



# SEMIANNUAL REPORT TO CONGRESS

APRIL 1, 2016 TO SEPTEMBER 30, 2016







**EXPORT-IMPORT BANK OF THE UNITED STATES** (EXIM Bank) is the official export credit agency of the United States. EXIM 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.

EXIM Bank assumes the credit and country risks that the private sector is unable or unwilling to accept. EXIM 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 EXIM Bank's transactions have been made available for the direct benefit of U.S. small businesses in recent years.

More information about EXIM Bank is at [www.exim.gov](http://www.exim.gov).

**THE OFFICE OF INSPECTOR GENERAL** (OIG), an independent office within EXIM Bank, was statutorily created in 2002 and organized in 2007. The mission of EXIM 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 EXIM Bank improve its efficiency and effectiveness. It keeps EXIM Bank's Chairman and President and Congress fully informed about problems and deficiencies along with any positive developments relating to EXIM Bank administration and operations.

More information about the OIG including reports of audits, inspections, and evaluations is at [www.exim.gov/about/oig](http://www.exim.gov/about/oig). Information about inspectors general in the U.S. government is at [www.ignet.gov](http://www.ignet.gov).





## Message from the Inspector General

In the second half of FY 2016, 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.

This semiannual report includes the Office of Inspector General's assessment of the major management challenges facing the agency, which we are required to publish annually. In our semiannual report dated March 31, 2016, we stated that although Congress passed and the President signed legislation reauthorizing EXIM in December 2015, EXIM was limited in its ability to fully implement the legislation to the absence of a quorum on the Board of Directors. This limitation continued throughout this semiannual period. At the time of this report, two of the five Presidentially appointed, Senate-confirmed director positions are filled, with two additional Presidential appointments pending before the Senate. Because the Charter requires a minimum of three Board members as a quorum to take action, the Bank cannot currently approve new medium-term and long-term transactions over \$10 million, or approve the appointment of a Chief Risk Officer and Chief Ethics Officer as required by the reauthorization legislation. We have identified managing the effects of the lapse in Board quorum, the previous lapse in authorization, and uncertainty about the future of EXIM as the top management challenge facing the Bank.

During this semiannual period, the OIG published five reports—two audit reports on improper payments and oversight of delegated lenders and three evaluation reports on portfolio risk management, the annual risk rating review process, and procurement of motor vehicles. In addition, our office continued its focus on investigating fraud related to EXIM Bank transactions. We obtained several convictions in fraud and money laundering schemes targeting EXIM Bank. In the conclusion to a significant investigation, the leader of a conspiracy to defraud EXIM Bank and private lenders out of more than \$11 million was sentenced to 144 months imprisonment, and two co-conspirators also received sentences of 41 and 48 months imprisonment.

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 EXIM Bank management and the Congress to address the issues facing the EXIM Bank.

**Michael T. McCarthy**

ACTING INSPECTOR GENERAL





## Highlights

The **Office of Audits (OA)** completed two audits, one evaluation, one non-audit service data call, and one risk assessment:

### *Independent Auditor's Report on Export-Import Bank's Compliance with the Improper Payments Laws for Fiscal Year 2015 Reporting*

(OIG-AR-16-06, May 13, 2016)

Under a contract overseen by the Office of Audits, CliftonLarsonAllen, LLP (CLA) performed an audit to determine if EXIM Bank was in compliance with the reporting requirements of the improper payments laws for FY 2015 reporting. In addition, the audit assessed the accuracy and completeness of EXIM Bank's improper payment reporting, the Bank's implementation of prior year recommendations, and the Bank's effort to reduce and recover improper payments. The audit determined EXIM Bank fully complied with all six reporting requirements of the improper payments laws and was not required to prepare or report statistical estimates of improper payments for each program. The audit found the process developed by the Bank for assessing improper payments risk in FY 2015 marked significant improvement over FY 2014 and the Bank implemented two of the three recommendations issued during the prior year improper payments audit. Nevertheless, the audit found that EXIM Bank's Annual Report should include more detailed reporting on improper payments related to recapture audits, risk assessment elements, the Do Not Pay initiative, and the Bank's reporting time period. The audit also found that EXIM should strengthen policies and procedures related to improper payments and the related supporting documentation. The report included four recommendations for corrective actions and management concurred with the recommendations.

### *Audit of Export-Import Bank's Examinations of Delegated Authority Lenders Participating in the Working Capital Guarantee Program*

(OIG-AR-16-07, September 28, 2016)

Approximately 80 percent of EXIM Bank's working capital guarantees are committed under delegated authority. EXIM's Business Credit Division conducts periodic examinations of delegated authority lenders to review lender compliance with the Working Capital Guarantee Program (WCGP). We conducted this audit to determine whether EXIM Bank's oversight of delegated authority lenders was effective to ensure lenders were complying with program guidance. We found that EXIM Bank's examinations of delegated authority lenders were not fully effective to ensure lenders complied with program guidance. We found the examinations were performed timely and lenders were properly notified of findings identified during the examinations. We also found the examinations ensured lenders properly obtained and documented waiver requests. However, we found actions were needed to improve the effectiveness of the Bank's oversight of the lenders related to improving the quality and thoroughness of the examinations, ensuring the independence of the

examinations, and updating policies. The report included twelve recommendations for corrective actions and management concurred with the recommendations.

### *Evaluation of the Export-Import Bank's Procurement Process for a Vehicle Lease*

(OIG-EV-16-03, September 29, 2016)

On March 30, 2016, the OIG issued an audit report on EXIM Bank's contracting processes. One issue identified was that contract files did not contain all required documentation. Specifically, one contract we reviewed did not contain the required justification for a luxury vehicle lease primarily used to transport the Chairman of the Bank. The audit determined that a justification explaining why the vehicle, a 2014 Cadillac XTS, was essential to the Bank's mission was not completed as required by federal acquisition regulations. We reported that we would further evaluate this procurement and would issue a supplemental report as warranted.

As a result, we conducted an evaluation to determine if (1) the lease of the Cadillac resulted in additional costs in comparison to other options available to the Bank, (2) the lease of the Cadillac was necessary given the Bank already had another vehicle available for use, (3) there were indications the Cadillac was used for anything other than official business, and (4) EXIM Bank personnel complied with the Federal Acquisition Regulation (FAR). We found the Cadillac appeared to have been used for official business, however; additional costs were incurred in comparison to other available leasing options, leasing two vehicles with low utilization cost the bank funds that could have been put to better use, and EXIM Bank did not fully comply with the FAR. The report included seven recommendations for corrective actions and management concurred with the recommendations.

### *Information Technology Report Required by the Cybersecurity Information Sharing Act of 2015*

(August 12, 2016)

Section 406 of the Cybersecurity Information Sharing Act of 2015 required the OIG to submit to Congress a report including, among other information, a description of the logical access standards, logical access controls, and data security management practices for the federal computer systems of EXIM Bank. Under a contract overseen by the Office of Audits, Cotton & Company, LLP (Cotton) compiled the requested data as a non-audit service. As part of this service, Cotton was required to review the Bank's computer systems that were classified as national security systems or that provided access to personally identifiable information. Cotton determined that the Bank does not operate any national security systems, but it does operate 12 systems that provide access to personally identifiable information. The information provided by EXIM Bank was complete and fully addressed the requirements of section 406 of the Act. The requested data was provided to the appropriate committees in a timely manner.



