and Total Dollar Value for Audits with Questioned Costs	None
Section 5(a)(9)	Total Number of Reports and Total Dollar Value for Audits with Recommendations that Funds Be Put to Better Use	None
Section 5(a)(10)	Summary of Prior Audit Products for which No Management Decision Has Been Made	49
Section 5(a)(11)	Description and Explanation of Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions with which the Inspector General Disagreed	None
Section 5(a)(13)	Reporting in Accordance with Section 5(b) of the Federal Financial Management Improvement Act of 1996 Remediation Plan	None
Sections 5(a)(14), (15) and (16)	Peer Reviews Conducted and Outstanding Recommendations	51







## How to report fraud, waste, and abuse

The Inspector General Act of 1978 states that the Inspector General (IG) may receive and investigate complaints or information concerning the possible existence of an activity constituting a violation of law, rules, or regulations, or mismanagement, gross waste of funds, abuse of authority or a substantial and specific danger to the public health and safety. Whether reporting allegations via telephone, mail, or in person, the OIG will not disclose the identity of persons making a report without their consent unless the IG determines such disclosure is unavoidable during the course of the investigation. You may submit your complaint or information by these methods:

### In person

Office of Inspector General  
Export-Import Bank of the U.S.  
811 Vermont Avenue, NW  
Washington, D.C. 20571

### Telephone

1- 888-OIG-Ex-Im  
(1-888-644-3946)

### Mail

Office of Inspector General Hotline  
Export-Import Bank of the U.S.  
811 Vermont Avenue, NW  
Washington, D.C. 20571

### E-mail

IGHotline@Ex-Im.gov



OFFICE OF INSPECTOR GENERAL  
Export-Import Bank of the United States  
811 Vermont Avenue, NW  
Washington, D.C. 20571

Telephone 202.565.3908  
Facsimile 202.565.3988

[www.Ex-Im.gov/oig](http://www.Ex-Im.gov/oig)