



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

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

May 13, 2016
OIG-AR-16-06



EXPORT-IMPORT BANK
of the UNITED STATES

INSPECTOR GENERAL

To: David Sena, Senior Vice President and Chief Financial Officer

From: Terry Settle *TLS*
Assistant Inspector General for Audits

Subject: Independent Auditor's Report on Export-Import Bank's Compliance
with the Improper Payments Laws for FY 2015 Reporting

Date: May 13, 2016

This memorandum transmits the Independent Auditor's Report on the Export-Import Bank's Compliance with the Improper Payments Laws for FY 2015 Reporting. We engaged the independent public accounting firm of CliftonLarsonAllen LLP (CLA) to perform the performance audit under a contract monitored by this office. The objective of the audit was to determine whether the Export-Import Bank ("Ex-Im Bank") was in compliance with the reporting requirements of the improper payments laws for the fiscal year (FY) 2015 reporting. In addition, we assessed the accuracy and completeness of Ex-Im Bank's improper payments reporting, implementation of prior year audit recommendations, and efforts to reduce and recover improper payments.

CLA determined Ex-Im Bank fully complied with all six reporting requirements of the improper payment laws, as stipulated in the Office of Management and Budget (OMB) guidance. While Ex-Im Bank was found to be compliant, CLA recommended that the Bank continue to improve its external reporting of improper payments processes and results to more clearly address the requirements of OMB. The report contains four recommendations and management concurred with all four recommendations. We consider management's proposed actions to be responsive and the recommendations will be closed upon completion and verification of the proposed actions.

We appreciate the cooperation and courtesies provided to CLA and this office during the audit. If you have questions, please contact me at (202) 565-3498 or terry.settle@exim.gov. You can obtain additional information about the Export-Import Bank Office of Inspector General and the Inspector General Act of 1978 at www.exim.gov/oig.

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

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

ACRONYMS

AFR	Agency Financial Report
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CRTI	Character, Reputational, and Transaction Integrity
FY	Fiscal Year
GAO	Government Accountability Office
GSA	General Services Administration
IPERA	Improper Payments Elimination and Recovery Act of 2010, as amended
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002, as amended
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
U.S.	United States

Executive Summary

Independent Auditor's Report on Export-Import Bank's Compliance with the Improper Payments Laws for FY 2015 Reporting

OIG-AR-16-06
May, 13 2016

Why We Did This Audit

Improper payments are payments made in the wrong amount, to the wrong entity, or for the wrong reason. They can result from processing errors, a lack of information, or fraud. In accordance with the Improper Payments Information Act of 2002 (IPIA), as amended; the Improper Payments Elimination and Recovery Act of 2010 (IPERA), as amended; and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) (herein after referred to collectively as the "improper payments laws") each agency's Inspector General is required to perform an annual review of the agency's compliance with improper payments legislation. The audit objective was to determine whether the Export-Import Bank was in compliance with the improper payments laws for FY 2015 reporting, as stipulated in the Office of Management and Budget (OMB) guidance. In addition, we assessed the accuracy and completeness of the Export-Import Bank's improper payments reporting, implementation of prior year audit recommendations, and efforts to reduce and recover improper payments.

What We Recommended

We recommended the Export-Import Bank ensure: (1) the presentation of the of the improper payments discussion in the Annual Report be revised to fully conform to the OMB guidance provided in the OMB Circular No. A-136, *Financial Reporting Requirements*, as revised, and OMB Circular No. A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, as revised; (2) *Ex-Im Bank's Improper Payments Review-Policies and Procedures* align with OMB requirements and thoroughly and accurately cover the full breadth of OMB requirements; (3) guidance for completing the *Improper Payments Risk Assessment Questionnaire* be enhanced; and (4) thorough, accurate, and consistent supporting documentation be maintained to properly inform the decision making process.

What We Found

The Office of Inspector General (OIG) found the Export-Import Bank of the United States ("Ex-Im Bank" or "the Bank") fully complied with the Improper Payments Information Act of 2002 (IPIA), as amended; the Improper Payments Elimination and Recovery Act of 2010 (IPERA), as amended; and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) (herein after referred to collectively as the "improper payments laws") for fiscal year (FY) 2015 reporting. The Bank met all six reporting requirements of the improper payments laws as stipulated in the Office of Management and Budget (OMB) guidance.

The Bank determined it was not susceptible to significant improper payments and therefore, it was not required to prepare or report statistical estimates of improper payments for each program. The process developed by the Bank for assessing improper payments risk in FY 2015 marked a significant improvement over FY 2014 and the Bank implemented two of the three recommendations issued during the prior year improper payments audit.

However, we found that Ex-Im Bank's Annual Report should include more detailed reporting on improper payments by including a discussion on (1) why recapture audits were not conducted, (2) all required elements for risk assessment, (3) the Do Not Pay Initiative, and (4) the Bank's reporting time period for improper payments. We also found that Ex-Im Bank should strengthen policies and procedures related to improper payments and the related supporting documentation. Specifically, we found that Ex-Im Bank's policies and procedures did not fully align with OMB requirements and did not fully reflect the process followed in FY 2015. We also found that the documentation supporting the risk assessment questionnaires was inconsistent, the sampling methodology and rationale was not adequately documented, and the review of prior audit reports was not properly documented.