## *Risk Assessment of EXIM Bank's Purchase Card Program*

(August 30, 2016)

In accordance with the Government Charge Card Abuse Prevention Act of 2012, we conducted a risk assessment to identify and analyze the risks of illegal, improper, or erroneous use of EXIM Bank's purchase cards in order to determine the scope, frequency and number of periodic audits the OIG will conduct. Our risk assessment determined that EXIM Bank's risk of illegal, improper, or erroneous use within the purchase card program was low. Overall, we determined that the purchase card expenditures were immaterial in comparison to EXIM Bank's total FY 2015 administrative expenditures. Additionally, while the Chief Acquisition Officer position, the leadership position for the Purchase Card Program, has been vacant since June 2015; we found the policies, procedures, and internal controls for the Purchase Card Program were generally sufficient. We also noted that EXIM Bank timely submitted its Charge Card Management Plan to OMB by the January 31, 2016 deadline. Accordingly, we do not intend to conduct an audit specifically of the Purchase Card Program. However, we will base future Purchase Card Program audits on the results of our annual risk assessments.

The **Office of Inspections and Evaluations (OIE)** completed two evaluations during the six months ending on September 30, 2016:

## *Follow-up Report on EXIM Bank's Portfolio Risk and Loss Reserve Allocation Policies*

(OIG-EV-16-01, July 28, 2016)

OIE completed a follow-up review to assess EXIM Bank's actions to address the findings and recommendations made in the prior OIG evaluation report on the Bank's portfolio risk and loss reserve policies issued in September 2012. The 2012 report identified several areas needing improvement with respect to the Bank's loss reserve allocation and portfolio risk management policies and proposed seven key recommendations to strengthen the Bank's risk management framework. The follow-up report found that since the publication of the 2012 report, EXIM Bank has made important progress in strengthening its risk management processes and governance framework, including implementing all 2012 recommendations. OIG recommends that EXIM Bank take additional steps to further align its risk management policies and procedures with industry best practices. The report makes eight new recommendations to support several key initiatives: mitigate portfolio concentration risk through the implementation of soft portfolio limits and risk sharing as provided for in the 2015 Reauthorization Act; complete the independent assessment of the Bank's financial models and further refine its risk dashboard, ensuring independent oversight of the review process; and further develop internal risk management procedures and the reporting of risk management data to better inform management and key stakeholders. Management agreed to all eight recommendations.

## *Report on the Asset Management Division's BCL Risk Rating Process*

(OIG-EV-16-02, September 23, 2016)

EXIM's Asset Management Division (AMD) conducts regular reviews of credits in the Bank's portfolio to update risk ratings based on current performance and market conditions. An accurate and timely assessment of the portfolio's risk rating is critical to the proper allocation of credit loss reserves and prompt response to adverse credit developments. We evaluated AMD's risk rating policies and procedures to ascertain the level of credit analysis, methodology employed, and timeliness of the risk rating review process for post-operative transactions and to assess the Bank's adherence to its policies, governmental guidelines and industry best practices.

We found that AMD is generally adhering to its internal risk rating policies and procedures. We concluded that the risk rating reports are completed in a timely manner, address principal risks such as industry and country risks, and contain the required components. We also found that AMD's policies and procedures produce risk ratings that are generally aligned with comparable ratings from credit rating agencies. However, there are some departures from industry practices that should be addressed. We made five recommendations to better align current EXIM policies with industry practices, and the Bank agreed with all five.

The **Office of Investigations (OI)** concluded the following actions:

### *Criminal Conspiracy, Fraud, and Money Laundering Sentences*

In May and June 2016, three co-conspirators received lengthy sentences for their roles in a scheme to defraud EXIM Bank and private lenders out of more than \$11 million. The leader of the conspiracy was sentenced to 144 months imprisonment, and the other two conspirators were sentenced to 41 and 44 months imprisonment. The leader was also ordered to pay \$11,503,068 in restitution and \$41,924,418 in forfeiture. To successfully bring this case, OIG special agents and analysts traced the laundering of funds through more than 50 accounts.

In another case, a Brazilian national extradited from the United Arab Emirates was sentenced for his role in a scheme to defraud a Miami-area lender and EXIM Bank.

### *Investigated Employee and Program Integrity Matters*

OI investigated employee misconduct cases and referred results to Bank management for appropriate action, including one substantiated case of misuse of a government-issued Personal Identification Verification (PIV) card and another substantiated case of misuse of a government email account. OIG special agents also worked collaboratively to share investigative intelligence with EXIM Bank to help identify potential and suspected fraudulent activity within Bank transactions and to protect Bank funds at risk. During this reporting period, OI made 34 referrals



of investigative information to OGC concerning potential fraud and funds at risk for enhanced due diligence by EXIM Bank. OIG agents also conducted training and outreach with various lenders and partners to enhance investigative and financial intelligence sharing.

### *Suspension and Debarment Initiative*

OIG undertook an initiative to work with EXIM management to implement a more robust program of suspension and debarment at EXIM Bank, which would serve as a critical tool to prevent waste and fraud and protect the interests of the United States. This initiative included dialogue between OIG and EXIM management officials to determine potential obstacles to taking suspension and debarment actions, and plans to overcome those obstacles. We identified three recent cases from the OIG involving fraud and noncompliance and referred them to the Bank for determination of whether suspension or debarment are warranted.





# EXIM Bank Management Challenges

The Reports Consolidation Act of 2000 requires an annual 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. Through our audits, inspections, evaluations, and investigations, we work with Bank management in recommending actions that best address those challenges. We have identified the following topics as the top management challenges facing the Bank at the beginning of FY 2017.

### Managing Lapses in EXIM's Authorization and Board Quorum

In FY 2016, we reported that the top management challenge facing EXIM was managing the lapse in authorization to incur new obligations, which under the terms of the Bank's Charter had expired on June 30, 2015 and had not been renewed by Congress. As a result, at the beginning of FY 2016, EXIM lacked the authority to enter into new transactions, but continued to fulfill existing commitments and manage its existing portfolio, which was more than \$100 billion at that time. In December 2015, Congress passed a law renewing the authority of the Bank to engage in new transactions and making reforms to the Bank's risk management and governance structure, which was signed by the President on December 4, 2015. Despite the renewed statutory authority as of December 2015, the Bank's ability to execute its mission has been limited by the absence of a quorum on its Board of Directors since July 2015. At the time of this report, two of the five Presidentially appointed, Senate-confirmed director positions are filled, with two additional Presidential appointments pending before the Senate. Because the Charter requires a minimum of three Board members as a quorum to take action, the Bank cannot currently approve new medium-term and long-term transactions over \$10 million, or approve the appointment of a Chief Risk Officer and Chief Ethics Officer as required by the reauthorization legislation. The House and Senate Appropriations Committees have included in the FY 2017 appropriations bills a provision that would waive the Charter's quorum requirement when there are multiple vacancies, so that the directors in place could execute decisions under the Charter. However, this provision has not yet been enacted into law.

Managing the effects of the lapse in authorization, the lapse in Board quorum, and uncertainty about the future of EXIM is the top management challenge facing the Bank. Although EXIM continues to accept applications and conduct underwriting and due diligence activities for larger transactions in anticipation of eventual restoration of a Board quorum, the uncertainty about if and when EXIM will be able to give final approval to these applications adds difficulty to EXIM customer relations and outreach activities. As the lapse in authority to approve larger transactions grows longer, EXIM becomes less likely to be viewed as a credible and reliable source of funding in the marketplace. EXIM management must also consider how to deploy employees and other resources efficiently



in light of the uncertainty over when full authority might be restored. While it may be a prudent management practice to continue preparing transactions so that they are ready for consideration once Board authority is restored, management should also reconsider whether resources should continue to be expended on processing applications for larger transactions if the lapse in the Board quorum persists. Management should consider whether to reallocate employees to functions such as short-term and working capital programs, or monitoring of operative transactions, which continue even in the absence of a Board quorum.

