OFFICE OF INSPECTOR GENERAL
EXPORT-IMPORT BANK
of the UNITED STATES

FISCAL YEAR 2010
FINANCIAL STATEMENT AUDIT –
MANAGEMENT LETTER EXCERPT

January 6, 2011
OIG-AR-11-03E
January 6, 2011

This report presents a summary of certain matters that were identified by Deloitte & Touche LLP (Deloitte) in connection with their audit of the financial statements of the Export-Import Bank of the United States (Ex-Im Bank) as of and for the year ended September 30, 2010, on which Deloitte issued their report dated November 12, 2010. These findings and recommendations were communicated to Ex-Im Bank management in a letter dated January 4, 2011. Due to the limited distribution of the 2010 Management Letter, the Ex-Im Bank Office of Inspector General does not include it here.

We engaged Deloitte to perform the FY 2010 audit under a contract monitored by this office. The contract required the audit to be conducted in accordance with: United States generally accepted government auditing standards; Office of Management and Budget audit guidance; and the Government Accountability Office/President’s Council on Integrity and Efficiency Financial Audit Manual.

Deloitte issued an unqualified opinion on Ex-Im Bank’s FY 2010 financial statements. Also, Deloitte and Touche reported a significant deficiency in Ex-Im Bank’s internal control over financial reporting and no reportable noncompliance with laws and regulations were found. In addition, Deloitte & Touche noted control deficiencies related to Ex-Im Bank’s internal control over financial reporting and other matters that Deloitte determined should be brought to management’s attention. Deloitte’s observations are summarized in this report, and Deloitte’s recommendations and management’s responses regarding such matters are included.

Deloitte is responsible for the observations and recommendations appearing in the 2010 Management Letter. We do not express an opinion on Ex-Im Bank’s internal controls or conclusions regarding its compliance with laws and regulations.

Jean Smith
Assistant Inspector General for Audit
I. CONTROL DEFICIENCIES

1. Subsidy Re-Estimate Calculation

Deloitte noted that the interest rate assumption for medium term guarantees was not updated. In addition, certain rows in the cash flow worksheet related to some cohorts used for the subsidy re-estimate were not updated and errors were noted in the data entered into the file related to 2010 disbursements CSC2 Input File.

Recommendation 1
The Office of the Treasurer should have at least two competent individuals to perform a detailed review of the data input into the automated cash flow process to ensure that the risk of human errors in the manual aspect of the subsidy re-estimate process is minimized.

Management Response
Management agrees with the recommendation. The Treasurer and the head of the budget and reports section will perform a detailed review of the data input into the automated cash flow. Both individuals have significant experience with the re-estimate and as such are appropriate reviewers.

2. Risk Rating Process

Deloitte noted the risk ratings for sovereign claims had not been updated. Deloitte also noted there were errors in certain financial data used in the risk rating process and the risk rating of a rescheduled loan had not been updated.

Recommendation 2
The Office of the Controller should identify the appropriate department to risk rate the sovereign claims portfolio. Also, a more detailed review of the monitored credits risk rating should be performed by the appropriate individuals to minimize human errors.

Management Response
Management agrees with the audit recommendation related to the Risk Rating Process. In response to the Risk Rating findings, a Reserve Coordinator has been named to review not only Ex-Im’s Risk Rating process but the entire Reserve process. The Reserve Coordinator will reach out to all parties involved, identify, understand and assess the current Reserve process as well as develop written documentation, by June 2011, on standard procedures and internal controls.
II. OTHER MATTERS

1. Accounting for Expired Transactions (Repeat Condition)

Deloitte noted that expired insurances and working capital guarantees over 120 and 180 days, respectively were not removed from the accounting system as of September 30, 2010. Therefore, Ex-Im’s total portfolio exposure was overstated. As a result, loss reserves were also overstated as Ex-Im uses the exposure amount to calculate loss reserves.

Recommendation 3
Office of the Controller should coordinate with the Information Management and Technology (IMT) Office to correct the code to ensure the expired contracts are properly removed from the Loan/Guarantee and Accounting system in accordance with management’s policy.

Management Response
Management agrees with the audit recommendation related to the Accounting for Expired Transactions. IMT had taken the appropriate steps to correct the issue in October 2009; however, during the Ex-Im Online interface conversion, the issue resurfaced. It was fixed again in October 2010. The Office of the Controller will test the issue again after the 3rd quarter to ensure the process is still working correctly.