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

Table of Contents

Introduction1

Background1

Results: Ex-Im Bank Fully Complied with Improper Payments Laws for FY 2015 Reporting ...5

Finding 1: Ex-Im Bank’s Annual Report Should Include More Detailed Reporting on Improper Payments..... 6

Finding 2: Ex-Im Bank Should Strengthen Policies and Procedures Related to Improper Payments and the Related Supporting Documentation 9

Recommendations, Management Comments and OIG Response.....13

Appendix I: Scope and Methodology.....17

Appendix II: Management Comments.....20

Introduction

This report presents the results of our audit of Export-Import Bank of the United States' ("Ex-Im Bank" or "the Bank") compliance with the Improper Payments Information Act of 2002 (IPIA), as amended; the Improper Payments Elimination and Recovery Act of 2010 (IPERA), as amended; and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) (herein after referred to collectively as the "improper payments laws"). The objective of this audit was to determine whether the Bank was in compliance with the reporting requirements of the improper payments laws for fiscal year (FY) 2015 reporting. In addition, we assessed the accuracy and completeness of Ex-Im Bank's improper payment reporting, implementation of prior year audit recommendations, and efforts to reduce and recover improper payments. To address our objective, we reviewed the Office of the Chief Financial Officer's (OCFO) policies and procedures for implementing the improper payments laws, which required the Bank to assess FY 2014 transactions for the FY 2015 reporting period. We also interviewed Bank officials responsible for completing the Bank's improper payment risk assessment procedures and analyzed the supporting documents. For more details on the audit scope and methodology see Appendix I.

We conducted this performance audit from February 2016 through April 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions.

Background

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). Congress amended IPIA by enacting the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) and required the Office of Management and Budget (OMB) to prescribe guidance to implement their requirements. The improper payments laws require agencies to annually review all their programs and activities and identify those susceptible to significant improper payments. Agencies must report in their annual Performance and Accountability Report (PAR) or Agency Financial Report (AFR) (herein after also referred to as the "Annual Report") their estimates of significant improper payments for programs and activities determined to be at risk and actions to reduce them. According to OMB's interpretation, the improper payments laws require agencies to examine "the risk of, and feasibility of, recapturing improper payments in all programs and activities" that are recognized as programs by the public, OMB, or Congress, and those that entail program management or policy direction. In addition, Inspectors General are required to determine whether their respective agencies are compliant with the improper payments laws and may also evaluate the accuracy and completeness of agency reporting and performance in reducing and recapturing improper payments.

Ex-Im Bank Programs and Activities

Ex-Im Bank is an independent executive agency and a wholly-owned United States. (U.S.) government corporation. Ex-Im Bank is the official export-credit agency of the U.S. and offers export financing through four main programs:

- *Direct Loans* – These loans are underwritten and approved by Ex-Im Bank and disbursed directly to foreign buyers of U.S. goods and services.
- *Loan Guarantees* – These guarantees are underwritten and approved by Ex-Im Bank or delegated authority lenders and cover the repayment risk on the foreign buyer's debt obligations incurred in the purchase of U.S. exports. In the event of a payment default by the borrower (the foreign buyer), a claim may be submitted for payment of the guaranteed amount.
- *Working Capital Guarantees* – These working capital guarantees are underwritten and approved by Ex-Im Bank or delegated authority lenders and provide repayment guarantees to lenders on secured, short-term working capital loans made to qualified exporters. In the event of a payment default by the borrower (the U.S. exporter), a claim may be submitted by the guaranteed lender for payment of the guaranteed amount.
- *Export Credit Insurance* – These insurance policies are underwritten and approved by Ex-Im Bank and cover U.S. exporters that sell their goods overseas or to a financial institution that is offering either the foreign buyer or the U.S. exporter credits. The insured party named on the policy may submit a claim in the event of a payment default by the foreign buyer.

As of September 30, 2014, Ex-Im Bank had a total credit exposure of \$112 billion, 71 percent of which was comprised of guarantees, insurance, and working capital transactions, with direct loans representing the remaining 29 percent. During FY 2014, Ex-Im Bank authorized \$18.5 billion in guarantees and insurance and \$1.9 billion for direct loans.

OMB Guidance

The OMB is responsible for issuing guidance to agencies for implementing the requirements of the improper payments laws. The implementing guidance found in OMB Circular No. A-123, Appendix C was modified on October 20, 2014¹ to transform the improper payment compliance framework to create a more unified and comprehensive set of requirements. The revised guidance applicable to Ex-Im Bank's improper payment assessment was effective for the FY 2014 and FY 2015 reporting periods. The guidance requires federal agencies to complete the following steps to comply with the improper payments laws:

¹ OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* (M-15-02, October 2014).

- Step 1: Review all programs and activities and identify those that are susceptible to significant improper payments.²
- Step 2: Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities that are identified in Step 1 as susceptible to significant improper payments.
- Step 3: Implement a plan to reduce improper payments.
- Step 4: Report an estimate of the annual amount and rate of improper payments for all programs and activities determined to be susceptible to significant improper payments in the AFR or PAR.

Improper Payments Review and Reporting by Ex-Im Bank in the Prior Year (FY 2014)

In FY 2014, the Bank assessed the risk of improper administrative payments, claim payments and loan disbursements to be low due to the internal controls in place, the nature of the disbursements, and the results of the internal risk assessment questionnaires. As a result, the Bank determined it was not susceptible to significant improper payments and, in accordance with the guidance, did not prepare or report valid statistical estimates of improper payments for any of those programs.

However, during the FY 2014 improper payments audit, we found that claim payments for fraudulent transactions or noncompliant transactions with unconditional guarantees and transactions with inappropriate underwriting and approval decisions were omitted from the risk assessment process. Therefore, we reported that the Bank was noncompliant in FY 2014 with the requirement for conducting a program-specific risk assessment for each program or activity and provided three recommendations for enhancing and improving the risk assessment process as follows. We recommended that the OCFO ensure:

1. *Ex-Im Bank's Process and Procedures for Improper Payments* align with OMB requirements, including:
 - a) Incorporating the underwriting and approval of Ex-Im Bank transactions into the risk assessment process to determine if these areas are susceptible to significant improper payments,
 - b) Incorporating estimates of claim payments for fraudulent or noncompliant transactions in the risk assessment process, and
 - c) Developing improper payment estimates, corrective action plans, and annual reduction targets in accordance with IPERA guidelines, if a determination is made that authorizations and/or claim payments are susceptible to significant improper payments.

