



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

# SEMIANNUAL

## REPORT TO CONGRESS

October 1, 2016 to March 31, 2017

**EXPORT-IMPORT BANK OF THE UNITED STATES** (EXIM Bank or the 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).

## From the Inspector General

In the first half of FY 2017, the Export-Import Bank Office of Inspector General continued its work in advising the management of the EXIM Bank and the Congress on recommendations for improving Bank operations and detecting, preventing, and prosecuting fraud.

In our last semiannual report, we reported that a major management challenge facing EXIM Bank was managing uncertainty about the future of EXIM. From July to December 2015, the authority of the Bank to incur new obligations lapsed pursuant to its charter. While the charter was renewed in December 2015, since then EXIM has lacked a quorum on its Board of Directors, with the result that the Bank has been unable to approve new medium-term and long-term transactions over \$10 million. At the beginning of the new Administration, all five Board seats were vacant, with the positions of President and Vice President being filled on an acting basis. At the time of this report, President Trump had announced his intention to nominate former Rep. Scott Garrett as President of EXIM and former Rep. Spencer Bachus as a member of the Board of Directors. Filling these key positions, as well as other seats on the Board of Directors, are essential to resolving uncertainty about the future of EXIM and carrying out the governance structure specified in EXIM's Charter.

In the first half of FY 2017, the OIG published three evaluation reports and completed three audit projects. These included an evaluation of the Bank's portfolio risk management policies and the role and responsibilities of EXIM's Chief Risk Officer, as required by the 2015 reauthorization legislation, as well as a review of EXIM Bank's activities in preparation for and during its lapse in authorization. We also completed statutorily-mandated audits of the Bank's financial statements, information security, and compliance with data transparency requirements. In addition, our office continued its focus on investigating fraud related to EXIM Bank transactions. Working with the Department of Justice and the IRS, we obtained convictions of five individuals from three states for their role in a scheme to defraud the Bank of Arizona and EXIM. We also worked with state prosecutors in Miami to obtain a conviction of an exporter on grand theft charges, and continued fraud prevention efforts by conducting outreach and training programs.

None of these accomplishments would be possible without the hard work, professionalism, and dedication of our excellent staff. The goal of our office is to continue to provide timely, accurate, and credible information to aid Bank officials and Congress in shaping the future of EXIM Bank.

**Michael T. McCarthy**

Acting Inspector General



## Highlights

The **Office of Audits** (OA) completed three projects:

*Audit of the Export-Import Bank of the United States Fiscal Year 2016 Financial Statements*  
(OIG-AR-17-01, November 15, 2016)

*Fiscal Year 2016 Financial Statement Audit – Management Letter*  
(OIG-AR-17-03, March 6, 2017)

Under a contract overseen by OA, Deloitte and Touche LLP conducted the independent audit of EXIM Bank's financial statements for fiscal year (FY) 2016 and found (1) the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles; (2) there were no material weaknesses or significant deficiencies in internal control; and (3) there were no instances of reportable noncompliance with laws and regulations or other matters it tested.

As a supplement to the Independent Auditor's report on the FY 2016 Financial Statements, Deloitte and Touche LLP issued a management letter that identified five deficiencies in EXIM Bank's internal control over financial reporting, which did not rise to the level of material weaknesses or significant deficiencies, but should be corrected. Deloitte and Touche LLP made eight recommendations to correct these deficiencies and management concurred with the recommendations.

*Independent Auditor's Report on the Export-Import Bank's DATA Act Readiness*  
(OIG-AR-17-02, November 28, 2016)

Under a contract overseen by OA, Cotton & Company LLP performed an audit of EXIM Bank's DATA Act Readiness. The audit found the Bank established an internal infrastructure to help ensure compliance with the May 2017 reporting requirements under the DATA Act. However, there were opportunities for EXIM Bank to improve (1) its communication with external stakeholders and the use of available resources, (2) the detail contained in its DATA Act implementation plan and supporting documentation, and (3) its risk assessment, which could affect the Bank's ability to implement all DATA Act requirements by the May 2017 deadline. The audit report included eight recommendations and management concurred with the recommendations.

*Independent Audit of Export-Import Bank's Information Security Program Effectiveness for Fiscal Year 2016*  
(OIG-AR-17-04, March 15, 2017)

Under a contract overseen by OA, Cotton & Company LLP performed an audit of EXIM Bank's Information Security Program for FY 2016. The audit determined that while EXIM Bank addressed several of the challenges identified during previous audits, its information security program and practices were not effective overall when assessed against revised

Department of Homeland Security reporting metrics. EXIM Bank has not effectively implemented a mature information security program. The audit report included nine new recommendations and two partially reissued recommendations and management concurred with the recommendations.

The **Office of Inspections and Evaluations** (OIE) completed three evaluation reports:

*Evaluation of Risk Management Procedures and Chief Risk Officer Responsibilities*  
(OIG-EV-17-01, December 2, 2016)

In accordance with the statutory requirements contained in the Export-Import Bank Reform and Reauthorization Act of 2015 (the “Act”), OIE evaluated the Bank’s portfolio risk management policies and the extent to which EXIM Bank has implemented the provisions related to the appointment of the Chief Risk Officer (CRO) and the duties ascribed to the CRO. As part of our assessment, we benchmarked the Bank’s key risk management policies with guidance on enterprise risk management (ERM) and internal controls for U.S. federal agencies promulgated by the Office of Management and Budget and the Government Accountability Office as well as current ERM practices as observed by a select group of peers.

With respect to the appointment of the CRO, OIE found that EXIM Bank appointed an Acting Chief Risk Officer on January 1, 2016 prior to the statutory deadline and assessed candidates for a permanent appointment according to the criteria in the Act. The permanent appointment occurred after the statutory deadline, and has not been approved by the Board as required by the Act due to the absence of a Board quorum. Our review of the duties assigned to the CRO confirmed that the CRO is performing duties related to managing and mitigating all risk. However, further actions are necessary to clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency. OIE’s assessment of the Bank’s risk policies found that EXIM Bank should enhance its risk policy framework to further document the non credit risks that are identified in the Risk Appetite Statement. Finally, we found that EXIM should strengthen the over-arching Risk Appetite Framework that draws together all the separate policies and committees as well as a process for considering risk appetite and risk tolerance. Our evaluation made eight recommendations for corrective action. Management agreed with all of the recommendations.

*Report on EXIM Bank’s Activities in Preparation for and During its Lapse in Authorization*  
(OIG-EV-17-02, March 30, 2017)

On July 1, 2015, EXIM Bank’s statutory authority was significantly limited under the terms of its Charter and full authority was not reinstated until December 4, 2015 when Congress extended the Bank’s Charter until September 30, 2019. The OIG Office of Audits and Office of Inspections and Evaluations completed an evaluation of the EXIM Bank’s activities in preparation for and during its lapse in authorization as of July 1, 2015 through December 3, 2015. The objectives of this evaluation were to determine: (1) what steps EXIM Bank took

to plan and conduct an orderly liquidation as set forth in its Charter, and (2) if the Bank complied with the terms of its Charter and internal guidance when working on transactions and traveling during the lapse.

Our evaluation found that EXIM Bank took several steps to plan and conduct an orderly liquidation in preparation for and during its lapse in authorization. Moreover, the Bank generally complied with the terms of its Charter and internal guidance for travel taken during the lapse. Finally, the Bank adhered to its established policies and procedures and complied with the terms of its Charter and guidance when approving new transactions in the months leading up to the lapse and did not authorize new transactions or increases in exposure during the lapse.

Although our report does not make any formal recommendations, OIG suggests for any future circumstances requiring EXIM Bank to limit its staff to certain functions, the Bank should implement controls to ensure (a) it establishes clear and specific criteria, (b) employees prepare and maintain proper supporting documentation, and (c) employees comply with all newly established procedures.

#### *Report on EXIM Bank's Credit Guarantee Facility Program*

(OIG-EV-17-03, March 30, 2017)

OIE completed an evaluation of EXIM Bank's Credit Guarantee Facility (CGF) program. The primary objective of our evaluation was to ascertain the adequacy of the Bank's transaction due diligence, Character, Reputational and Transaction Integrity (CRTI) assessment, post-closing monitoring, and compliance with the policies and procedures related to the CGF program. In addition, we sought to confirm that the Bank's reachback policy for the program aligns with the provisions of its Charter.

We found that EXIM Bank generally administered the CGF program in accordance with its policies and procedures, streamlined the approval process for disbursements and guarantee issuances, and maintained orderly credit files for each of the five facilities reviewed. However, the independent review of the files was not fully documented. Additionally, our review of disbursements identified instances of non-compliance, resulting in \$5.1 million in shipment of goods and progress payments for services that were not eligible for financing and guarantee under two facilities. Further, although the Bank modified an eligibility date that was material to compliance with Iran sanctions restrictions without consistent due diligence, we found no evidence that this control weakness resulted in a violation of the restrictions. Finally, we determined that certain CGF transactions refinanced exports that had already occurred years prior to the operative date of the facility, waiving a policy put in place to ensure the program provides additional support for new U.S. exports.