The lapses in authority and uncertainty about the Bank's future also add complications to managing human capital, which we have consistently identified as a major management challenge. The Bank faces challenges in employee recruitment, retention and morale. EXIM 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. During the lapse in authorization, EXIM instituted a hiring freeze. After the authorization was reinstated, EXIM began recruiting for vacant positions, but managers report that top candidates have turned down employment offers, citing uncertainty over the future of EXIM. Although most divisions report low attrition of key personnel over the past 18 months, senior managers are concerned that EXIM will not retain experienced credit underwriting personnel with expertise in aircraft finance and structured finance as the lapse in authority to complete large transactions continues.

## Implementing the 2015 Reauthorization Bill

In December 2015, Congress passed and the President signed a bill extending the authorization of EXIM to September 30, 2019 and making several reforms to the EXIM Charter. Major new requirements of the 2015 reauthorization law included appointment of a Chief Risk Officer and establishment of a Risk Management Committee, appointment of a Chief Ethics Officer and establishment of a new ethics office; an increase in the small business financing target to 25 percent; an increase in loss reserve to be not less than 5 percent of disbursed and outstanding loans, guarantees, and insurance; and establishment of a pilot program for risk sharing.

A key mandate from the 2015 reauthorization is improving EXIM's enterprise risk management structure. The law establishes a Chief Risk Officer, who is directed to oversee all issues relating to risk within the Bank and report to the President of the Bank. The law also establishes a Risk Management Committee, comprising the non-management Members of the Board of Directors, with the President and First Vice President of the Bank serving as ex-officio members. The Risk Management Committee replaces EXIM's Audit

## EXIM Bank Management Challenges

Committee and is directed to (i) provide oversight to periodic stress testing of the entire Bank portfolio and the monitoring of industry, geographic, and obligor exposure levels and (ii) to review all required reports on the default rate of the Bank before submission to Congress. The risk-related reforms in the 2015 reauthorization are consistent with risk management recommendations from previous OIG reports, which advised EXIM to adopt a variety of governance reforms to better evaluate risks of the entire Bank and its portfolio as a whole, in addition to transaction-level risk analysis. The reforms in the reauthorization are also consistent with new guidance issued by OMB for all federal agencies on internal controls and enterprise risk management.

EXIM has begun to implement the requirements of the 2015 reauthorization by identifying the discrete requirements and forming working groups to implement each one. While some progress has been made, some of these initiatives are complex and will require sustained management attention to fully implement. The lapse in Board quorum also prevents EXIM from fully implementing the initiatives that require Board action, including confirming the appointment of the Chief Risk Officer and Chief Ethics Officer as required by the new law. EXIM has selected these officials and they have begun working at their assignments; however, they are not finally installed in these positions pending a quorum on the Board to approve them. Similarly, EXIM management has initiated meetings of the Risk Management Committee with the two management directors who are ex-officio members of the committee, but the committee will not fulfill the governance role that Congress envisioned until non-management directors have been confirmed by the Senate.

Management also faces challenges in implementing differing requirements of the 2015 reauthorization law that are not necessarily in harmony. For example, the law places an emphasis on reducing risk at EXIM, with provisions that reduce the portfolio cap if the default rate exceeds 2 percent. At the same time, the law increases the target for lending to small businesses and encourages EXIM to expand the medium-term lending program, both of which have historically been higher risk and have produced higher default rates than other EXIM lines of business. Implementing all of the requirements of the 2015 reauthorization law will require management to carefully plan and structure new programs, policies, and procedures, since many of the new requirements have interrelated effects.

### Succession Planning and Presidential Transition

As already noted, the EXIM Board of Directors currently has three of five seats vacant. The terms of the two seats that are currently filled expire on January 20, 2017. The Presidentially appointed, Senate-confirmed position of Inspector General has been vacant since June 2014. The senior management position of Chief Banking Officer has been vacant since April 2016 and leadership does not plan to fill the position before the next President takes office. The senior career positions of Chief Acquisition Officer and Chief Human Capital Officer



have been vacant since July 2015 and December 2015, respectively. EXIM managers have expressed concern that several key senior officials with extensive institutional memory are eligible to retire.

Although turnover in top positions is typical of any Presidential transition, the transition in the Administration occurring at a time when there are multiple vacancies in key positions and great uncertainty about the future of the Bank exacerbates the risks of the transition. To ensure effective internal controls and risk management, EXIM leadership should ensure that well-trained individuals are prepared to perform the duties of positions that may be vacant during the transition. Also, EXIM leadership should make sure that the transition team is fully aware that key EXIM positions need to be filled promptly, and continued vacancies in top leadership positions imperil the mission of the Bank and increase risks of ineffective governance. EXIM leadership should also take action to fill senior career positions that have been vacant for extended lengths of time.

## Administrative Functions

EXIM's core banking functions are supported by an administrative infrastructure which presents its own management challenges. As discussed above, the positions of Chief Acquisition Officer and Chief Human Capital Officer have been vacant for an extended time. OIG audit and investigative reports have found serious problems in the operations of the contracting and human resources (HR) functions. A recent audit found EXIM did not have adequate internal controls to ensure the Bank's contracting processes complied with federal contracting regulations. Specifically, the Bank lacked a comprehensive set of written policies and procedures; many bank employees did not understand the roles and responsibilities of contracting officers; Contracting Officer Representatives were not properly certified; the contract characteristics or thresholds requiring the involvement of the Office of General Counsel were not identified; and contract data was not readily available. As a result, the audit found improper, duplicate and untimely payments; unauthorized commitments; and incomplete contract files. OIG completed several investigations in response to complaints received regarding hostile work environment and prohibited personnel practices. Although these cases generally did not find violations of law or regulation, the investigations revealed significant employee morale issues and a poor management climate, along with significant personnel turnover, within the HR function. These findings were referred back to EXIM management for appropriate action, and senior HR managers have left EXIM. In addition, several different EXIM executives and division heads independently discussed their dissatisfaction with the support provided to their functional areas by the contracting and HR offices. EXIM leadership should focus on improving the contracting and human resources functions, including filling key vacancies by appointing senior executives to lead those functions and improve the service and support provided to EXIM's operating offices.

## EXIM Bank Management Challenges

We have previously reported information technology management at EXIM as a major management challenge. In the past two years, EXIM has installed experienced senior information technology (IT) leadership, has deployed new systems, and has improved the Bank's IT infrastructure. EXIM managers who rely upon IT systems report that significant progress has been made and are encouraged by the plans for new systems and more functionality. OIG has completed mandatory audits of information security and found substantial compliance with the relevant requirements. OIG is including in our annual audit plan for FY 2017 an assessment of EXIM's IT function to review progress made in implementing recommendations from previous reports, which will inform whether IT continues to be among the top management challenges facing EXIM.







# Office of Audits

The **Office of Audits (OA)** conducts and oversees independent and objective audits relating to EXIM Bank programs to improve EXIM Bank operations. All OIG audits are performed in accordance with generally accepted government auditing standards promulgated by the Comptroller General of the United States. OA staff may also perform evaluations, conduct research projects; provide advisory or consulting services to EXIM Bank management; or provide information, comments, and other services to outside parties. Furthermore, OA refers irregularities and other suspicious conduct detected during audits to the Office of Investigations for investigative consideration.