² "Significant improper payments" are defined as gross annual improper payments (i.e., the total amount of overpayments and underpayments) in the program exceeding (1) both 1.5 percent of program outlays and \$10,000,000 of all program or activity payments made during the fiscal year reported or (2) \$100,000,000 (regardless of the improper payment percentage of total program outlays).

2. The *Improper Payments Risk Assessment Questionnaire* adequately address each program or activity at risk for improper payments by addressing the nine required risk factors plus any risk factors that are specific to the program, and that the questionnaire responses be documented to support the Bank's risk determination.
3. The *Improper Payments Risk Assessment Document* be reviewed and approved by management prior to the issuance of the Annual Report, and a copy of the review and approval be maintained.

In FY 2015, Ex-Im Bank implemented recommendations No. 2 and No. 3 and made progress toward recommendation No. 1 above. This is further discussed below in the Results section.

Ex-Im Bank's Improper Payments Review Process for FY 2015

For its FY 2015 reporting, the Bank committed to (1) having more stakeholders involved with the risk assessment questionnaire, including underwriting management; (2) assessing underwriting authorizations as part of the risk assessment process and testing of sample authorizations to identify any improper guarantee, loan, and insurance authorizations; and (3) reviewing insurance and guarantee claim payments, including those for unconditional guarantees deemed fraudulent that will be provided by the OIG.

For FY 2015 improper payments assessment and reporting purposes, the Bank characterized its program activities as short term authorizations, medium term authorizations, long term authorizations, and cash disbursements. For each of these activities and major programs, the Bank used quantitative and qualitative methodologies to assess the risk of improper payments. The Bank used *Improper Payments Risk Assessment Questionnaires* for each program as the central tool for the qualitative assessment. The *Improper Payments Risk Assessment Questionnaire* used in FY 2015 was enhanced to include the nine qualitative risk factors that agencies, at a minimum, must consider in their risk assessment based on the OMB guidance. For the quantitative review, the Bank tested a sample of transactions to determine whether the transaction documentation complied with the credit standards in each program. Otherwise, the authorization would be considered to be an improper payment. Further, the Bank estimated its claim payments on fraudulent insurance and guarantee authorizations and determined that the estimate did not meet OMB's thresholds for considering the programs as susceptible to improper payments. The evaluation process performed by the Bank was documented in the *Improper Payments Risk Assessment Document*, which was prepared, reviewed, and approved by management prior to the issuance of the Annual Report. The process followed in the current year marks a significant improvement over FY 2014.

Based on the results of the FY 2015 evaluation, the Bank determined that its programs are not susceptible to significant improper payments as defined by OMB and, therefore, it was not required to report statistical estimates of improper payments for its programs.

Results: Ex-Im Bank Fully Complied with Improper Payments Laws for FY 2015 Reporting

Ex-Im Bank fully complied with all six reporting requirements of the improper payments laws as stipulated in OMB Circular No. A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, revised³. OMB provides specific guidance on what each agency Inspector General should review to determine if an agency is compliant with the improper payments laws. Table 1 summarizes these six requirements and the results of our review of Ex-Im Bank’s compliance.

Table 1. Summary of Ex-Im Bank’s Compliance with Improper Payments Requirements

OMB Improper Payments Requirement <i>Did the agency...</i>	Yes, No or Not Required
Publish an AFR or PAR for the most recent fiscal year and post that report and any accompanying materials required by OMB on the agency website?	Yes ⁴
Conduct a program-specific risk assessment for each program or activity?	Yes
Publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments as required?	Not required based on the Ex-Im Bank’s risk assessment for FY 2015.
Publish programmatic corrective action plans in the PAR or AFR as required?	Not required based on the Ex-Im Bank’s risk assessment for FY 2015.
Publish and met annual reduction targets for each program assessed to be at risk and measured for improper payments?	Not required based on the Ex-Im Bank’s risk assessment for FY 2015.
Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR?	Not required based on the Ex-Im Bank’s risk assessment for FY 2015.

While the Ex-Im Bank is compliant with these requirements, we recommend that the Bank continue to improve its external reporting of improper payments processes and results to more clearly address the requirements of OMB Circular No. A-136, *Financial Reporting Requirements*, as revised (OMB Circular No. A-136), and OMB Circular No. A-123, Appendix C. In addition, while the Ex-Im Bank implemented two of the three recommendations from the prior year improper payments audit report and took steps to address the third recommendation, it has not been fully implemented. Therefore, we continue to recommend that improvements be made to the Bank’s policies and procedures for improper payments and the related supporting documentation. We made additional recommendations that will help the Bank more clearly comply with the improper payments requirements.

³ With OMB’s approval, Ex-Im Bank performs its improper payments assessment one year in arrears, meaning the analysis for FY 2014 is performed in FY 2015 and reported in Ex-Im Bank’s 2015 Annual Report.

⁴ <http://www.exim.gov/about/library/reports/annualreports/2015/>.

Finding 1: Ex-Im Bank's Annual Report Should Include More Detailed Reporting on Improper Payments

We reviewed the presentation of the improper payments reporting in the FY 2015 Ex-Im Bank's Annual Report and determined that it could more clearly meet the reporting requirements delineated in the authoritative guidance by including a discussion on (1) why recapture audits were not conducted, (2) all required elements for risk assessment, (3) the Do Not Pay Initiative, and (4) the Bank's reporting time period for improper payments.