Our evaluation made five recommendations for corrective action. Management agreed with four of the recommendations and partially agreed with one recommendation.

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

*Criminal conspiracy, fraud, and money-laundering convictions*

Five individuals from three states were convicted for their role in a scheme to defraud the Bank of Arizona and the Export-Import Bank of the United States. All were convicted of conspiring to engage in a scheme to defraud and conspiracy to commit money laundering. The scheme produced approximately \$6.4 million in fraudulently obtained proceeds, including \$1 million guaranteed by EXIM, which the defendants agreed to launder through various bank accounts.

In addition, the owner of a Miami meat products company plead guilty to grand theft and organized fraud after he falsely represented that he sold and shipped meat products to nine businesses in the Dominican Republic.

*Investigated employee and program integrity matters*

OI investigated an employee misconduct case and referred results to EXIM Bank management for appropriate action. The case involved a conflict of interest between an agency employee and a contractor working for EXIM Bank.

During this reporting period, OI made 65 referrals of investigative information to the Office of General Counsel (OGC) regarding users of EXIM programs for enhanced due diligence by EXIM Bank.

*Suspension and Debarment Initiative*

OIG continues to work with EXIM Bank management to implement a more robust program of suspension and debarment at EXIM Bank, which serves as a critical tool to prevent waste and fraud and protect the business interests of the United States. This initiative includes dialogue between OIG and EXIM Bank management officials to determine potential obstacles to taking suspension and debarment action, and plans to overcome those obstacles.

# 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 three projects, resulting in four reports:

- Audit of the Export-Import Bank of the United States Fiscal Year 2016 Financial Statements
- Fiscal Year 2016 Financial Statement Audit – Management Letter
- Independent Auditor’s Report on the Export-Import Bank’s DATA Act Readiness
- Independent Audit of Export-Import Bank’s Information Security Program Effectiveness for Fiscal Year 2016

At the end of the reporting period, OA had two audits and one evaluation in progress:

- Audit of EXIM Bank’s Disbursement Processes
- Evaluation of Export-Import Bank’s Compliance with the Improper Payments Elimination and Recovery Act of 2010 for FY 2016 Reporting
- Audit of EXIM Bank’s Fiscal Year 2017 Financial Statements

## Reports Issued

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

(OIG-AR-17-01, November 15, 2016)

<http://www.exim.gov/sites/default/files//oig/reports/Audit%20of%20the%20Export-Import%20Bank%20of%20the%20United%20States%20FY%202016%20Financial%20Statements.pdf>

### ***Fiscal Year 2016 Financial Statement Audit – Management Letter***

(OIG-AR-17-03, March 6, 2017)

[http://www.exim.gov/sites/default/files//oig/reports/Fiscal%20Year%202016%20Financial%20Statements%20Audit%20Management%20Letter%20Redacted-signed\\_0.pdf](http://www.exim.gov/sites/default/files//oig/reports/Fiscal%20Year%202016%20Financial%20Statements%20Audit%20Management%20Letter%20Redacted-signed_0.pdf)

Under a contract overseen by OA, the OIG engaged the independent public accounting firm of Deloitte and Touche LLP to perform an audit of EXIM Bank’s financial statements for fiscal year (FY) 2016. Deloitte and Touche LLP found:

- (1) the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;
- (2) there were no material weaknesses or significant deficiencies in internal control; and
- (3) there were no instances of reportable noncompliance with laws and regulations or other matters it tested.

In addition to the Independent Auditor’s report on the FY 2016 Financial Statements, Deloitte and Touche LLP issued a management letter that identified five deficiencies in EXIM Bank’s internal control over financial reporting, which did not rise to the level of material weaknesses or significant deficiencies, but should be corrected. Specifically, Deloitte and Touche LLP found:

- (1) responsibilities for developing and migrating certain changes into the production environment for the EXIM Reporting System (ERS) were not appropriately segregated;
- (2) privileged access was maintained on a certain account after it was no longer required;
- (3) users maintained active accounts or access to applications after their separation;
- (4) one database, two database servers and one application server did not have proper password configurations; and
- (5) the daily security report was not documented for 3 of 25 sampled days.

Deloitte and Touche LLP recommended that EXIM Bank:

- (1) establish segregation of duties in the access privileges between developers and migrators or establish a documented detective control to confirm there are no changes migrated into the production environment without a corresponding approved ticket;
- (2) when performing the annual access review, consider the system and service accounts, including privileges associated with system accounts and users with access to system accounts to confirm the appropriateness of the access;
- (3) generate a list of separated full time employees (FTEs) and contractors on a periodic/more frequent basis and send to system reviewers, such that the reviewers compare the list to the active users of their respective applications/layers to confirm that no separated users maintain active accounts;

(4) enhance the separation process for both FTEs and contractors to ensure appropriate system administrators and managers are included on the “Employee Separations” and “Contractor Separations” distribution lists and to require an email response back from the system administrator in a timely manner confirming receipt of the notification email and/or an email response letting the HR/Security office know that the user’s access has been removed;

(5) make updated policies and scripts used for implementing new databases and servers readily available to all System Engineers and IT personnel responsible for maintaining and installing new databases/certain appliances/servers so that the password settings are in compliance;

(6) either amend the current Access Control Policy to include specific password requirements (e.g., password length, complexity, age, history, etc.) for each application and infrastructure layer or create a separate Access/Password Policy for these layers so that requirements (and any approved exceptions to requirements) are documented and can be referenced and applied;

(7) document a backup or ‘buddy’ system, as well as a Quality Assurance check, for the users who are primarily responsible for distributing the daily Security Report so that the report is documented, compiled, and sent out on a consistent frequency, or otherwise determine another method of documenting and communicating that the Security posture from the previous day has not changed; and

(8) ensure meeting minutes are documented and stored for the periodic Security Meetings to document the monitoring and compliance of the security posture and vulnerabilities in a timely manner.

Management concurred with the recommendations.

***Independent Auditor’s Report on the Export-Import Bank’s DATA Act Readiness***

(OIG-AR-17-02, November 28, 2016)

<http://www.exim.gov/sites/default/files//oig/reports/Independent%20Auditors%E2%80%99%20Report%20on%20the%20Export-Import%20Bank%E2%80%99s%20DATA%20Act%20Readiness%20OIG-AR-17-02.pdf>

Under a contract overseen by OA, Cotton & Company LLP (Cotton) performed an audit to determine the extent to which the Bank had implemented, or planned to implement, processes, systems, and controls to report financial and payment data in accordance with the requirements of the DATA Act. The audit found that EXIM Bank:

(1) established an internal infrastructure to help ensure compliance with the May 2017 reporting requirements under the DATA Act by designating a Senior Accountable Officer, forming a working group, developing an implementation plan and reviewing an inventorying data elements; and

(2) established a Data Quality Board to publicly report the Bank’s financial and payment information.

While EXIM Bank made progress in its efforts to implement the DATA Act, the audit also identified several conditions which could affect the Bank’s ability to implement all DATA Act requirements by the May 2017 deadline and were opportunities for improvement, including:

- (1) its communication with external stakeholders and the use of available resources,
- (2) the detail contained in its DATA Act implementation plan and supporting documentation, and
- (3) the formalization and documentation of its risk assessment.

Cotton recommended that EXIM Bank:

- (1) identify the population of relevant and available information, guidance, and central agency working groups related to DATA Act implementation;
- (2) develop a methodology for periodically reviewing available sources of information for updates;
- (3) establish a procedure for ensuring that members of the Working Group are kept informed of new and changing information;
- (4) further assess OMB and Treasury guidance and continue to develop and enhance the implementation plan;
- (5) develop a methodology for the Working Group to monitor, track, communicate, and update the detailed implementation plan and the Bank’s progress;
- (6) identify and assess external and internal risks associated with the implementation;
- (7) analyze identified risks to estimate their significance; and
- (8) design overall responses for the analyzed risks.

Management concurred with the recommendations.

***Independent Audit of Export-Import Bank’s Information Security Program Effectiveness for Fiscal Year 2016***

(OIG-AR-17-04, March 15, 2017)

<http://www.exim.gov/sites/default/files//oig/reports/Audit%20of%20EXIM%20Bank%20%20Information%20Security%20Program%20Effectiveness%20for%20FY%202016%20Redacted.pdf>

Under a contract overseen by OA, Cotton & Company LLP (Cotton) performed an audit of EXIM Bank's Information Security Program for FY 2016. The audit determined that while EXIM Bank addressed several of the challenges identified during previous audits, its information security program and practices were not effective overall when assessed against revised Department of Homeland Security reporting metrics. EXIM Bank had not effectively implemented a mature information security program. Specifically, the Bank's current Information Security Continuous Monitoring (ISCM) and Incident Response (IR) policies, plans, procedures, and strategies were not consistently implemented organization-wide, impacting the maturity and effectiveness of its overall information security program.