OA completed two audits, one evaluation, one non-audit service data call, and one risk assessment:

- Independent Auditor's Report on Export-Import Bank's Compliance with the Improper Payments Laws for Fiscal Year 2015 Reporting
- Audit of Export-Import Bank's Examinations of Delegated Authority Lenders Participating in the Working Capital Guarantee Program
- Evaluation of the Export-Import Bank's Procurement Process for a Vehicle Lease
- Information Technology Report Required by the Cybersecurity Information Sharing Act of 2015
- Risk Assessment of EXIM Bank's Purchase Card Program

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

- Audit of the Export-Import Bank of the United States Fiscal Year 2016 Financial Statements
- Audit of the Export-Import Bank's Compliance with the Federal Information Security Modernization Act of 2014 (FISMA)
- Audit of EXIM Bank's DATA Act Readiness
- Audit of EXIM Bank's Disbursement Processes



## Reports Issued

### *Independent Auditor's Report on Export-Import Bank's Compliance with the Improper Payments Laws for Fiscal Year 2015 Reporting*

(OIG-AR-16-06, May 13, 2016)

[www.exim.gov/sites/default/files//oig/audit/EXIM%20Bank%20Compliance%20with%20Improper%20Payment%20Laws%20for%20FY%202015%20Report%20-%20Final%20Report-signed.pdf](http://www.exim.gov/sites/default/files//oig/audit/EXIM%20Bank%20Compliance%20with%20Improper%20Payment%20Laws%20for%20FY%202015%20Report%20-%20Final%20Report-signed.pdf)

Under a contract overseen by the Office of Audits, CliftonLarsonAllen, LLP (CLA) performed an audit to determine if EXIM Bank was in compliance with the reporting requirements of the improper payments laws for FY 2015 reporting. In addition, CLA assessed the accuracy and completeness of EXIM Bank's improper payment reporting, the Bank's implementation of prior year recommendations, and the Bank's effort to reduce and recover improper payments. The audit determined:

- (1) EXIM Bank fully complied with all six reporting requirements of the improper payments laws;
- (2) the Bank determined it was not susceptible to significant improper payments and therefore, it was not required to prepare or report statistical estimates of improper payments for each program;
- (3) the process developed by the Bank for assessing improper payments risk in FY 2015 marked a significant improvement over FY 2014;
- (4) the Bank implemented two of the three recommendations issued during the prior year improper payments audit;
- (5) EXIM Bank's Annual Report should include more detailed reporting on improper payments related to recapture audits, risk assessment elements, the Do Not Pay initiative and the Bank's reporting time period for improper payments; and
- (6) EXIM should strengthen policies and procedures related to improper payments and the related supporting documentation.

The report included four recommendations to ensure:

- (1) the presentation of the improper payments discussion in the Annual Report be revised to fully conform to OMB guidance;
- (2) EXIM Bank's improper payment policies and procedures align with OMB requirements and thoroughly and accurately cover the full breadth of OMB requirements;
- (3) guidance for completing the Improper Payments Risk Assessment Questionnaire be enhanced; and

(4) thorough, accurate, and consistent supporting documentation be maintained to properly inform the decision making process.

Management concurred with all four recommendations.

### *Audit of Export-Import Bank's Examinations of Delegated Authority Lenders Participating in the Working Capital Guarantee Program*

(OIG-AR-16-07, September 28, 2016)

[www.exim.gov/sites/default/files/oig/reports/DAL%20FINAL%20REPORT%20092816%20PDF-redacted.pdf](http://www.exim.gov/sites/default/files/oig/reports/DAL%20FINAL%20REPORT%20092816%20PDF-redacted.pdf)

Approximately 80 percent of EXIM Bank's working capital guarantees are committed under delegated authority. EXIM's Business Credit Division conducts periodic examinations of delegated authority lenders to review lender compliance with the Working Capital Guarantee Program (WCGP). We conducted this audit to determine whether EXIM Bank's oversight of delegated authority lenders was effective to ensure lenders were complying with program guidance.

We found that:

- (1) the examinations were timely and lenders were properly notified of findings identified during the examinations, and
- (2) the examinations ensured lenders properly obtained and documented waiver requests.

However, we found actions were needed to improve the effectiveness of the Bank's oversight of delegated authority lenders. Specifically, we identified:

- (1) the quality and thoroughness of delegated authority lender examinations needs improvement;
- (2) examinations should be independent of the Business Credit Division's lender relation roles; and
- (3) the Bank's WCGP policies for delegated authority lender examinations and the program's Master Guarantee Agreement need to be updated.

The report included twelve recommendations to:

- (1) ensure examiners thoroughly review collateral examinations and fully assess and document the lenders' responsibilities in the reported findings;
- (2) develop a mechanism for tracking the findings of lenders' collateral examinations during examinations;
- (3) develop mechanisms to track required corrective actions to address collateral examination findings and ensure the corrective actions are taken by both borrowers and lenders;



- (4) ensure resources are properly allocated in the Business Credit Division to accomplish the responsibilities of the division including the performance of thorough examinations;
- (5) establish a separate examination group comprised of individuals who are solely examiners and are independent of the lender relation role of the Business Credit Division;
- (6) revise the loan facility review worksheet to require reviews of subsequent or updated credit memos for all loans reviewed during examinations;
- (7) require a more in-depth review and documentation of lenders' collateral examinations during delegated authority lender examinations;
- (8) require examiners to determine whether significant waiver stipulations were followed;
- (9) update the loan facility worksheet to differentiate between the initial examination and subsequent examinations;
- (10) revise the requirements for the number of Borrowing Base Certificates and the supporting documentation required to be provided during an examination;
- (11) require lenders to maintain Borrowing Base Certificates for the entire life of the loan; and
- (12) update its Master Guarantee Agreement.

Management concurred with all twelve recommendations.

### ***Evaluation of the Export-Import Bank's Procurement Process for a Vehicle Lease***

(OIG-EV-16-03, September 29, 2016)

[www.exim.gov/sites/default/files/oig/reports/Final%20Report%20Vehicle%20Lease%20092916%20Redacted\\_0.pdf](http://www.exim.gov/sites/default/files/oig/reports/Final%20Report%20Vehicle%20Lease%20092916%20Redacted_0.pdf)

On March 30, 2016, the OIG issued an audit report on EXIM Bank's contracting processes. One issue identified was that contract files did not contain all required documentation. Specifically, one contract we reviewed did not contain the required justification for a luxury vehicle lease primarily used to transport the Chairman of the Bank. The audit determined that a justification explaining why the vehicle, a 2014 Cadillac XTS, was essential to the Bank's mission was not completed as required by federal acquisition regulations. We reported that we would further evaluate this procurement and would issue a supplemental report as warranted. As a result, we conducted an evaluation to determine if (1) the lease of the Cadillac resulted in additional costs in comparison to other options available to the Bank, (2) the lease of the Cadillac was necessary given the Bank already had another vehicle available for use, (3) there were indications the Cadillac was used for anything other than official business, and (4) EXIM Bank personnel complied with the FAR. We found the Cadillac

appeared to have been used for official business, however; additional costs were incurred in comparison to other available leasing options, leasing two vehicles with low utilization cost the Bank funds that could have been put to better use, and EXIM Bank personnel did not fully comply with the FAR. Specifically, we identified that:

- (1) EXIM Bank's 60-month lease cost for the Cadillac was at least \$30,682 more than other vehicle leasing options;
- (2) leasing a second vehicle cost \$84,956 of funds that could have been put to better use; and
- (3) EXIM Bank personnel did not fully comply with the FAR in terms of maintaining documentation, negotiating price, including maintenance in the contract, calculating the contract termination settlement amount, and ensuring compliance with the Buy American Statute.

Issues with the contractor's conduct were also identified.

The report included seven recommendations to:

- (1) justify and document all EXIM Bank vehicle leases in accordance with federal regulation;
- (2) ensure different vehicle options are considered and the impact of any down payment or insurance cost is considered in the cost comparison;
- (3) before agreeing to pay insurance costs to a vendor, determine if the costs are necessary or if the self-insurance of the federal government is sufficient;
- (4) ensure utilization guidelines will be met or other utilization factors are documented and justified;
- (5) develop adequate accounting and reporting procedures for government motor vehicles;
- (6) ensure compliance with the Buy American Statute; and
- (7) assess the present responsibility and performance of the contractor and take appropriate administrative action regarding ongoing contracts and future contract options.

Management concurred with all seven recommendations.