Recapture Audits Were Not Discussed in the FY 2015 Annual Report

In FY 2012, the Bank prepared a justification for why it would not conduct recapture audits and communicated that decision to the OMB and the OIG. Going forward, Bank personnel assumed that they did not have to discuss recapture audits in the Annual Report, unless there was a change in the Bank's determination that its programs are not susceptible to significant improper payments. As such, Ex-Im Bank did not report in its FY 2015 Annual Report the following information regarding recapture audits, which is required based on the OMB Circular No. A-136 and OMB Circular No. A-123, Appendix C:

1. List all of the programs and activities where it has been determined that conducting a payment recapture audit program would not be cost-effective (whether the determination occurred in the current year or in a prior year),
2. Indicate when OMB was notified (month and year) that it was not cost effective to conduct a payment recapture audit and the program would be excluded from a payment recapture audit program, and
3. Provide the justification and a summary of the analysis that is used to determine that conducting a payment recapture audit program for the program or activity was not cost effective (i.e., a discussion of the analysis conducted to determine that a payment recapture audit program would not be cost-effective).

We obtained and reviewed the Bank's FY 2015 determination regarding why payment recapture audits would not be cost effective and concurred with the Bank's determination. In future years, the Bank should ensure it includes the necessary information in its Annual Report.

The Risk Assessment Discussion in the FY 2015 Annual Report is Not Complete

The risk assessment discussion included in the FY2015 Annual Report lacks the required elements listed below:

1. Payments to employees including: salary, locality pay, travel pay, purchase card use, and other employee payments were aggregated with others and were not properly acknowledged in the risk assessment discussion. These are required to be covered separately according to OMB Circular No. A-123, Appendix C. Ex-Im Bank personnel included payments to employees within the cash disbursements category in the *Improper Payments Risk Assessment Document* and maintained that they are assessed as part of the

Improper Payments Risk Assessment Questionnaire – Administrative Payments. This questionnaire covers payments made based on Inter-Agency agreements with other federal agencies or awarded contracts, but does not specifically discuss payments to employees. The Ex-Im Bank has outsourced its payroll processing function to the General Services Administration (GSA). According to OMB Circular No. A-123, Appendix C, for improper payment reporting purposes, when a shared service provider is responsible for the actual disbursements of payments to employees on behalf of a customer agency, the customer agency and shared service provider should assess only the portions of the process that are within their respective control. As Ex-Im Bank payments to employees exceed \$57 million, they should be specifically acknowledged and analyzed within the Cash Disbursements – Administrative Payments category for susceptibility to improper payments. We independently assessed the risk of improper payments related to payments to employees and concluded that it was low. To reach this conclusion, we reviewed the Bank’s policies and procedures over the payroll cycle, which include its control activities over the complimentary user entity controls delineated in GSA’s Statement of Standards on Attestation Engagements No. 16 audit report.

2. The FY 2015 Annual Report’s improper payments discussion makes mention of, but does not describe each of the nine minimum risk factors as required in OMB Circular No. A-123, Appendix C that were examined during the risk assessment process.
3. Any changes to the risk assessment methodology or results that occurred since the FY 2014 Annual Report were not highlighted in the FY 2015 improper payments discussion. While the risk assessment discussion mentioned that the Bank implemented the OIG recommendations from the FY 2014 improper payments audit, it did not provide a brief overview of the changes to the methodology that occurred in FY 2015 as required by OMB Circular No. A-123, Appendix C.

The Do Not Pay Initiative Was Not Discussed in the FY 2015 Annual Report

In FY 2012, the Bank communicated to OMB that, based on the internal controls in place to detect and prevent improper payments, the low levels of its improper payments experience, its record of recovering improper payments, and the unique nature of its international disbursements, the Ex-Im Bank believed that enrolling in the Do Not Pay solution and piloting the Fast Track solution did not provide any additional benefit over the procedures already in place at the Ex-Im Bank. Therefore, Ex-Im Bank concluded that it will not implement these solutions and reported that conclusion to OMB.

Consequently, Ex-Im Bank did not report in its FY 2015 Annual Report the following information regarding the Do Not Pay Initiative, which is required to be reported annually based on the OMB Circular No. A-136, regardless of the agency’s susceptibility to improper payments:

1. How the agency has incorporated the IPERIA listed Do Not Pay databases into existing business processes and programs or how and when the agency plans to begin using the databases, as appropriate.

2. How the agency has incorporated databases not listed in IPERIA into existing business processes and programs to prevent improper payments.
3. Any process improvements attributable to the Do Not Pay Initiative for the previous year, as appropriate.
4. A thoughtful analysis linking agency efforts in establishing internal controls and reducing improper payment rates to the Do Not Pay Initiative, as appropriate.
5. A table reflecting the dollar amounts and the number of payments reviewed for improper payments between October 1 through September 30.

For reporting purposes, the kind of data in question would include:

1. *Payments reviewed for improper payments*: all payments screened by Do Not Pay databases or other internal databases, as appropriate, that are disbursed by, or on behalf of, the agency.
2. *Payments stopped*: payments that were intercepted or were not disbursed due to the Do Not Pay Initiative.
3. *Payments requiring further review and determined to be accurate (i.e. false positives)*: payments that were reviewed by the agency as a result of Do Not Pay databases or other internal databases, and later identified as proper.