While the Bank effectively implemented 11 of the 14 NIST SP 800-53, Rev. 4 controls that were tested for the Bank's Application Processing System (APS) and the Infrastructure GSS, the audit identified several significant areas for improvement. Specifically, EXIM Bank:

- (1) has not implemented appropriate security controls over certain access to EXIM Bank data;
- (2) did not effectively remediate Plan of Action and Milestones (POA&M) items in a timely manner;
- (3) has not effectively documented security agreements with third-party service providers;
- (4) has not effectively implemented a vulnerability management program;
- (5) has not effectively implemented baseline configurations and documented deviations for information technology (IT) products;
- (6) has not effectively implemented Access Management controls;
- (7) has not effectively implemented a role-based training program;
- (8) has not effectively implemented controls around the use of shared system accounts;
- (9) has not effectively implemented Account Management controls for the APS application;  
and
- (10) has not effectively implemented software license management controls.

The report included two reissued recommendations and nine new recommendations for EXIM Bank to:

- (1) implement procedures to evaluate and improve the maturity and effectiveness of the Bank's information security program;

- (2) deploy specific security controls, including controls that restrict the installation of unapproved or malicious software and prevent unauthorized access to internal EXIM Bank resources;
- (3) implement a process to ensure the Bank reviews all system POA&Ms at an organization-defined frequency and updates milestones to reflect actions taken to remediate POA&M items;
- (4) update agreements with third-party service providers;
- (5) improve vulnerability management;
- (6) adequately document and implement baseline configuration settings for IT products;
- (7) implement appropriate access management prior to granting users access to systems;
- (8) update and implement effective role-based security training;
- (9) improve controls around shared system accounts;
- (10) implement appropriate account management controls for the Application Processing System (APS) application; and
- (11) improve procedures for managing software licenses.

Management concurred with the recommendations.

## Ongoing Projects

### ***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. OA 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.

### ***Evaluation of Export-Import Bank's Compliance with the Improper Payments Elimination and Recovery Act of 2010 for FY 2016***

Each year, the federal government wastes billions of taxpayer dollars on improper payments. To reduce improper payments, the President signed into law the Improper Payments

Information Act of 2002 (IPIA) which was then amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). As amended, IPIA requires agencies to review their programs and activities each fiscal year and identify those susceptible to significant improper payments. In addition, Inspectors General are required to determine whether their respective agencies are compliant with the improper payment laws. We are conducting this evaluation to determine whether EXIM Bank was in compliance with the reporting requirements of the improper payment laws for FY 2016 reporting. In addition, we will assess the Bank's implementation of prior year audit recommendations. The report will be issued in the semiannual period ending September 30, 2017.

***Audit of the Export-Import Bank of the United States Fiscal Year 2017 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 2017, which will be issued in the semiannual period ending March 31, 2018. A related management letter report will also be issued in the semiannual period ending March 31, 2018.

# Office of Inspections and Evaluations

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 Council of Inspectors General on Integrity and Efficiency guidelines and standards including the 2012 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.

OIE completed three evaluations:

- Evaluation of Risk Management Procedures and Chief Risk Officer Responsibilities
- Report on EXIM Bank’s Activities in Preparation for and During its Lapse in Authorization
- Report on EXIM Bank’s Credit Guarantee Facility Program

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

- Evaluation of EXIM Bank’s Local Cost Policies and Procedures
- Evaluation of TPMD’s BCL Risk Rating Review Policies, Procedures and Processes

## Reports Issued

### ***Evaluation of Risk Management Procedures and Chief Risk Officer Responsibilities***

(OIG-EV-17-01, December 2, 2016)

[http://www.exim.gov/sites/default/files//oig/reports/CRO%20Report%20-%20Dec%202%20final\\_.pdf](http://www.exim.gov/sites/default/files//oig/reports/CRO%20Report%20-%20Dec%202%20final_.pdf)

In accordance with the statutory requirements contained in the Export-Import Bank Reform and Reauthorization Act of 2015 (the “Act”), we evaluated the Bank’s portfolio risk management policies and the extent to which EXIM Bank has implemented the provisions related to the appointment of the Chief Risk Officer (CRO) and the duties ascribed to the CRO. As part of our assessment, we benchmarked the Bank’s key risk management policies with guidance on enterprise risk management (ERM) and internal controls for U.S. federal agencies promulgated by the Office of Management and Budget and the Government Accountability Office as well as current ERM practices as observed by a select group of peers.

With respect to the appointment of the CRO, OIG found that EXIM Bank appointed an Acting Chief Risk Officer on January 1, 2016 prior to the statutory deadline and assessed candidates for a permanent appointment according to the criteria in the Act. The permanent appointment occurred after the statutory deadline, and has not been approved by the Board as required by the Act due to the absence of a Board quorum. OIG’s review of the duties assigned to the CRO confirmed that the CRO is performing duties related to managing and mitigating all risk.

However, further actions are necessary to clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency. Our assessment of the Bank's risk policies found that EXIM should enhance its risk policy framework to further document the non credit risks that are identified in the Risk Appetite Statement. Finally, we found that EXIM should strengthen the over-arching Risk Appetite Framework that draws together all the separate policies and committees as well as a process for considering risk appetite and risk tolerance. OIG's review of the duties assigned to the CRO confirmed that the CRO is performing duties related to managing and mitigating all risk. However, further actions are necessary to clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency.

Our evaluation generated seven findings as outlined below:

- (1) EXIM Bank appointed an Acting Chief Risk Officer (CRO) on January 1, 2016 prior to the statutory deadline and assessed candidates for a permanent appointment according to the criteria in the Act. The permanent appointment occurred after the statutory deadline, and has not been approved by the Board as required by the Act due to the absence of a Board quorum.
- (2) The CRO is performing duties related to managing and mitigating all risk. However, further actions are necessary to clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency.
- (3) EXIM Bank has made substantial progress in implementing policies and procedures for risk oversight, monitoring and management. Some enhancements are required to align with leading practices and federal guidance.
- (4) The CRO is responsible for the planning and execution of risk management activities.
- (5) EXIM Bank is developing an integrated risk management program. While EXIM is identifying and measuring its key risks, it has not fully implemented an overarching Risk Appetite Framework (RAF) that clearly defines policies and processes to prioritize and manage risks.
- (6) EXIM Bank has developed a process to ensure that risk assessment and underwriting for individual transactions considers the effect of the transaction on concentration of exposure in the overall portfolio.
- (7) EXIM Bank has implemented the use of qualitative risk metrics to assess the risk of default under various scenarios consistent with the Federal Credit Reform Act of 1990 (FCRA) provisions.

In addition, our report made the following eight recommendations for corrective action. In its management response, EXIM Bank concurred with all eight recommendations.

- (1) To clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency, EXIM Bank should formally document the risk management roles, responsibilities and authority of its line of defense functions; clarify responsibilities and interaction between different senior management committees and divisions; identify the individuals and functions to be responsible for each; and address any gaps in those responsibilities.
- (2) EXIM Bank should review the Enterprise Risk Committee approval process to specify the authority and responsibility of the CRO over risk policies, procedures, and reports.
- (3) EXIM Bank should review the alignment of the Bank’s risk management activities consistent with the “three lines of defense” framework and ensure that responsibility for the first line of defense and second line of defense are separated.
- (4) EXIM Bank should assess whether the CRO has sufficient staff, funding, and other resources to carry out the responsibilities assigned in the Act, and reassign resources or seek additional funding for the CRO as necessary.
- (5) EXIM Bank should enhance its risk policy framework to further document the non credit risks that are identified in the Risk Appetite Statement.
- (6) The Bank should continue to improve its integrated risk management program by designing a comprehensive Risk Appetite Framework that provides an overarching process for defining risk appetite and establishing risk tolerance thresholds for its key risks.
- (7) The Bank should update its current Risk Appetite Statement and establish aggregate thresholds for each of its key risks in accordance with federal guidance.
- (8) To track the progress in developing the RAF, the Bank should develop a maturity model approach to assess each component of the RAF separately and in the aggregate, as recommended in the ERM Playbook.