## ***Information Technology Report Required by the Cybersecurity Information Sharing Act of 2015***

(August 12, 2016)

[www.exim.gov/sites/default/files//oig/reports/Memorandum%20of%20EXIM%20Bank%27s%20Cybersecurity%20Information%20Sharing%20Act%20Section%20406%20Review%20redacted.pdf](http://www.exim.gov/sites/default/files//oig/reports/Memorandum%20of%20EXIM%20Bank%27s%20Cybersecurity%20Information%20Sharing%20Act%20Section%20406%20Review%20redacted.pdf)

Section 406 of the Cybersecurity Information Sharing Act of 2015 required the OIG to submit to Congress a report including, among other information, a description of the logical access standards, logical access controls, and data security management practices for the federal computer systems of EXIM Bank. Under a contract overseen by the Office of Audits, Cotton & Company, LLP (Cotton) compiled the requested data as a non-audit service. As part of this service, Cotton was required to review the Bank's computer systems that were classified as national security systems or that provided access to personally identifiable information. Cotton determined that the Bank does not operate any national security systems, but it does operate 12 systems that provide access to personally identifiable information. The information provided by EXIM Bank was complete and fully addressed the requirements of section 406 of the Act. The requested data was provided to the appropriate committees in a timely manner.

## ***Risk Assessment of EXIM Bank's Purchase Card Program***

(August 30, 2016)

[www.exim.gov/sites/default/files//oig/reports/Purchase-Travel%20Card%20Risk%20Assessment%20FY%2016.pdf](http://www.exim.gov/sites/default/files//oig/reports/Purchase-Travel%20Card%20Risk%20Assessment%20FY%2016.pdf)

In accordance with the Government Charge Card Abuse Prevention Act of 2012, we conducted a risk assessment to identify and analyze the risks of illegal, improper, or erroneous use of EXIM Bank's purchase cards in order to determine the scope, frequency and number of periodic audits the OIG will conduct. Our risk assessment determined that EXIM Bank's risk of illegal, improper, or erroneous use within the purchase card program was low. Overall, we determined that the purchase card expenditures were immaterial in comparison to EXIM Bank's total FY 2015 administrative expenditures. Additionally, while the Chief Acquisition Officer position, the leadership position for the Purchase Card Program, has been vacant since June 2015; we found the policies, procedures, and internal controls for the Purchase Card Program were generally sufficient. We also noted that EXIM Bank timely submitted its Charge Card Management Plan to OMB by the January 31, 2016 deadline. Accordingly, we do not intend to conduct an audit specifically of the Purchase Card Program. However, we will base future Purchase Card Program audits on the results of our annual risk assessments.

## Ongoing Audits

### Audit of the Export-Import Bank of the United States Fiscal Year 2016 Financial Statements

An independent public accountant, working under OIG supervision, is conducting an audit to issue an opinion on the accuracy and completeness of EXIM Bank's financial statements for FY 2016, which will be issued in the semiannual period ending March 31, 2017. A related management letter report will also be issued in the semiannual period ending March 31, 2017.

### Audit of the Export-Import Bank's Compliance with the Federal Information Security Modernization Act of 2014 (FISMA)

Under a contract overseen by the Office of Audits, an independent public accounting firm is conducting an audit to determine whether EXIM Bank developed adequate and effective information security policies, procedures, and practices in compliance with FISMA. The report will be issued in the semiannual period ending March 31, 2017.

### Audit of EXIM Bank's DATA Act Readiness

Under a contract overseen by the Office of Audits, an independent public accounting firm is conducting an audit to determine to what extent the Bank has implemented, or plans to implement, processes, systems, and controls to report financial and payment data in accordance with the requirements of the Digital Accountability and Transparency Act (DATA Act). The report will be issued in the semiannual period ending March 31, 2017.

### Audit of EXIM Bank's Disbursement Processes

FY 2015 disbursements were approximately \$2.7 billion, \$10.1 billion, and \$87.5 million for direct loans, long-term guarantees, and medium-term guarantees, respectively. Loan and guarantee disbursements must be supported by documentation such as invoices, proof of payment, exporter certificates, and evidence of export from the U.S. Disbursing funds without the appropriate supporting documentation increases risks of improper payments and fraud. The Office of Audits has commenced an audit to determine if long-term direct loans and long-term and medium-term guarantees are disbursed in accordance with EXIM Bank's policies and procedures. The report will be issued in the semiannual period ending September 30, 2017.







# 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 EXIM Bank's programs, operations, and transactions. All OIE assignments are performed in accordance with the 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 Audits 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 2016, OIE completed two evaluations:

- Follow up Report on EXIM Bank's Portfolio Risk and Loss Reserve Allocation Policies
- Report on the Asset Management Division's BCL Risk Rating Process

At the end of the reporting period, OIE had three evaluations in progress:

- Evaluation of EXIM Bank Portfolio Risk Management Procedures and Implementation of CRO Duties
- Evaluation of Credit Guarantee Facility Program: Policies and Procedures
- Evaluation of EXIM Bank's Activities in Preparation for and During its Lapse in Authorization

## Evaluations Issued

### *Follow-up Report on EXIM Bank's Portfolio Risk and Loss Reserve Allocation Policies*

(OIG-EV-16-01, July 28, 2016)

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

OIE completed a follow-up review to assess EXIM Bank's actions to address the findings and recommendations made in the prior OIG evaluation report on the Bank's portfolio risk and loss reserve policies issued in September 28, 2012.<sup>1</sup> The 2012 report identified several areas needing improvement with respect to the Bank's current loss reserve allocation and portfolio risk management policies and proposed seven key recommendations to strengthen the Bank's risk management framework. OIE's current report found that the Bank had completed corrective actions to close all seven prior recommendations.

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<sup>1</sup> See EXIM Bank OIG's *Report on Portfolio Risk and Loss Reserve Allocation Policies* (OIG-INS-12-02, dated September 28, 2012), available at [www.exim.gov/sites/default/files//oig/reports/EIB\\_Report\\_Final\\_Complete\\_Web-pdf-uploaded-via-Bulk-Upload-at-ts-2012-07-17-15-40-50.pdf](http://www.exim.gov/sites/default/files//oig/reports/EIB_Report_Final_Complete_Web-pdf-uploaded-via-Bulk-Upload-at-ts-2012-07-17-15-40-50.pdf).



Notwithstanding this progress, in conducting this review OIG found that certain internal policies and processes could be improved to further align its risk management policies and procedures with industry leading practices. To this end, this report formulates eight new recommendations to strengthen internal processes:

(1) establish policies and attendant criteria to determine prudent soft limits on exposure concentrations and procedures to manage those exposures once identified, including options for reducing concentrated exposures, mitigating the risks of concentration exposures, or consideration of concentration risks in the transaction approval process.

(2) as part of the implementation of the risk sharing pilot program as provided for in the 2015 Reauthorization Act, assess the potential role of the risk sharing program in mitigating portfolio concentration risk.

(3) engage an independent expert to complete the second half of the Credit Loss Factors (CLF) validation exercise in FY 2016 and to address the recommendations put forth in the final report. To ensure adequate independence of the review process, oversight of the project should be placed with individuals who are not responsible for development or use of the CLF model.

(4) engage an independent expert to evaluate the remaining models as part of phase three testing of the Budget Cost Level (BCL) review, beginning with project finance, and to address the recommendations put forth in the final report. To ensure adequate independence of the review process, oversight of the project should be placed with individuals who are not responsible for development or use of the risk rating models.

(5) further develop the scope (e.g., sector and one obligor) and frequency of stress testing protocols to analyze potential vulnerabilities due to the Bank's portfolio concentrations and incorporate the results of the stress testing into key risk management policies including the Bank's risk appetite statement, risk tolerance levels, and the use of risk sharing as provided for in the 2015 Reauthorization Act.