In reviewing the Ex-Im Bank's information and processes related to the Do Not Pay Initiative, we concluded that the Bank complied with the intent of the Do Not Pay Initiative. Even in its FY 2012 communication to OMB, the Bank acknowledged that, in order to avoid fraudulent and improper payments related to administrative expenses, it relied on a series of preventive controls at the pre-award stage of a contract, which included checks of some of the databases listed in the Do Not Pay Initiative, such as the Excluded Parties List System and the List of Excluded Individuals and Entities. With respect to its credit programs, one of the requirements in the credit approval due diligence process consisted of becoming familiar with the parties involved in the transaction, including payment beneficiaries. As part of the Character, Reputational, and Transaction Integrity (CRTI) review, the Bank checked over 20 different watch lists by using a solution developed by Thompson Reuters called World-Check. There was some overlap between the portals used by World-Check and the Do Not Pay Initiative. However, the Bank had determined the World Check solution to be better suited to the international nature of its business, as it checked both national and international databases. The Bank has deemed the portals listed in the Do Not Pay Initiative to not be meaningful or significant to its business model.

Both the Government Accountability Office (GAO) and OIG have reviewed the Bank's due diligence procedures, including the CRTI process, and have provided the Bank with recommendations. The OIG recommendations have been addressed. However, in its report No. GAO-15-557, *Status of Actions to Address GAO Recommendations since the Bank's 2012 Reauthorization*, dated April 15, 2015, GAO reported that the Ex-Im Bank had not yet addressed the following recommendation from report No. GAO-14-574, dated September 2014, which has implications for the Do Not Pay Initiative:

“Update the [CRTI] review process to include the search of databases to help identify transaction applicants with delinquent federal debt that would then not be eligible for loan guarantees.”

During our audit, we obtained evidence that the Bank has evaluated its databases and has reviewed and revised its CRTI process. The revised CRTI process was presented to and approved by the Enterprise Risk Committee on December 16, 2014. In addition, as recommended by GAO, the Bank revised its *Loan, Guarantee, and Insurance Manual* to enhance its use of credit reports to check for federal debt by U.S. participants. According to Bank management, the Ex-Im Bank is working with GAO to close the recommendation above.

The Reporting Time Period for Improper Payments Was Not Discussed in the FY 2015 Annual Report

Ex-Im Bank did not clarify in its FY 2015 Annual Report the following information related to improper payments, which would help provide the reader with the appropriate perspective, in accordance with OMB Circular No. A-136 requirements, when reporting does not meet established conventions:

1. The fact that the FY 2015 Annual Report covers FY 2014 improper payments.
2. The approval that the Ex-Im Bank has received from OMB to report improper payments one year in arrears.
3. The fact that the current year reporting time frame is consistent with prior years.

Finding 2: Ex-Im Bank Should Strengthen Policies and Procedures Related to Improper Payments and the Related Supporting Documentation

The Ex-Im Bank made significant improvements during FY 2015 as described in the Background section above and the resolution of the non-compliance reported in our FY 2014 report. Additionally, the Ex-Im Bank took action to address all three recommendations, but did not fully implement one of the recommendations issued by the OIG during the FY 2014 improper payments audit, which related to the Bank’s processes and procedures for improper payments. Based on our review of the FY 2015 improper payments policies and procedures and the related supporting documentation, we identified the following additional issues that should be addressed to ensure continuous compliance with improper payment requirements.

Policies and Procedures Related to Improper Payments Should be Enhanced

During FY 2015, Ex-Im Bank personnel devoted a substantial amount of time to updating the improper payments risk assessment process and the related documentation. They also updated the prior year policies and procedures over the process. However, the final version of the *Ex-Im Bank’s Improper Payments Review – Policies and Procedures*, dated November 6, 2015, did not fully align with OMB requirements and did not fully reflect the process followed in FY 2015. In reviewing these policies and procedures, we found that they did not provide the level of direction or instruction necessary to fully address the prior year recommendation, as they omitted key details on how the risk assessments were to be performed. We also found that the policies and

procedures did not align with the requirements of OMB Circular No. A-123, Appendix C regarding the frequency for conducting a risk assessment, misinterpreted some of the requirements, or did not cover the breadth of the requirements.

Important sources of information that would help inform management's evaluation of improper payments, including some that were used during the FY 2015 review, were excluded from the updated policies and procedures. Some examples include Individual Delegated Authority audits, analysis of historical fraud data for five years, and estimates of insurance and guarantee claim payments that may have been related to fraudulent applications. Furthermore, the guidance was missing the details of how the policies would be implemented. For example, the guidance referred to the audit testing of a randomized selection of authorizations, but it lacked the procedures for how the selection would be performed, for which programs, etc. The guidance also referred to various sources of data related to fraud, but did not explain how to perform the data reviews to derive an estimate. It also did not explain how the conditional and unconditional insurance claim payments deemed fraudulent would be identified and included in the estimate.

In addition, during our review, we found that although the policy document identified the sources of authoritative guidance related to improper payments, it did not specify the guidance that was to be used for each aspect of the improper payment requirements. For example, the OMB Circular No. A-123, Appendix C did not provide guidance related to the implementation of the Do Not Pay Initiative of IPERIA. Such guidance was instead provided in Presidential Memorandum M-12-11, *Reducing Improper Payments through the Do Not Pay List*.

We also found that the policy document did not provide guidance about how the Improper Payments Risk Assessment Questionnaires were to be completed and evaluated and what supporting documentation must be maintained. GAO's *Standards for Internal Control in the Federal Government* calls for internal controls, including policies and procedures, to be clearly documented.