***Report on EXIM Bank’s Activities in Preparation for and During its Lapse in Authorization***

(OIG-EV-17-02, March 30, 2017)

[http://www.exim.gov/sites/default/files//oig/reports/Lapse%20Final%20Report%20PDF%20033017\\_0.pdf](http://www.exim.gov/sites/default/files//oig/reports/Lapse%20Final%20Report%20PDF%20033017_0.pdf)

EXIM Bank’s Charter establishes the Bank’s operations and programs and is reauthorized on a periodic basis. In May 2012, Congress reauthorized the Bank’s Charter through September 30, 2014, which was subsequently extended to June 30, 2015 by a continuing appropriations resolution. On July 1, 2015, EXIM Bank’s statutory authority was significantly limited under the terms of its Charter and full authority was not reinstated until December 4, 2015 when Congress extended the Bank’s Charter until September 30, 2019. According to EXIM Bank, this meant its authorization to approve new transactions and engage in business development and certain other functions lapsed. During the lapse in authorization, in accordance with section 7

of its Charter the Bank was “continuing as a corporate agency of the United States and exercising any of its functions subsequent to such date for purposes of orderly liquidation, including the administration of its assets and the collection of any obligations held by the bank.”

Our evaluation found that EXIM Bank took several steps to plan and conduct an orderly liquidation in preparation for and during its lapse in authorization. Moreover, the Bank generally complied with the terms of its Charter and internal guidance for travel taken during the lapse. Finally, the Bank adhered to its established policies and procedures and complied with the terms of its Charter and guidance when approving new transactions in the months leading up to the lapse and did not authorize new transactions or increases in exposure during the lapse.

Steps taken by the Bank in preparation for and during its lapse in authorization included developing a contingency plan, action plan, and inventory of permitted and prohibited functions; conducting weekly staff meetings and mandatory trainings; revising the travel approval process; creating a workforce reshaping tools strategy; issuing a Request for Information to obtain proposals on the redesign of EXIM Bank to a portfolio risk management agency; and creating divisional workload projections.

Although EXIM Bank generally complied with the terms of its Charter and internal guidance for travel taken during the lapse, we identified instances of travel that did not have sufficient justifications and documentation supporting why the travel was permitted. Of the 143 trips taken during the lapse totaling \$602,126 in travel costs, 122 totaling \$520,542 were sufficiently documented and clearly related to permitted activities. However, due to the absence of clear criteria and insufficient documentation, we were unable to definitively conclude whether the remaining 21 trips totaling \$81,584 in travel costs constituted permitted activities.

Our evaluation generated four principal findings:

- (1) EXIM Bank took several steps to plan and conduct an orderly liquidation as set forth in its Charter.
- (2) Although EXIM Bank generally complied with the terms of its Charter and internal guidance for travel taken during the lapse, we identified instances of travel that did not have sufficient justifications and documentation supporting why the travel was permitted.
- (3) EXIM Bank complied with its Charter and internal policies and procedures when approving new transactions in the months leading up to the lapse in authorization.
- (4) EXIM Bank did not authorize any new transactions or increases in exposure during the lapse in authorization.

In addition to the four findings, OIG’s report concluded that certain documentation related to the activities of the Bank during its lapse in authorization was not provided to the OIG in a

timely manner. We are reporting this pursuant to Section 5(a)(21)(B) of the Inspector General Act of 1978, as amended, which requires an Inspector General to include in its semiannual reports instances when an agency resists or objects to oversight activities or restricts or significantly delays access to information, including the justification of the establishment for such action.

At the start of our evaluation in June 2016, OIG requested all documentation related to the activities of the Bank during its lapse in authorization. Additionally, the Bank was given advance notice of our evaluation findings as early as November 2016. Nevertheless, Bank staff did not provide a relevant September 28, 2015 legal analysis to the OIG until after the exit conference on February 9, 2017. Failing to disclose this document to the OIG resulted in an approximate one month delay of our evaluation and raised concerns about the Bank's level of cooperation with the OIG during audits and evaluations.

EXIM Bank stated this memorandum was not provided earlier because it was not clear to Bank staff that its contents were within the scope of the OIG evaluation, which Bank management understood to relate to actions taken by the Bank, rather than the fundamental legal analysis underpinning those actions.

Although our report does not make any formal recommendations, OIG suggests for any future circumstances requiring EXIM Bank to limit its staff to certain functions, the Bank should implement controls to ensure (a) it establishes clear and specific criteria, (b) employees prepare and maintain proper supporting documentation, and (c) employees comply with all newly established procedures.

### ***Report on EXIM Bank's Credit Guarantee Facility Program***

(OIG-EV-17-03, March 30, 2017)

[http://www.exim.gov/sites/default/files//oig/reports/CGF%20Report%20033017%20\\_Redacted.pdf](http://www.exim.gov/sites/default/files//oig/reports/CGF%20Report%20033017%20_Redacted.pdf)

EXIM Bank's Credit Guarantee Facility (CGF) program was developed to enable multiple sales of U.S. exports to a foreign buyer. The program guarantees medium-term loans made under lines of credit issued by a commercial bank to a foreign buyer of goods and services. To facilitate our evaluation, we judgmentally selected five CGF transactions for review, with an aggregate authorized amount of \$960.9 million. To test compliance with the Bank's disbursement requirements, we reviewed 16 disbursements totaling \$97.6 million.

We found that EXIM Bank generally administered the CGF program in accordance with its policies and procedures, streamlined the approval process for disbursements and guarantee issuances, and maintained orderly credit files for each of the five facilities reviewed. However, the independent review of the files was not fully documented. Additionally, our review of disbursements identified instances of noncompliance, resulting in \$5.1 million in shipment of goods and progress payments for services that were not eligible for financing and guarantee under two facilities. Further, although the Bank modified an eligibility date that was material to compliance with Iran sanctions restrictions without consistent due diligence, we found no

evidence that this control weakness resulted in a violation of the restrictions. Finally, we determined that certain CGF transactions refinanced exports that had already occurred years prior to the operative date of the facility, waiving a policy put in place to ensure the program provides additional support for new U.S. exports.

Our evaluation generated several findings:

(1) Although EXIM Bank generally administered the CGF program in accordance with program policies and procedures, we identified certain control weaknesses.

(1A) Credit files were reasonably complete and orderly, but independent review of the files was not fully documented.

(1B) Approval of disbursements and issuance of guarantees generally complied with EXIM Bank policies and procedures, but we identified some instances of noncompliance resulting in goods and services that were not eligible for financing and guarantee.

(1C) EXIM Bank modified an eligibility date that was material to compliance with Iran sanctions restrictions without consistent due diligence, but we found no evidence that this control weakness resulted in a violation of the restrictions.

(2) Certain CGF transactions refinanced exports that had already occurred years prior to the operative date of the facility, waiving a policy put in place to ensure the program provides additional support for new U.S. exports.

The report included five recommendations to address the findings:

(1) Review and update its policies for conducting credit file reviews to ensure completeness and integrity of the credit files and that evidence of the review is documented.

(2) Develop, document and implement policies and procedures for reviews of disbursements (e.g., spot-checks and scheduled reviews) to proactively monitor compliance, identify noncompliance, and assist with reducing noncompliance with Bank requirements in a timely manner. This would include evaluating the \$250 million threshold set by the Bank to initiate a review of disbursements under the CGF program.

(3) Require the Guaranteed Lenders of the CFE CGF and the OCP CGF to address the \$3.6 million in goods and the \$1.5 million in progress payments for services that were not eligible for financing, respectively, and were guaranteed by the Bank (e.g., identifying and providing eligible invoices as a substitute).

(4) With respect to amendments to the terms and conditions of transactions previously approved by the Board: (i) enhance policies and procedures for CGFs to ensure the adequacy and consistency of the Bank's due diligence (e.g., Iran sanctions due diligence) in consideration of those amendments; and (ii) in accordance with the Bank's Individual

Delegated Authority policy, develop an internal process to assess the level of materiality of proposed amendments and to discern the need to revert back to the Board for approval. Such a process should involve a deliberative body such as the Transaction Review Committee.

(5) Review and update the reachback policy for the CGF program to be consistent with actual practice and reduce the need for waivers. In reviewing and updating the reachback policy, the Bank should analyze the case-by-case determination of a reachback relative to the average policy date (i.e., operative date); consider establishing limits on the utilization of the facility for reachback transactions; set requirements for communicating analysis of reachback issues to decision makers including the Board; and establish procedures for consideration of waivers to the policy. This would include documenting the supporting evidence in the credit file.

Management agreed with four of the recommendations and partially agreed with one recommendation.

## Ongoing Projects

### ***Evaluation of EXIM Bank's Local Cost Policies and Procedures***

OIE is conducting an evaluation of EXIM Bank's policies and procedures related to the financing of local costs. The OIG seeks to ascertain the adequacy of the Bank's internal controls, documentation requirements, verification mechanism and compliance with the policies related to the Local Cost Program. As part of our review, OIG will examine a judgmental sample of medium- and long- term transactions with local cost components. This report is expected to be issued in the semiannual period ending September 30, 2017.