(6) in addition to the two percent default cap, Bank staff should establish additional criteria for the setting of prudent soft limits on exposure concentrations, including one obligor related concentrations. This may include percentage thresholds of credit loss reserves and earnings, current industry conditions, current exposure, nominal limits on the risk rating of the borrower and program specific objectives.

(7) analyze the potential impact of covariance or correlation of risk factors, industries and regions on the probability distribution of losses of the credit portfolio. The outcome of this analysis would enhance the model's predicative capability and inform the process of setting prudent soft limits.

(8) EXIM Bank should develop and implement formal procedures to enhance the timeliness of the aggregation and reporting of risk management data, including the development of a consolidated dashboard for senior management that reports important risk management data on a monthly basis.

Management agreed to all eight recommendations, proposed corrective actions and has agreed to a time frame for implementation

### *Report on the Asset Management Division's BCL Risk Rating Process*

(OIG-EV-16-02, September 23, 2016)

[www.exim.gov/sites/default/files//oig/reports/AMD%20Final%20Report%20Redacted\\_0.pdf](http://www.exim.gov/sites/default/files//oig/reports/AMD%20Final%20Report%20Redacted_0.pdf)

We completed a review of the Asset Management Division's (AMD) Budget Cost Level (BCL) risk rating policies and procedures to ascertain the level of credit analysis, methodology employed, and timeliness of the BCL risk rating review process for post-operative transactions and to assess the Export-Import (EXIM) Bank's adherence to its policies and procedures, governmental guidelines and industry best practices. Several factors motivated our evaluation:

- the size and scope of AMD's portfolio are material, representing about \$38.2 billion of the Bank's total exposure of approximately \$94.4 billion as of March 31, 2016; and
- an accurate and timely assessment of an obligor's BCL risk rating is critical to (i) the proper allocation of credit loss reserves and subsidy, (ii) the achievement of EXIM Bank's mission and (iii) safeguarding taxpayer funds.

As part of our field work, OIE reviewed a judgmental sample of 31 obligors representing a range of industries, borrowers and transaction types. In addition, OIG conducted interviews to understand the application of AMD's BCL risk rating policies and to ascertain the best practices observed by peer institutions including foreign export credit agencies, other U.S. government agencies and multilateral financial institutions.

Our review found that AMD is generally adhering to its internal BCL risk rating policies and procedures and concluded that the risk rating reports are completed in a timely manner, address principal risks such as industry and country risks, and contain the required components such as covenant compliance, Character, Reputation and Transaction Integrity (CRTI), and environmental reports.

Finally, our review makes five recommendations to further align EXIM Bank's current policies with industry best practices:

- (1) rating reports state the findings and results of the prior year's Monitoring Plan.
- (2) for project financings, conduct an updated review of the financial model and assumptions, perform sensitivity tests as appropriate, and document the results in the rating reports to include the effect on repayment risk and debt service coverage.



(3) introduce quantitative benchmarks for key risk metrics including sector specific ranges whenever possible and re-evaluate these benchmarks on scheduled intervals.

(4) adopt a consistent methodology for evaluating qualitative criteria. For example, Bank guidance should include a consistent methodology for rating adjustments due to levels of sovereign support and clear risk rating criteria for individual risk factors.

(5) in accordance with rating agency best practices, ascribe greater weight to key risk factors when those risks represent a material adverse risk to the overall credit quality of the transaction.

Management agreed to all five recommendations, proposed corrective actions and has agreed to a time frame for implementation.

## Ongoing Evaluations

### Evaluation of EXIM Bank's Portfolio Risk Management Procedures and Implementation of CRO Duties

The *Export-Import Bank Reform and Reauthorization Act of 2015* (the Act) established the management position of Chief Risk Officer (CRO) and assigned specific duties to those offices related to the risk management architecture and governance of the Bank. The Act also requires OIG to evaluate the Bank's portfolio risk management procedures and the implementation of the duties assigned to the CRO and to submit a written report with its findings to Congress no later than December 4, 2016.

### Evaluation of Credit Guarantee Facility Program: Policies and Procedures

OIE is conducting an evaluation of EXIM Bank's Credit Guarantee Facility (CGF) program policies and procedures. OIE seeks to ascertain the adequacy of EXIM Bank's transaction due diligence, reputational and integrity assessment, post-closing monitoring, and compliance with the policies related to the CGF program. As part of our review, OIE will examine a sample of five CGF transactions with reach back provisions that allow the borrower to finance goods and services previously purchased. We expect to issue this report in the semiannual period ending March 31, 2017.

### Evaluation of EXIM Bank's Activities in Preparation for and During its Lapse in Authorization

EXIM Bank's authorization lapsed on June 30, 2015 and was not reinstated until December 4, 2015. The primary statutory basis governing EXIM Bank's activities under the lapse in authority was the Bank's Charter in 12 U.S.C § 635f. Pursuant to the Bank's Charter, in the event of a lapse in authorization, EXIM Bank was to continue as a corporate agency of the United States and exercise its functions for purposes of an orderly liquidation, including (but not limited to) administering its assets and collecting any obligations it held.

Together with the Office of Audits, OIE is conducting an evaluation to determine if EXIM Bank in preparation for and during its lapse in authorization adequately planned for and conducted an orderly liquidation as required by the Bank's Charter and complied with the terms of its Charter and internal guidance when working on transactions and traveling. We expect to issue this report in the semiannual period ending March 31, 2017.







# Office of Investigations

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

## Summary of Investigations

OI evaluates all reports of possible fraud or illegality affecting EXIM Bank programs and activities. Such reports are received from a variety of sources including EXIM Bank employees, OGC, participants in Bank transactions, other government agencies, and the EXIM 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, 2016	33
Opened during period	12
Closed during period	8
Open as of September 30, 2016	37

Of the 37 current open investigations, the following table depicts the category of EXIM Bank program affected by the investigation based on the allegations received:

Program	Number of Investigations
Export Credit Insurance	14
Loan Guarantee	8
Working Capital Guarantee	6
Program Integrity	5
Direct Loan	1
Other	3



## Summary of Investigative Results

OI obtained the following investigative actions during this reporting period.

Description	OIG	Joint Activities*	Total
Matters Referred for Prosecution Consideration	5	2	7
Criminal Indictments, Informations, Complaints	1	4	5
Guilty Pleas Entered	1	0	1
Criminal Judgments	0	1	1
Civil Recoveries	0	1	1
Prison Time (months)	233	0	233
Probation (months)	108	60	168
Court Ordered Fines, Restitution, and Forfeiture	\$58,428,386	\$131,315	\$58,559,701
Administrative Actions**	0	0	0
Administrative Employee Actions***	0	0	0
Administrative Cost Savings and Repayments	\$0	0	\$0

\* Joint investigations with other law enforcement agencies.

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

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

## Investigations

### Export Credit Insurance and Loan Guarantee Program

EXIM Bank's export credit insurance and guarantee programs have been susceptible to fraud schemes by foreign borrowers, U.S. based exporters, and other transaction participants. One fraudulent scheme to exploit these programs involves the falsification of shipping records to convince EXIM Bank that the described goods have been shipped when in fact they have not. Other fraud schemes involve submitting false financial statements of foreign borrowers in order to induce EXIM 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 EXIM Bank regarding the shipment, nature, or quantity of the U.S. goods allegedly being exported.

Successful investigative efforts within the export credit insurance and guarantee programs during the reporting period include the following:

### Business Owner Indicted For Scheme To Defraud The Exim Bank

A Chicago-area business owner was indicted for his role in a scheme to defraud the Export-Import Bank of the United States. Victor Luyi Ogebor (Ogebor), 60, the owner of Aegis Trading and Shipping Company (Aegis) of Country Club Hills, Illinois was charged in the indictment with two counts of false claims.