Documentation Supporting the Risk Assessment Process Should be Improved to Adequately Inform the Decision Making Process

Risk Assessment Process – Completion of Risk Assessment Questionnaires

During our audit, we reviewed all ten *Improper Payments Risk Assessment Questionnaires* and the process for completing them. The questionnaire consisted of 28 closed-ended questions grouped by the minimum nine risk assessment factors required by OMB Circular No. A-123, Appendix C. In addition, the questionnaire included additional questions that addressed the five components of internal control based on the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control Integrated Framework. The questionnaires were completed by six Bank officials for four different types of activities and ten programs, as follows:

1. Short Term – Trade Credit Insurance
2. Short Term – Working Capital
3. Medium and Long Term – Transportation

4. Medium and Long Term – Project and Structured Finance
5. Cash Disbursements – Administrative Payments
6. Cash Disbursements – Expenses Related to Claims
7. Cash Disbursements – Claim Payments
8. Cash Disbursements – Loan Disbursements
9. Cash Disbursements – Treasurer’s Office
10. Short, Medium, and Long Term – Trade Finance Division

The questionnaire itself did not contain written instructions, however, the OCFO personnel in charge of the risk assessment process held meetings to provide verbal instructions to Bank personnel on how to complete the questionnaire. According to the email communications we reviewed and inquiry of Bank personnel, follow up meetings were also held for clarification purposes as needed. Despite this guidance, we found inconsistencies in the way the *Improper Payments Risk Assessment Questionnaires* were completed, depending on the individual who was completing them. Some Bank officials provided rationale for their Yes, Partially, No or Not Applicable responses, while others did not. Furthermore, we found that the Bank officials relied primarily on their professional knowledge to respond to the questions, and few explained their rationale for each response provided. For example, the question related to the volume of payments, which in our view requires a quantitative response, was answered qualitatively as “increased” or “decreased” by some Bank officials, whereas others provided dollar amounts. When provided, the rationale that supported some of the answers was vague and did not help the reviewer decide on how that factor contributed to the risk assessment for improper payments related to that program. We believe that providing written instructions to the questionnaire and requiring more documentation from the responders for their response may assist the reviewer’s evaluation of the reported risk assessment. Additionally, the questionnaire format contained a page for documenting dollar amounts; however, none of the completed ten questionnaires contained that page.

We also found that some of these inconsistent responses were not addressed conclusively in the evaluation performed during the risk assessment phase. According to the *Improper Payments Risk Assessment Document*, the Bank used an investigative process after the submission of the questionnaires to assess any risks flagged by the questionnaire. If the answers to the questions in the questionnaire indicated an increased risk of failure for certain internal control activities, then Bank personnel analyzed the breakdown and determined the likelihood for improper payments to occur. The approach of including this qualitative analysis in the *Improper Payments Risk Assessment Document* was appropriate, as it connected the questionnaire with the risk assessment. While we acknowledge that the questionnaire reviewer and evaluator used professional judgment in determining the items that required follow up, a more thorough review would help address issues that the preparer may have missed.

Risk Assessment Process – Quantitative Review

The next step in the Bank’s risk assessment process was the quantitative review, which involved the sampling of authorization transactions for various programs to determine if they met the Bank’s credit standards as documented in the Bank’s *Loan, Guarantee, and Insurance Manual*. The sample sizes were calculated using a sample size calculator created by the National

Statistical Service. However, the sampling methodology and rationale was not adequately documented in the *Improper Payments Risk Assessment Document*. Further, we found discrepancies between some sample sizes selected and the sample sizes actually tested and discussed in the *Improper Payments Risk Assessment Document*. For example, the sample size for testing the Working Capital program was 15; however, only a sample of 10 transactions was tested. Bank personnel evaluated the sample size of 10 and concluded that it was reasonable for the testing objective.

We also found that the sample selection process could be improved by taking into consideration the program requirements. For example, some of the Working Capital program loans were processed using delegated authority and the Bank obtained documentation only for a sample of transactions that were selected for examination. Five of the 15 transactions initially sampled for testing as part of the improper payments review did not have supporting documentation maintained at the Bank and therefore, were not tested for susceptibility to improper payments.

Further, the Short Term Insurance program renewable samples were not adequately documented. Initially, we found that procedure results for several renewal samples stated that conducting a new CRTI check on a renewal was not required and was done at the Loan Officer's discretion. After further inquiries, we noted that the Ex-Im Bank policies and procedures required the performance of CRTI checks annually on all existing customers and all samples had a CRTI check performed.

The Bank's FY 2015 *Improper Payments Risk Assessment Document* also considered conditional and unconditional claim payments on fraudulent authorizations. The estimate of FY 2014 fraudulent authorizations was based on the expected default amount of authorizations made in FY 2014 and the expected proportion of fraud as a percentage of total claims. The methodology used and the calculations performed were explained in the *Improper Payments Risk Assessment Document*. However, our review of the calculation that produced the estimate found that no documentation was maintained to support the inputs used in the calculation, including the assumptions used. If calculation inputs and assumptions used are inaccurate, then the estimate would be inaccurate as well.

Additionally, as part of our review of the *Improper Payments Risk Assessment Document* and the related documentation, we did not see evidence of whether and how the Bank staff considered the returned wires and checks during the risk assessment process. Although the total amount of such FY 2014 improper payments was less than \$2 million (and therefore below any of the OMB thresholds), we believe that they should be considered and documented for a complete picture of the potential risks related to improper payments.

Risk Assessment Process – Review of Prior Audit Reports

Lastly, the *Improper Payments Risk Assessment Document* included a long list of OIG and GAO reports related to the Bank that were used in the evaluation of improper payments. However, there was no documentation of how such report results were evaluated and considered in the Bank's analysis. We found that, while there was a question related to the results of such reviews in the risk assessment questionnaire, all responses provided were "not applicable". No

explanation was provided on how the report findings were considered or how the corrective actions or lack thereof impacted the improper payments evaluation process. We believe that the OIG and GAO report findings should also be addressed as a particular topic in the *Improper Payments Risk Assessment Document* to ensure that a top-down approach is in place to complement the bottom-up approach achieved with the questionnaire answers.