### ***Evaluation of TPMD's BCL Risk Rating Review Policies, Procedures and Processes***

OIE is conducting an evaluation of the Budget Cost Level (BCL) risk rating review policies, procedures and processes as observed by the Transportation Portfolio Management Division (TPMD) for post-operative monitoring. The OIG seeks to ascertain the level of credit analysis, methodology employed, and timing of the BCL risk rating review process for transactions. The evaluation will include the testing of a judgmental sample of transactions managed and monitored by TPMD. This report is expected to be issued in the semiannual period ending September 30, 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 September 30, 2016 | 37             |
| Opened during period          | 7              |
| Closed during period          | 8              |
| Open as of March 31, 2017     | 36             |

Of the 36 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 | 5                        |
| Program Integrity         | 2                        |
| Direct Loan               | 1                        |
| Employee Integrity        | 1                        |
| Other                     | 5                        |

## Summary of Investigative Results

OI obtained the following investigative actions during this reporting period:

| Description   | OIG       | Joint Activities* | Total        |
|---|-----------|-------------------|--------------|
| Matters Referred to DOJ for Prosecution Consideration | 3         | 3                 | 6            |
| Matters referred for State and Local Consideration    | 0         | 0                 | 0            |
| Criminal Indictments, Informations, Complaints        | 0         | 4                 | 4            |
| Guilty Pleas Entered                                  | 1         | 1                 | 2            |
| Criminal Judgments                                    | 1         | 3                 | 4            |
| Civil Recoveries                                      | 0         | 0                 | 0            |
| Prison Time (months)                                  | 12        | 827               | 839          |
| Probation (months)                                    | 252       | 204               | 456          |
| Court Ordered Fines, Restitution, and Forfeiture      | \$754,739 | \$19,514,119      | \$20,268,858 |
| Administrative Actions**                              | 0         | 0                 | 0            |
| Administrative Employee Actions***                    | 0         | 0                 | 0            |
| Administrative Cost Savings and Repayments            | \$0       | \$0               | \$0          |
| Suspensions and Debarments                            | 11        | 0                 | 11           |

\* 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.

*The metrics used in this report were obtained from a system of records entitled, "EIB-35-Office of Inspector General Investigative Records" also known as "IGIS". IGIS is a Structured Query Language (SQL) database used by OI to store its records related to criminal, civil, and administrative investigations. The database contains assignments, allegations, investigative activities, actions, dates, and identifying information about potential subjects and individuals related to these investigations. The system is able to generate metric reports which track judicial, administrative, and other investigative actions and activities. The database generates statistical reports on a variety of OI products including: Hotlines, Complaints, Subpoenas, and Investigations.*

## 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:

***Five individuals convicted for scheme to defraud the Bank of Arizona and the EXIM Bank***

Five individuals from three states were convicted for their role in a scheme to defraud the Bank of Arizona and the EXIM Bank. Stefano Guido Vitale, 40, of Scottsdale, Arizona, pleaded guilty on March 21, 2016, while Alan Leschyshyn, 53, of Cave Creek, Arizona; Bree Ann Davis, 40, of Lakewood, Colorado, and Tammie Roth Hanania, 59, and Edward Peter Hanania, 64, both of Folsom, California, all had previously entered their respective pleas. All were convicted of conspiring to engage in a scheme to defraud and conspiracy to commit money laundering. Vitale and Leschyshyn were also convicted of eight additional counts of wire fraud.

The scheme produced approximately \$6.4 million in fraudulently obtained proceeds, including \$1 million guaranteed by EXIM, which the defendants agreed to launder through various bank accounts. They executed the scheme to defraud by using and establishing various business entities to sell, at a discount, nonexistent commercial accounts receivable. The defendants would approach factoring companies as sellers of customized gaming vault bundles and present fabricated invoices as evidence the defendants were owed a certain amount of money for goods provided to another one of their business entities. This case was worked jointly with the IRS-Criminal Investigations and prosecuted by the U.S. Attorney's Office for the Southern District of Texas.

***Florida meat exporter pleads guilty***

In an example of EXIM OIG working cooperatively with state and local law enforcement officials, Carlos Dell Valle signed a plea agreement where he agreed to serve a year in the Miami-Dade County jail. Del Valle agreed to pay a \$754,220 restitution to the EXIM Bank beginning with an immediate cash payment of \$50,000 and an additional \$200,000 lump sum restitution.

Mr. Del Valle, through his company Lion Trading Corporation, falsely represented that he sold and shipped meat products to nine businesses in the Dominican Republic from November 17, 2011 through January 23, 2012. To facilitate his export business, Mr. Del Valle applied for and received a line of credit totaling \$750,000 from a Miami-based bank which specializes in international trade finance. The case was prosecuted by the Miami-Dade States Attorney's Office in Miami.

## Export-Import Bank Employee and 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 concluded in this semiannual period include:

We conducted an investigation into allegations of a conflict of interest between an EXIM manager and a contractor working for EXIM. The investigation substantiated that the manager maintained a personal relationship and cohabitated with a key employee of a company with an EXIM contract, and that the contractor employee had a financial interest in the company and was compensated based in part on the EXIM contract and work for EXIM. While maintaining this relationship, the manager continued to work regularly with the contractor employee and participated in matters related to the contract. The investigation also developed evidence that the manager executed false documents to support a mortgage application by the contractor employee, and did not disclose a personal bankruptcy while holding a security clearance as required. OI's findings were referred to the U.S. Department of Justice, which declined prosecution on January 10, 2017, in favor of administrative action. The matter has been referred to the EXIM Bank for administrative consideration and an agency decision is pending.

A Program Integrity investigation was conducted concerning an anonymous complainant who alleged that the EXIM Bank Leave Bank Board had not met in over a year but that the Office of Human Resources (HR) had been granting Leave Bank leave improperly. The Leave Bank is a voluntary program under which employees may donate unused accrued annual leave for use by another employee who is experiencing a personal or family medical emergency and has exhausted his or her available paid leave. In addition, the complainant alleged that several thousand hours of donated leave was missing from the current Leave Bank's balance. The investigation determined that no leave had been granted improperly but that several thousand hours of leave were not correctly accounted for due to staff turnover and improper record keeping. The OIG's findings led to EXIM Bank correcting the accounting for 2,797.45 hours in the Leave Bank's balance.

## 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 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. During this reporting period, OI made 65 referrals of investigative information to the Office of General Counsel (OGC) regarding users of EXIM programs for enhanced due diligence by EXIM Bank.

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

## 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, referral to other law enforcement authorities having jurisdiction, or referral to management for administrative action.

The OIG received 19 hotline reports during the reporting period. One was referred for investigations, 18 were resolved and closed by the hotline.

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 Bank 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 Bank management officials to determine potential obstacles to taking suspension and debarment action, and plans to overcome those obstacles.

Since the initiation of this program, 22 matters were referred for consideration to EXIM Bank suspension and debarment officials. Of the 22 matters, 11 resulted in suspensions or debarments, and the agency declined 11.

## 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 EXIM Bank federal employees on their responsibilities and how to spot indicators of fraud. During this reporting period, OI representatives conducted a briefing on common fraud scenarios and money laundering patterns with representatives from the HSBC Bank's Financial Crime Compliance group.

## 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.

The OIG participates in meetings with the International Association of Credit Portfolio Managers (IACPM), an international association established in 2001 to further the practice of credit exposure management. These meetings allow the OIG to discuss areas of interest in the field of credit portfolio management and to benchmark EXIM Bank's practices with other financial institutions including export credit agencies, multilateral development banks and global financial institutions.

## 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, OA representatives participated in the development of an Intermediate Auditor training course and guidance for implementing the OIG’s Computer Matching Act exemption for CIGIE. Furthermore, an OA representative chaired a working group tasked with developing cross-cutting project proposals 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 GAO and met with GAO officials to discuss ongoing and planned work. GAO did not issue any reports during the reporting period that specifically addressed EXIM Bank procedures or mission. EXIM Bank was mentioned in the following GAO report issued during the reporting period, but the Bank was not the primary focus of the audit.

### ***Financial Audit: Fiscal Years 2016 and 2015 Consolidated Financial Statements of the U.S. Government***

(GAO-17-283R; January 12, 2017)

<http://www.gao.gov/assets/690/682081.pdf>

## Peer Review Reporting

The EXIM Bank OIG Office of Audits is currently conducting a peer review of the audit function of the Government Publishing Office OIG which will be completed in the semiannual period ending September 30, 2017.