According to information in the indictment, in August 2011, Ogebor filed two claims with EXIM Bank alleging the default of two foreign buyers in transactions insured or guaranteed by EXIM Bank while knowing that these claims were false, fictitious or fraudulent and that these buyers had not defaulted. This scheme caused over \$150,000 in losses to the United States. This case is being prosecuted by the Eastern Division of the U.S. Attorney's Office for the Northern District of Illinois.

### Sentencing of Ringleaders of \$11 Million Fraud Scheme

In May and June 2016, three co-conspirators received lengthy sentences for their roles in a scheme to defraud two commercial lenders and EXIM Bank out of more than \$11 million. The leader of the conspiracy, Guillermo Antonio Sanchez-Badia, was sentenced to 144 months imprisonment, and the other two conspirators, Isabel C. Sanchez and Gustavo Giral, were sentenced to 44 and 41 months imprisonment. Sanchez-Badia was also ordered to pay \$11,503,068 in restitution and \$41,924,418 in forfeiture.

The individuals utilized companies they controlled to create fictitious invoices for sales and purported exports of merchandise that never occurred. These invoices were sold to two Miami-area commercial lenders in a process called "factoring," which allowed the conspirators to receive cash for approximately 90 percent of the value of the merchandise listed on the fake invoices, according to the plea. They admitted that, in order to continue the scheme, they created additional fictitious invoices, transferred the funds they received through numerous bank accounts under their control and, in a Ponzi-style scheme, used a portion of the new proceeds to pay off prior factored invoices. When the Miami lenders refused to extend further credit, the conspirators created false invoices and shipping documents to obtain a loan guaranteed by EXIM Bank. Rather than acquiring, selling and shipping American-manufactured goods as required by EXIM Bank guaranteed loan, the conspirators used the loan proceeds to pay off earlier factored invoices, thereby extending the scheme, and kept the balance of the loan proceeds for themselves.

### Sentencing of Extradited Foreign National

Martin Slone, a Brazilian national who was extradited from the United Arab Emirates, was sentenced on April 21, 2016. Slone was sentenced to five years' probation, restitution of \$131,215, and a special assessment of \$100. Slone defrauded a Miami-area lender and EXIM Bank and an indictment and an arrest warrant was issued for him while he was residing in Brazil. He was later arrested at Abu Dhabi International Airport by authorities in the United Arab Emirates (UAE), based on an INTERPOL Red Notice, and in August 2015, Special Agents of EXIM Bank OIG took custody of Slone and returned him to the U.S. to face charges.



## Export-Import Bank Employee & Program Integrity

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

Employee integrity investigations which substantiated misconduct include:

OI investigated the seizure by building security of photocopies of government-issued employee identification cards at EXIM headquarters. The investigation determined that at least three EXIM employees had made photocopies of their employee ID cards and displayed them to gain access to the building, instead of displaying their genuine ID cards. Because the ID cards must be inserted in card readers to access EXIM computers and IT systems, the employees stated that they had made photocopies to display to re-enter the building while leaving their authentic ID cards in their computer card readers. The investigation also found that certain managers were aware of this practice. We did not find that duplicated cards were used by unauthorized persons. The case was declined for prosecution in favor of administrative action. We referred our investigative findings to EXIM management for personnel action for falsification of documents and violation of IT security policies. EXIM management stated that EXIM would issue formal letters of reprimand or letters of warning to the employees.

OI also investigated an allegation that an EXIM Bank employee had misused a government email account by forwarding documents to a personal account prior to leaving employment at the Bank. The investigation substantiated the allegation and determined that several of the documents forwarded were protected by the Privacy Act and the employee was not authorized to possess the documents after leaving EXIM. The case was declined for prosecution.

### Other Investigative Results

To the extent permissible and within the confines and limitations of an investigation, OI Special Agents work collaboratively to share investigative intelligence with OGC, the Credit and Risk Management Division, and the Asset Management Division of EXIM Bank to help identify potential and suspected fraudulent activity within EXIM Bank transactions and to protect funds at risk.

During this reporting period, OI communicated with EXIM Bank management in order 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 34 referrals of investigative information to OGC concerning potential fraud and funds at risk for enhanced due diligence by EXIM Bank.

These efforts are part of the OI continuing objective to expeditiously protect funds at risk concurrent in monitoring, oversight, and collection efforts involving transactions in which fraud is uncovered. In addition, OI made 3 referrals of investigative information to OGC for enhanced collection efforts by EXIM Bank.

### Hotline Activity

The EXIM Bank OIG maintains a hotline to receive reports of fraud, waste, and abuse in EXIM 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, inspection, evaluation, referral to other law enforcement authorities having jurisdiction, or referral to management for administrative action.

The OIG received 14 hotline reports during the reporting period. Six were referred for investigations, seven were resolved and closed by the hotline and one was referred outside the OIG.

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

Phone at 1-888-OIG-EXIM (1-888-644-3946);

E-mail to [IGhotline@exim.gov](mailto:IGhotline@exim.gov), or;

In person or mail/delivery service to EXIM Bank OIG Hotline, Office of Inspector General, 811 Vermont Avenue, NW, Room 1052-1, Washington DC 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.







# Office of Inspector General Management Initiatives

## Suspension and Debarment Initiative

OIG undertook an initiative to work with EXIM management to implement a more robust program of suspension and debarment at EXIM Bank, which would serve as a critical tool to prevent waste and fraud and protect the interests of the United States. This initiative included dialogue between OIG and EXIM management officials to determine potential obstacles to taking suspension and debarment actions, and plans to overcome those obstacles.

To facilitate an improved suspension and debarment program at EXIM, we identified three recent cases from the OIG involving fraud and noncompliance and referred them to the Bank for determination of whether suspension or debarment are warranted. All three cases involve criminal convictions for defrauding EXIM Bank, which provide a clear basis for debarment. In two of these cases, convicted defendants are not currently incarcerated and are conducting business in order to generate proceeds to pay required restitution. Although EXIM may be aware of the convictions of these individuals, the fact that other government agencies may not be aware of the records of convicted fraudsters who continue to pursue business creates a risk to the government that can be addressed through the debarment process. In another case, defendants and co-conspirators controlled multiple corporate entities, some of which remain registered and active to do business. OIG believes that debarment is appropriate to prevent the entities from being used by any other conspirators to attempt to do business with the federal government.

OIG will report on the results of these referrals in the next semiannual report.

## Office of Special Counsel Certification Program

The Office of Special Counsel (OSC) has a program to certify that federal agencies and components are in compliance with statutory requirements to inform employees of the right to be free from prohibited personnel practices, especially retaliation for whistleblowing, and remedies that are available. EXIM OIG completed the required steps to provide information to employees and train supervisors, and was certified as compliant by OSC on September 22, 2016.

## Fraud Awareness Training and Outreach

As part of the OIG's mission to prevent and detect fraudulent activity, efforts have been made to meet with and educate stakeholders about the various risks and fraud scenarios most commonly seen in trade finance, export credit fraud, and money laundering cases. OIG participates in the Bank's mandatory new employee orientation program to educate new Bank federal employees on their responsibilities and how to spot indicators of fraud. During this reporting period, OI representatives conducted briefings on EXIM operations, common fraud scenarios and money laundering patterns with representatives from HSBC



and Wells Fargo Bank. In July and August 2016, OI participated in the Transnational Organized Crime, Money Laundering and Corruption Workshops in Armenia and Botswana. The presentations were conducted in cooperation with the Department of Justice's Office of Overseas Prosecutorial Development Assistance and Training (OPDAT) Office.

## 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 EXIM 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. 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.

## 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. During this reporting period, an OA representative participated in the development of an Intermediate Auditor training course for CIGIE.