According to GAO's *Standards for Internal Control in the Federal Government*, controls and transactions should be clearly documented and such documentation should be readily available for examination.

Conclusion

Overall, we found the Bank to be fully compliant with the six improper payments reporting requirements stipulated by OMB for its FY 2015 reporting. We also found that the Ex-Im Bank's processes over compliance with improper payment requirements have significantly improved over the prior year. As discussed above, we noted several opportunities for improvement in the areas of reporting, policies and procedures, and documentation that supports the Bank's risk assessment process. We hereby provide four recommendations that we believe will further strengthen the Bank's compliance and continuous improvements with the improper payments requirements.

Recommendations, Management Comments and Auditor Response

To improve Ex-Im Bank's processes for identifying and assessing its risk of improper payments, we recommend the Office of the Chief Financial Officer ensure:

1. The presentation of the improper payments discussion in the Annual Report be revised to conform to the guidance provided in OMB Circular No. A-136, *Financial Reporting Requirements*, as revised, and OMB Circular No. A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, as revised, as follows:
 - a) Enhance the risk assessment discussion in the Annual Report by including all the required elements:
 - i. Add a specific discussion of the risk of improper payments to employees,
 - ii. Describe each of the nine minimum risk factors in OMB Circular No. A-123, Appendix C that were examined during the risk assessment process, and
 - iii. Provide a brief overview of the changes in the risk assessment methodology or results since the prior year, if any.
 - b) Discuss in the Annual Report how the requirements of the Do Not Pay Initiative are met based on cost-benefit considerations for the Bank's business model and unique circumstances, addressing all the required information.
 - c) Discuss in the Annual Report the following improper payments reporting information:
 - i. The timing of the improper payments being reported upon,
 - ii. The approval that the Bank has received from OMB to report improper payments one year in arrears, and
 - iii. Consistency of the reporting time period with prior years.

Management Comments

The Bank agrees with this recommendation and will work with staff to further enhance the improper payment discussion in the Annual Report. Staff will be directed to conform to the guidance provided in OMB Circular No. A-136, *Financial Reporting Requirements*, as revised, and OMB Circular No. A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, as revised, as pointed out in the recommendation.

Auditor Response

Management's proposed actions are responsive to the recommendation and we will follow up with the Bank when the FY 2016 Annual Report is prepared. The recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

2. *Ex-Im Bank's Improper Payments Review – Policies and Procedures* align with OMB requirements and thoroughly and accurately cover the full breadth of OMB requirements, including:
 - a) Incorporating all sources that provide authoritative guidance related to specific aspects of improper payments, including Presidential Memorandums as the key source of requirements for the Do Not Pay Initiative and OMB Circular No. A-136 as the key source of requirements related to improper payments reporting,
 - b) Incorporating the annual evaluation of the cost-effectiveness of recapture audits,
 - c) Incorporating the annual evaluation of the Do Not Pay Initiative,
 - d) Incorporating how the scoping decisions are to be made in determining programs and activities that will be subject to the improper payments risk assessment process, including both quantitative and qualitative factors,
 - e) Incorporating detailed guidance on how the specific evaluation processes and procedures (e.g. sampling, testing, etc.) will be performed,
 - f) Incorporating detailed guidance on the supporting documentation that should be maintained,
 - g) Documenting the sampling methodology and the rationale for the sample selection process, if a quantitative analysis that involves sampling is to be used,
 - h) Considering program requirements in determining the sample frame, if a quantitative analysis that involves sampling is used, and
 - i) Requiring transactions be adequately tested and that testing results be documented, if a quantitative analysis that involves sampling is used.

Management Comments

The Bank agrees with this recommendation and will direct staff to review *Ex-Im Bank's Improper Payments Review – Policies and Procedures* to ensure that they align with OMB requirements and that they thoroughly and accurately cover the full breadth of OMB requirements.

Auditor Response

Management's proposed actions are responsive to the recommendation and we will follow up with the Bank to determine the timeline when this action is expected to be completed. The recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

3. Guidance for completing the *Improper Payments Risk Assessment Questionnaires* be enhanced to require:
 - a) The dollar amounts of program activity to provide perspective on the potential improper payment risk, and
 - b) More open ended responses and documented support for the basis of the respondent's assessment.

Management Comments

The Bank agrees with this recommendation and will direct staff to review and revise guidance for completing the *Improper Payments Risk Assessment Questionnaires*. This guidance will be enhanced to require the inclusion of dollar amounts of program activity to provide perspective on the potential improper payments risk and more open ended responses and documented support for the basis of the respondent's assessment.

Auditor Response

Management's proposed actions are responsive to the recommendation and we will follow up with the Bank to determine the timeline when this action is expected to be completed. The recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

4. Thorough, accurate, and consistent supporting documentation be maintained to properly inform the decision making process, including:
 - a) Maintaining supporting documentation for the inputs used in the calculation of claim payments on fraudulent authorizations, including the assumptions used in the estimation process,
 - b) Documenting how the relevant OIG and GAO reports are evaluated and considered in the analysis of improper payments, and
 - c) Enhance the documentation of analysis of the returned wires and checks during the risk assessment process and document the results of such consideration.

Management Comments

The Bank agrees with this recommendation and will direct staff through policy revisions reflective of the OIG recommendation to maintain thorough, accurate and consistent supporting documentation to properly inform the decision making

process.