In March 2017, the EXIM Bank OIG Office of Investigations conducted a Quality Assessment Review of the Investigative Operations of the Special Inspector General for Afghanistan Reconstruction (SIGAR). The review found SIGAR to be in full compliance with the Quality Standards for Investigations and the Quality Assessment Review Guidelines established by CIGIE, and the Attorney General’s Guidelines for Office of Inspectors General.



# APPENDIX A

## Open Recommendations from Prior Reporting Periods

This table shows that 32 recommendations from 9 reports issued up to September 30, 2016 remain open at the end of this reporting period. 26 open recommendations are from reports issued in FY 2016. The remaining 6 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 No./ Date                 | Report Title  | Total | Recommendations |        |            | Latest Target Closure Date |
|----------------------------------|---|-------|-----------------|--------|------------|----------------------------|
|                                  |   |       | Open            | Closed | Unresolved |                            |
| Last Period (4/1/16 – 9/30/16)   |   |       |                 |        |            |                            |
| Audits                           |   |       |                 |        |            |                            |
| OIG-AR-16-07<br>28 Sept 2016     | Audit of the Examinations of Delegated Authority Lenders        | 12    | 10              | 2      | 0          | 9/30/17                    |
| OIG-EV-16-03<br>29 Sept 2016     | Evaluation of the Bank's Procurement of a Vehicle Lease         | 7     | 7*              | 0      | 0          | 9/30/17                    |
| Inspections and Evaluations      |   |       |                 |        |            |                            |
| OIG-EV-16-01<br>22 Dec 2015      | Follow-Up Report on Portfolio Risk and Loss Allocation Policies | 8     | 6               | 2      | 0          | 6/30/17                    |
| Prior Periods (prior to 3/31/16) |   |       |                 |        |            |                            |
| Audits                           |   |       |                 |        |            |                            |
| OIG-AR-16-05<br>30 Mar 2016      | Audit of EXIM Bank's Contracting Processes                      | 7     | 1               | 6      | 0          | 9/30/17                    |
| OIG-AR-15-07<br>28 Sept 2015     | Audit of EXIM Bank's Data Reliability                           | 4     | 2               | 2      | 0          | 6/30/17                    |
| Inspections and Evaluations      |   |       |                 |        |            |                            |
| OIG-INS-16-01<br>22 Dec 2015     | Report on Jabiru Satellite Ltd.                                 | 4     | 2               | 2      | 0          | 6/30/17                    |
| OIG-INS-15-02<br>28 Sept 2015    | Report on the Project Financing of Sasan Power Limited          | 6     | 1               | 5      | 0          | 6/30/17                    |
| OIG-INS-14-01<br>18 June 2014    | Report on PNG LNG Project Financing                             | 3     | 1               | 2      | 0          | 6/30/17                    |
| OIG-INS-13-01<br>30 Sept 2013    | Inspection Report on Minería y Metalúrgica del Boleo S.A.       | 7     | 2               | 5      | 0          | 6/30/17                    |
| Totals                           |   | 58    | 32              | 26     | 0          |                            |

\* One open recommendation from this report included \$84,956 of funds for better use.



# APPENDIX B

## Audit and Evaluation Reports Issued from October 1, 2016 – March 31, 2017

|               | Report No./Date             | Report Title  | Management Decisions Reached on Recommendation | Total Questioned Cost | Unsupported Cost | Funds for Better Use | Disallowed Cost |
|---------------|-----------------------------|---|--|-----------------------|------------------|----------------------|-----------------|
| 1             | OIG-AR-17-01<br>15 Nov 2016 | FY 2016 Financial Statement Audit   | 0/0  | 0                     | 0                | 0                    | 0               |
| 2             | OIG-AR-17-02<br>28 Nov 2016 | EXIM Bank's DATA Act Readiness Review                                       | 8/8  | 0                     | 0                | 0                    | 0               |
| 3             | OIG-AR-17-03<br>6 Mar 2017  | FY 2016 Financial Statement Audit Management Letter                         | 8/8  | 0                     | 0                | 0                    | 0               |
| 4             | OIG-AR-17-04<br>15 Mar 2017 | FY 2016 Information Security Program Audit                                  | 9/9  | 0                     | 0                | 0                    | 0               |
| 5             | OIG-EV-17-01<br>2 Dec 2016  | Evaluation of Risk Management Procedures and CRO Responsibilities           | 8/8  | 0                     | 0                | 0                    | 0               |
| 6             | OIG-EV-17-02<br>30 Mar 2017 | Activities in Preparation for and During EXIM Bank's Lapse in Authorization | 0/0  | 0                     | 0                | 0                    | 0               |
| 7             | OIG-EV-17-03<br>30 Mar 2017 | Evaluation of EXIM Bank's CGF Program                                       | 4/5  | \$5.1MM               | 0                | 0                    | 0               |
| <b>Totals</b> |                             |   |  | <b>\$5.1MM</b>        | <b>\$0</b>       | <b>\$0</b>           | <b>\$0</b>      |



## 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-15-07, Independent Auditor’s Report on the Export-Import Bank’s Data Reliability, September 28, 2015***

Recommendation 2: We recommend that the CFO, CBO and CRO conduct a comprehensive review using source documentation to determine whether the currently-recorded ERS data are accurate and supported, and make necessary corrections in the population for the following data fields: (a) disbursements and repayments; and (b) small business, woman-owned, and minority-owned amounts.

Expected implementation date: June 30, 2017

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

Recommendation 2: To strengthen compliance with Ex-Im Bank Policies and to enhance transparency in the financing of local cost goods and services, the OIG makes the following recommendations to Ex-Im Bank: (a) Reserve the right of inspection and audit of the borrower’s books and records in Ex-Im 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; and (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: June 30, 2017

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

Recommendation 5: OIG recommends that Ex-Im Bank evaluate its current fraud prevention practices for local costs, with a view to establishing a more robust and proactive approach. Ex-Im 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, Ex-Im 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, Ex-Im 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 Ex-Im Bank.

Expected implementation date: June 30, 2017

# APPENDIX D

## Open Recommendations

|  | Recommendation  | Status | Expected Implementation Date | Management Agree or Disagree | Questioned Cost | Funds for Better Use |
|--|---|--------|------------------------------|------------------------------|-----------------|----------------------|
| <b>Independent Auditor’s Report on the Export-Import Bank’s Data Reliability (OIG-AR-15-17, September 28, 2015)</b>  |   |        |                              |                              |                 |                      |
| 1  | We recommend that the CFO, CBO and CRO review Ex-Im Bank’s process for recording and reviewing the following data fields in ERS to determine how these specific errors occurred; correct the errors; and revise the process as appropriate: (a) Authorization, disbursement, and repayments; (b) Small business, woman-owned, and minority-owned amounts; and (c) Primary supplier. | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 2  | We recommend that the CFO, CBO and CRO conduct a comprehensive review using source documentation to determine whether the currently-recorded ERS data are accurate and supported, and make necessary corrections in the population for the following data fields: (a) disbursements and repayments; and (b) small business, woman-owned, and minority-owned amounts.                | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| <b>Audit of the Export-Import Bank’s Contracting Processes (OIG-AR-16-05, March 30, 2016)</b>  |   |        |                              |                              |                 |                      |
| 1  | Develop a comprehensive set of written policies and procedures for the Export Import Bank’s acquisition services to ensure contracts are administered and monitored in accordance with the FAR.   | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| <b>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)</b> |   |        |                              |                              |                 |                      |
| 1  | Ensure examiners thoroughly review the lender’s collateral examinations and fully assess and document the lenders’ responsibilities in any of the reported findings.  | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| 2  | Develop a mechanism for tracking the findings of lenders’ collateral examinations during DAL examinations.  | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| 3  | Develop mechanisms to track required corrective actions to address collateral examination findings and ensure the corrective actions are taken by both borrowers and Delegated Authority Lenders.   | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| 4  | Ensure resources are properly allocated in the BCD to accomplish the responsibilities of the division including the performance of quality and thorough DAL examinations.   | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| 5  | Establish a separate DAL Examination group in the BCD comprised of individuals who are solely examiners and are   | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |

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|   | Recommendation  | Status | Expected Implementation Date | Management Agree or Disagree | Questioned Cost | Funds for Better Use |
|---|---|--------|------------------------------|------------------------------|-----------------|----------------------|
|   | independent of the lender relation role of the BCD.   |        |                              |                              |                 |                      |
| 7   | Require a more in-depth review and documentation of lenders collateral examinations during DAL examinations.  | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| 8   | Require DAL examiners to determine whether significant waiver stipulations were followed.   | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| 10  | Revise the requirements for the number of BBCs and the supporting documentation required to be provided during a DAL examination to ensure a proper audit trail, enhance the thoroughness of DAL examinations and mitigate the risk of fraud.   | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| 11  | Require lenders to maintain BBCs for the entire life of the loan.   | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| 12  | Update its Master Guarantee Agreement, dated December 31, 2005 to ensure the policies are up to date and in line with current best practices and to address internal control deficiencies.  | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| Evaluation of Export-Import Bank's Procurement Process for a Vehicle Lease (OIG-EV-16-03, September 29, 2016) |   |        |                              |                              |                 |                      |
| 1   | To ensure \$84,956 of funds can be put better use, justify and document all future EXIM Bank vehicle leases in accordance with federal regulations.   | Open   | 9/30/2017                    | Agree                        | 0               | \$84,956.00          |
| 2   | For future vehicle leases, ensure different vehicle options are considered and the impact of any down payments or insurance costs is considered in the cost comparisons.  | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| 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.  | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| 4   | For future EXIM Bank vehicles, ensure utilization guidelines will be met or other utilization factors are documented and justified.   | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| 5   | Develop adequate policies and procedures for Government motor vehicles such as home-to-work policies and determinations, as well as logs to document when the vehicles are used (date and times), by whom, for what purpose, starting and ending locations, total mileage, fuel usage, and other relevant data. | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| 6   | For future EXIM Bank vehicle leases, ensure compliance with the Buy American Statute.   | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| 7   | Considering the potential contractor conduct issues presented in this report, assess the present responsibility and performance of the contractor and take appropriate administrative action regarding ongoing contracts and future contract options.   | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |

|   | Recommendation   | Status | Expected Implementation Date | Management Agree or Disagree | Questioned Cost | Funds for Better Use |
|---|--|--------|------------------------------|------------------------------|-----------------|----------------------|
| Fiscal Year 2016 Financial Statements Audit – Management Letter (OIG-AR-17-03, March 6, 2017) |  |        |                              |                              |                 |                      |
| 1   | Establish segregation of duties in the access privileges between developers and migrators of ETL and Dashboard report changes, or establish a documented detective control, in which the population of ERS tickets is cross-referenced to a source system outside of the system (e.g., the ERS Database for ETL changes and the Catalog Manager for Dashboard reports) to confirm that there have been no changes migrated into the production environment without a corresponding approved ticket.                        | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 2   | We recommend that, when EXIM Bank performs the Annual Access Review, EXIM Bank should consider not only users with access to the applications and database, but also the system and service accounts, including privileges associated with system accounts and users with access to system accounts in order to confirm the appropriateness of the access.   | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 3   | Generate a list of separated full time employees (FTEs) and contractors on a periodic/more frequent basis and send to system reviewers, such that the reviewers compare the list to the active users of their respective applications/layers to confirm that no separated users maintain active accounts.  | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 4   | Enhance the separation process for both FTEs and contractors by re-assessing the email notification component of the control such that appropriate system administrators and managers are included on the “Employee Separations” and “Contractor Separations” distribution lists and to require an email response back from the system administrator in a timely manner confirming receipt of the notification email and/or an email response letting the HR/Security office know that the user’s access has been removed. | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 5   | Updated policies and scripts used for implementing new databases and servers should be made readily available to all System Engineers and IT personnel responsible for maintaining and installing new appliances/servers so that the password settings for newly implemented databases/servers are in compliance.  | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 6   | Either amend the current Access Control Policy to include specific password requirements (e.g., password length, complexity, age, history, etc.) for each application and infrastructure layer or create a separate Access/Password Policy   | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |

|  | Recommendation   | Status | Expected Implementation Date | Management Agree or Disagree | Questioned Cost | Funds for Better Use |
|--|--|--------|------------------------------|------------------------------|-----------------|----------------------|
|  | for these layers so that requirements (and any approved exceptions to requirements) are documented and can be referenced and applied.  |        |                              |                              |                 |                      |
| 7  | Document a backup or ‘buddy’ system, as well as a Quality Assurance (QA) check, for the users who are primarily responsible for distributing the daily Security Report so that the report is documented, compiled, and sent out on a consistent frequency, or otherwise determine another method of documenting and communicating that the Security posture from the previous day has not changed. | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 8  | Meeting minutes are documented and stored for the periodic Security Meetings to document the monitoring and compliance of the security posture and vulnerabilities in a timely manner.   | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| Independent Audit of Export-Import Bank’s Information Security Program Effectiveness for Fiscal Year 2016 FISMA (OIG-AR-17-04, March 15, 2017) |  |        |                              |                              |                 |                      |
| 1  | We recommend that the EXIM Bank CIO (a) Perform an assessment of EXIM Bank’s current information security program to identify the cost-effective security measures required to achieve a fully mature program, and (b) Implement appropriate processes and procedures to improve the information security program and align it with Level 4: Managed and Measurable IG metrics.                    | Open   | 9/1/2017                     | Agree                        | 0               | 0                    |
| 2  | We recommend that the EXIM Bank CIO review and update all agreements with third-party service providers to ensure that the agreements specify how information security performance is measured, reported, and monitored.   | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 3  | We recommend that the EXIM Bank CIO (a) Continue with their remediation efforts, and (b) implement further procedures operating platforms.   | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 4  | We recommend that the EXIM Bank CIO (a) Document and implement baseline configuration settings for all information technology products deployed within the Bank, and (b) Document justifications or compensating controls for any deviations from established baseline configuration settings for each of the information technology products deployed within the Bank.                            | Open   | 8/1/2017                     | Agree                        | 0               | 0                    |

|   | Recommendation  | Status | Expected Implementation Date | Management Agree or Disagree | Questioned Cost | Funds for Better Use |
|---|---|--------|------------------------------|------------------------------|-----------------|----------------------|
| 5   | We recommend that the EXIM Bank CIO (a) Update their on-boarding process to separate the acknowledgement of the RoB from the security awareness training and require users to acknowledge and sign the RoB prior to obtaining network access, or improve their existing security training procedures to ensure that all personnel receive security training and sign the Bank's RoB agreement prior to obtaining access to the Bank's data; and (b) Implement procedures to formally track compliance with the updated process. | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 6   | We recommend that the EXIM Bank CIO (a) Identify and document a comprehensive list of all roles with information security responsibilities, and (b) Document and implement procedures to ensure that all of the identified roles receive annual role-based security training.   | Open   | 7/1/2017                     | Agree                        | 0               | 0                    |
| 7   | We recommend that the EXIM Bank CIO implement a review and update of information with frequency that is compliant with EXIM Bank's documented policies and procedures.  | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 8   | We recommend that the EXIM Bank CIO document and implement procedures to periodically review and disable APS accounts that have not been used for more than 90 days.  | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 9   | We recommend that the EXIM Bank CIO (a) Remove all instances of software that have not been properly licensed or authorized by the vendor, or make arrangements to purchase the current excess amount; and (b) Document and implement procedures to periodically review and reconcile the number of software licenses used for all software products to ensure that the Bank is in compliance with its vendor agreements.   | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| Report on Minera y Metalurgica del Boleo S.A. (OIG-INS-13-01, September 30, 2013) |   |        |                              |                              |                 |                      |
| 3   | Ex-Im Bank should establish a streamlined, automated electronic invoice submittal system with a client web portal that seamlessly provides input for loan disbursement and data tracking control, review and processing purposes, covering both local costs and U.S. exports.   | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 5   | OIG recommends that Ex-Im Bank evaluate its current fraud prevention practices for local costs, with a view to establishing a more robust and proactive approach. Ex-Im 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  | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |

| Recommendation   | Status | Expected Implementation Date | Management Agree or Disagree | Questioned Cost | Funds for Better Use |
|--|--------|------------------------------|------------------------------|-----------------|----------------------|
| <p>current representations from the Borrower, Ex-Im 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.</p> <p>Following the practice of various multilateral financial institutions, Ex-Im 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 Ex-Im Bank.</p>   |        |                              |                              |                 |                      |
| <p>Report on the PNG LNG Project Financing (OIG-INS-14-01, June 18, 2014)</p>  |        |                              |                              |                 |                      |
| <p>2 To strengthen compliance with Ex-Im Bank Policies and to enhance transparency in the financing of local cost goods and services, the OIG makes the following recommendations to Ex-Im Bank: (a) Reserve the right of inspection and audit of the borrower’s books and records in Ex-Im 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; and (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.</p> | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| <p>Report on the Project Financing of Sasan Power Limited (OIG-INS-15-02, September 28, 2015)</p>  |        |                              |                              |                 |                      |
| <p>1B In an effort to improve the accuracy of its financial modeling, the Bank should</p>  | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |

|   | Recommendation   | Status | Expected Implementation Date | Management Agree or Disagree | Questioned Cost | Funds for Better Use |
|---|--|--------|------------------------------|------------------------------|-----------------|----------------------|
|   | evaluate and account for foreign exchange risk and attendant costs during construction as well as operation. Further, the Bank should provide guidance on the formulation of assumptions for the financial model used in the credit and risk rating analysis and consider additional skill building in evaluating and modeling financial projections.  |        |                              |                              |                 |                      |
| Report on Jabiru Satellite Ltd. (OIG-INS-16-01, December 22, 2015)                                    |  |        |                              |                              |                 |                      |
| 1B  | Ex-Im Bank should complete a review of its financing policies and strategies in the satellite sector, including a risk review of its current exposure to the satellite industry, assessment of the implications of the JSL default, and dialogue with key satellite manufacturers to revisit current market practices regarding the lender's inability to establish a security interest in a satellite while it is under construction. | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 2B  | Ex-Im Bank should revise its policies to require a follow up analysis of the transaction risk rating and participant creditworthiness prior to financial closing when circumstances indicate a possible material change since the Board approval of the transaction such as: (i) indications of deterioration of the financial condition of key participants; and (ii) the obligor(s) failure to meet certain conditions precedent.    | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| Follow-Up Report on Portfolio Risk and Loss Reserve Allocation Policies (OIG-EV-16-01, July 28, 2016) |  |        |                              |                              |                 |                      |
| 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.   | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 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.  | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 4   | Engage an independent expert to evaluate the remaining models as part of phase three testing of the 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  | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |

|   | Recommendation  | Status | Expected Implementation Date | Management Agree or Disagree | Questioned Cost | Funds for Better Use |
|---|---|--------|------------------------------|------------------------------|-----------------|----------------------|
|   | project should be placed with individuals who are not responsible for development or use of the risk rating models.   |        |                              |                              |                 |                      |
| 5   | OIG recommends that Ex-Im Bank 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.   | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 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.   | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| 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.   | Open   | 6/30/2017                    | Agree                        | 0               | 0                    |
| Evaluation of Risk Management Procedures and Chief Risk Officer Responsibilities (OIG-EV-17-01, December 2, 2016) |   |        |                              |                              |                 |                      |
| 1   | To clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency, EXIM Bank should formally document the risk management roles, responsibilities and authority of its line of defense functions; clarify responsibilities and interaction between different senior management committees and divisions; identify the individuals and functions to be responsible for each; and address any gaps in those responsibilities. | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| 2   | EXIM Bank should review the Enterprise Risk Committee approval process to specify the authority and responsibility of the CRO over risk policies, procedures, and reports.  | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| 3   | EXIM Bank should review the alignment of the Bank's risk management activities consistent with the "three lines of defense" framework and ensure that responsibility for the first line of defense and second line of defense are separated.  | Open   | 9/30/2017                    | Agree                        | 0               | 0                    |
| 4   | EXIM Bank should assess whether the CRO   | Open   | 7/31/2017                    | Agree                        | 0               | 0                    |

|  | Recommendation   | Status     | Expected Implementation Date | Management Agree or Disagree | Questioned Cost | Funds for Better Use |
|--|--|------------|------------------------------|------------------------------|-----------------|----------------------|
|  | has sufficient staff, funding, and other resources to carry out the responsibilities assigned in the Act, and reassign resources or seek additional funding for the CRO as necessary.  |            |                              |                              |                 |                      |
| 5  | EXIM Bank should enhance its risk policy framework to further document the non credit risks that are identified in the Risk Appetite Statement.  | Open       | 11/30/2017                   | Agree                        | 0               | 0                    |
| 6  | The Bank should continue to improve its integrated risk management program by designing a comprehensive Risk Appetite Framework that provides an overarching process for defining risk appetite and establishing risk tolerance thresholds for its key risks.  | Open       | 03/31/2018                   | Agree                        | 0               | 0                    |
| 7  | The Bank should update its current Risk Appetite Statement and establish aggregate thresholds for each of its key risks in accordance with federal guidance.   | Open       | 12/31/2017                   | Agree                        | 0               | 0                    |
| 8  | To track the progress in developing the RAF, the Bank should develop a maturity model approach to assess each component of the RAF separately and in the aggregate, as recommended in the ERM Playbook.  | Open       | 11/30/2017                   | Agree                        | 0               | 0                    |
| Report on EXIM Bank's Credit Guarantee Facility Program (OIG-EV-17-03, March 30, 2017) |  |            |                              |                              |                 |                      |
| 1  | Review and update its policies for conducting credit file reviews to ensure completeness and integrity of the credit files and that evidence of the review is documented.  | Open       | TBD                          | Agree                        | 0               | 0                    |
| 2  | Develop, document and implement policies and procedures for reviews of disbursements (e.g., spot-checks and scheduled reviews) to proactively monitor compliance, identify noncompliance, and assist with reducing noncompliance with Bank requirements in a timely manner. This would include evaluating the \$250 million threshold set by the Bank to initiate a review of disbursements under the CGF program. | Open       | TBD                          | Agree                        | 0               | 0                    |
| 3  | Require the Guaranteed Lenders of the CFE CGF and the OCP CGF to address the \$3.6 million in goods and the \$1.5 million in progress payments for services that were not eligible for financing, respectively, and were guaranteed by the Bank (e.g., identifying and providing eligible invoices as a substitute).   | Unresolved | TBD                          | Disagree                     | \$5,129,244.53  | 0                    |
| 4  | With respect to amendments to the terms and conditions of transactions previously approved by the Board: (i) enhance policies and procedures for CGFs to ensure the adequacy and consistency of the Bank's due diligence (e.g., Iran sanctions due diligence) in consideration of those  | Open       | TBD                          | Agree                        | 0               | 0                    |

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| Recommendation   | Status | Expected Implementation Date | Management Agree or Disagree | Questioned Cost | Funds for Better Use |
|--|--------|------------------------------|------------------------------|-----------------|----------------------|
| <p>amendments; and (ii) in accordance with the Bank’s Individual Delegated Authority policy, develop an internal process to assess the level of materiality of proposed amendments and to discern the need to revert back to the Board for approval. Such a process should involve a deliberative body such as the Transaction Review Committee.</p>   |        |                              |                              |                 |                      |
| <p>5 Review and update the reachback policy for the CGF program to be consistent with actual practice and reduce the need for waivers. In reviewing and updating the reachback policy, the Bank should analyze the case-by-case determination of a reachback relative to the average policy date (i.e., operative date); consider establishing limits on the utilization of the facility for reachback transactions; set requirements for communicating analysis of reachback issues to decision makers including the Board; and establish procedures for consideration of waivers to the policy. This would include documenting the supporting evidence in the credit file.</p> | Open   | TBD                          | Agree                        | 0               | 0                    |
| <b>Totals</b>  |        |                              |                              | \$5,129,244.53  | \$ 84,956.00         |

# APPENDIX E

## Inspector General Act Reporting Requirements

| Inspector General Act Citation | Requirement Definition   | Page           |
|--------------------------------|--|----------------|
| Section 5(a)(1)                | Significant Problems, Abuses, and Deficiencies   | 5-8            |
| Section 5(a)(2)                | Recommendations for Corrective Actions   | 10-15<br>18-24 |
| Section 5(a)(3)                | Prior Significant Audit Recommendations Yet to Be Implemented  | 39-40          |
| Section 5(a)(4)                | Matters Referred to Prosecutive Authorities  | 27             |
| 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  | 37             |
| Section 5(a)(7)                | Summary of Particularly Significant Reports  | 5-8            |
| Section 5(a)(8)                | Total Number of Reports and Total Dollar Value for Audits with Questioned Costs  | 35-37<br>41-50 |
| Section 5(a)(9)                | Total Number of Reports and Total Dollar Value for Audits with Recommendations that Funds Be Put to Better Use   | 35-37<br>41-50 |
| Section 5(a)(10)(A) – (C)      | Summary of Prior Audit Products for which No Management Decision Has Been Made, No Comment was Returned Within 60 Days, Recommendation Exists Regarding Aggregate Cost Savings                   | 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           |
| Section 5(a)(17)(A) – (D)      | Total Investigative Report, Referred to the DOJ, Number of Persons Referred to State and Local Authorities, Total Indictments, etc. that Resulted from Prior Referral to Prosecuting Authorities | 27-30          |
| Section 5(a)(18)               | Used for Developing Data for Statistical Tables  | 27             |
| Section 5(a)(19)(A) – (B)      | Senior Government Employee Substantiated Misconduct, Facts, Disposition  | 29             |
| Section 5(a)(20)               | Whistleblower Retaliation  | None           |
| Section 5(a)(21)(A) – (B)      | Interfered with OIG Independence Through Withholding Budget or Causing Delay   | 20-22          |
| Section 5(a)(22)(A) – (B)      | Report Closed but Not Disclosed to the Public  | 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, D.C. 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, D.C. 20571

### E-mail

[IGHotline@exim.gov](mailto:IGHotline@exim.gov)

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

**Telephone 202-565-3908  
Facsimile 202-565-3988**

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