## 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 EXIM 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 the Government Accountability Office (GAO) and met with GAO officials to discuss ongoing and planned work. The GAO issued one report during the reporting period that addressed EXIM Bank procedures or mission:

## *Export-Import Bank—Status of Dual-Use Exports as of August 2016*

(GAO-16-844R, August 31, 2016)

GAO is required to report annually on the end uses of dual-use exports financed by EXIM during the second preceding fiscal year. This report (1) examined the status of EXIM's monitoring of dual-use exports that it continued to finance in fiscal year 2014, as of August 2016; and (2) identified any new dual-use exports that EXIM financed in fiscal year 2015. GAO found that EXIM received five of six reports required by EXIM credit agreements on time for the three dual-use exports it continued to finance in fiscal year 2014, and mostly followed its own guidance when the sixth report was not submitted on time. However, as of August 2016, EXIM had not made its annual determinations for the two dual-use exports for which a determination should be made. EXIM officials told GAO that they were taking steps to address the issues GAO identified. EXIM did not finance any new exports under its dual-use authority in fiscal year 2015.

## Peer Review Reporting

The EXIM Bank OIG audit function last passed peer review on September 24, 2014 and all recommendations were fully implemented. The EXIM Bank OIG investigations function last passed peer review on May 22, 2014 and all recommendations have been fully implemented. The next peer reviews are scheduled for 2017.

The EXIM Bank OIG is schedule to complete a peer review of the audit function of the Government Publishing Office (GPO) OIG by March 2017.







# Appendix A

## Open Recommendations From Prior Reporting Periods

This table shows that 15 recommendations from 11 reports issued up to March 31, 2016 remain open at the end of this reporting period. Seven open recommendations are from reports issued in FY 2016. The remaining 8 open recommendations are from reports issued from FY 2013 to FY 2015. 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 (10/1/15 – 3/31/16)						
Audits						
OIG-AR-16-02 2 Feb 2016	FY 2015 Information Security Program Audit	4	1	3	0	10/31/16
OIG-AR-16-03 12 Feb 2016	FY 2015 Financial Statement Management Letter	9	1	8	0	03/31/17
OIG-AR-16-04 16 Mar 2016	Audit of Short-Term Insurance Claims Processing	11	2	9	0	12/31/16
OIG-AR-16-05 30 Mar 2016	Audit of EXIM Bank's Contracting Processes	7	1	6	0	09/30/17
Inspections and Evaluations						
OIG-INS-16-01 22 Dec 2015	Report on Jabiru Satellite Ltd.	4	2	2	0	12/31/16
Prior Periods (prior to 10/1/15)						
Audits						
OIG-AR-15-07 28 Sept 2015	Audit of EXIM Bank's Data Reliability	4	2	2	0	12/31/16
OIG-AR-15-06 12 May 2015	Audit of EXIM Bank's Compliance with IPERA for FY 2014 Reporting	3	1	2	0	12/31/16
OIG-AR-14-01 11 Dec 2013	Audit of Ex-Im Bank's Content Policy	3	1	2	0	09/30/16
Inspections and Evaluations						
OIG-INS-15-02 28 Sept 2015	Report on the Project Financing of Sasan Power Limited	6	1	5	0	10/31/16
OIG-INS-14-01 18 June 2014	Report on PNG LNG Project Financing	3	1	2	0	12/31/16
OIG-INS-13-01 30 Sep 2013	Inspection Report on Minera y Metalurgica del Boleo S. A.	7	2	5	0	12/31/16
<b>TOTALS</b>		61	15	46	0	





## Appendix B

### Audit, Evaluation and Inspection Reports Issued from April 1, 2016–September 30, 2016

Report No./Date	Report Title	Management Decisions Reached on Recommendation	Total Questioned Costs	Unsupported Costs	Funds for Better Use	Disallowed Costs
1 OIG-AR-16-06 13 May 2016	EXIM's Compliance with Improper Payments Laws for FY 2015 Reporting	4/4	0	0	0	0
2 OIG-EV-16-01 28 Jul 2016	Follow-Up Report on Portfolio Risk and Loss Reserve Allocation	8/8	0	0	0	0
3 OIG-EV-16-02 23 Sep 2016	Report on AMD's Risk Rating Process	5/5	0	0	0	0
4 OIG-AR-16-07 28 Sept 2016	Audit of the Examinations of Delegated Authority Lenders	12/12	0	0	0	0
5 OIG-EV-16-03 29 Sept 2016	Evaluation of the Bank's Procurement of a Vehicle Lease	7/7	0	0	\$84,956	0
<b>Totals</b>			\$0	\$0	\$84,956	\$0





## Appendix C

# Significant Recommendations from Previous Semiannual Reports on Which Corrective Action Has Not Been Completed

We have identified three significant recommendations from previous semiannual reports on which corrective action has not been completed.

### *OIG-AR-14-01, Report on EXIM Bank's Implementation of Content Policy, December 11, 2013*

**Recommendation 1:** Implement procedures to verify the accuracy of exporter self-certifications of content for a representative sample of transactions throughout each fiscal year.

**Expected implementation date:** September 30, 2016

### *OIG-INS-14-01, Report on the PNG LNG Project Financing, June 18, 2014*

**Recommendation 2:** To strengthen compliance with EXIM Bank Policies and to enhance transparency in the financing of local cost goods and services, the OIG makes the following recommendations to EXIM Bank:

- a. Reserve the right of inspection and audit of the borrower's books and records in EXIM Bank's credit agreements, particularly for project financings. This right should be provided on an ongoing basis and not be restricted to the occurrence of an Event of Default.
- b. Require borrowers to maintain a set of verifiable records subject to audit and consider extending this inspection right to the records of construction contractors as applicable.
- c. Consider additional requirements to provide greater transparency and to facilitate validation of compliance, such as requiring the Borrower to provide, when requested, more descriptive information and details regarding local cost disbursements.
- d. Review and evaluate Local Cost Policy with respect to the origin of local services to explicitly state its criteria and requirements for funding such services in keeping with transparency, consistency, the statutory mandate to create U.S. jobs and defined business strategy.

**Expected implementation date:** December 31, 2016

*OIG-INS-13-01, Report on Minera y Metalurgica del Boleo S.A., September 30, 2013*

**Recommendation 5:** OIG recommends that EXIM Bank evaluate its current fraud prevention practices for local costs, with a view to establishing a more robust and proactive approach. EXIM Bank should review and benchmark current practices with the best practices currently employed by other multilateral agencies and U.S. federal agencies. In addition to the current representations from the Borrower, EXIM Bank may want to encourage its Borrowers to adopt certain contractual provisions: a provision obligating the Borrower to maintain accurate books and records; an effective system of internal controls; and a contractual right of termination in case of breach of anti-corruption laws.

Following the practice of various multilateral financial institutions, EXIM Bank may consider including additional prohibited practices in its contractual agreements with the Borrower, which may extend to entities that the Borrower owns or controls. This provision would enable broader and more consistent due diligence requirements with respect to local cost providers. Finally, OIG recommends a provision encouraging transaction parties to report fraud, waste and abuse and corruption to the Inspector General of EXIM Bank.

**Expected implementation date:** December 31, 2016







# Appendix D

## Inspector General Act Reporting Requirements

Inspector General Act citation	Requirement definition	Page
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	5-9
Section 5(a)(2)	Recommendations for Corrective Actions	21-24, 30-33
Section 5(a)(3)	Prior Significant Audit Recommendations Yet to Be Implemented	55 & 56
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	39
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	53
Section 5(a)(7)	Summary of Particularly Significant Reports	5-9
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	53
Section 5(a)(10)	Summary of Prior Audit Products for which No Management Decision Has Been Made	None
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



## 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, DC 20571

### Telephone

1- 888-OIG-EXIM  
(1-888-644-3946)

### Mail

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

### E-mail

IGHotline@exim.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

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