Auditor Response

Management's proposed actions are responsive to the recommendation and we will follow up with the Bank to determine the timeline when this action is expected to be completed. The recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

Appendix I: Scope and Methodology

The objective of the audit was to determine whether the Export- Import Bank (“Ex-Im Bank” or “the Bank”) was in compliance with the Improper Payments Information Act of 2002 (IPIA), as amended; the Improper Payments Elimination and Recovery Act of 2010 (IPERA), as amended; and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) (herein after referred to collectively as the “improper payments laws”) for fiscal year (FY) 2015 reporting, as stipulated in the Office of Management and Budget (OMB) guidance. In addition, we assessed the accuracy and completeness of Ex-Im Bank’s improper payment reporting, implementation of prior year audit recommendations, and effort to reduce and recover improper payments.

To answer our objectives, we reviewed the Bank’s procedure document for implementing the improper payments laws, entitled *Ex-Im Bank’s Improper Payments Review – Policies and Procedures for Improper Payments* and the Bank’s *Improper Payments Risk Assessment Document*. We also read the authoritative guidance related to the improper payments laws set forth in the Office of Management and Budget’s (OMB) Circular No. A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, as revised; OMB Circular No. A-136, *Financial Reporting Requirements*, as revised; and the Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government*. In addition, we reviewed OIG and GAO audit reports relevant to our audit objectives, as well as various communications between the Bank or the OIG with OMB related to this matter.

To determine whether Ex-Im Bank was in compliance with the improper payments laws for the FY 2015 reporting, we also interviewed personnel from the Office of the Chief Financial Officer, the Office of the Controller, and various departments, who were responsible for Ex-Im Bank’s compliance with the improper payments laws and the risk assessment process. Additionally, we reviewed the FY 2014 Improper Payments information reported in the Bank’s Annual Report for FY 2015 to determine whether the Bank met the improper payments reporting requirements.

To determine if the Bank’s risk assessment process addressed all of OMB’s nine qualitative risk factors, we analyzed the Bank’s *Improper Payments Risk Assessment Document* prepared in FY2015 and the related supporting documentation. This analysis included a review of the tools the Ex-Im Bank used to assess the risk of improper payments. First, we reviewed the ten *Improper Payments Risk Assessment Questionnaires* to determine if the Bank’s low risk rating was sufficiently supported. We then inquired regarding the questionnaire completion process and reviewed supporting documentation to identify potential weaknesses and to determine whether the risk assessment process was adequate for identifying and reporting on improper payments.

In FY 2015 the Bank expanded its improper payments analysis to include a risk assessment on authorizations. In addition to the qualitative analysis, the Bank also performed a quantitative analysis that involved sampling and an estimate of improper payments. We analyzed the risk assessment steps on authorizations for compliance with OMB guidance. We also analyzed the

quantitative analysis to identify potential weaknesses in methodology and documentation. As part of this process, we reviewed the Bank's sampling plan, sample testing and results, log of returned payments, and the process for estimating claim payments on potentially fraudulent insurance and guarantee authorizations based on historic data. Further, we reviewed OIG and GAO audit reports, the independent auditors' report, the independent auditors' management letter, as well as the Bank's policies and procedures related to transaction and payment processing in order to identify potential issues in internal control that could give rise to improper payments.

We also reviewed the Ex-Im Bank's information and processes related to the Do Not Pay Initiative, as well as the Bank's FY 2015 determination regarding why payment recapture audits would not be cost effective.

We conducted this performance audit from February 2016 through April 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Review of Internal Controls

We reviewed and evaluated the internal controls associated with the Ex-Im Bank's improper payments risk assessment process. We found that although the process followed in the current year marks a significant improvement over FY 2014, additional improvements can be made to help the Bank more clearly comply with the improper payments requirements. Our recommendations, if implemented, should correct the weaknesses we identified.

Prior Audit and Other Communications Review

We reviewed the following prior audits conducted by the Office of Inspector General (OIG), assessed the status of the recommendations, and identified relevant information on improper payments:

- *Improper Payments Reporting: Ex-Im Bank generally complied with improper payments reporting requirements but should improve its risk assessment process* issued March 13, 2013 (OIG-AR-13-03);
- *Improper Payments Reporting: Ex-Im Bank generally complied with improper payments reporting requirements but should improve its risk assessment process* issued April 15, 2014 (OIG-AR-14-06);
- *Improper Payments Reporting: Ex-Im Bank did not fully comply with the improper payments reporting requirements but did not conduct a program specific risk assessment for each program or activity as required for compliance* issued May 12, 2015 (OIG-AR-15-06);
- *Audit of the Export-Import Bank's Short-Term Multi-Buyer Insurance Program*, issued March 23, 2015 (OIG-AR-15-04).

We also reviewed the OIG's Memorandum *Risk Assessment of Ex-Im Bank's Purchase Card and Travel Card Programs*, dated November 13, 2014 (Assignment No. A-14-006-00) and letter to OMB titled *OMB Memorandum M-13-21, [Implementation of the Government Charge Card Abuse Prevention Act of 2012,]* dated January 20, 2015.

In addition, we reviewed the following reports issued by the Government Accountability Office (GAO), assessed the status of the recommendations, and identified relevant information on improper payments:

- Report to Congressional Committees *Export-Import Bank: Enhancements Needed in Loan Guarantee Underwriting Procedures and for Documenting Fraud Processes*, dated September 2014 (GAO-14-574);
- Testimony Before the Subcommittees on Health Care, Benefits, and Administrative Rules; and Monetary Policy and Trade *Export-Import Bank: Status of Actions to Address GAO Recommendations since the Bank's 2012 Reauthorization*, dated April 15, 2015 (GAO-15-557T).

Appendix II: Management Comments



EXPORT-IMPORT BANK
OF THE UNITED STATES

May 6, 2016

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

Dear Deputy Inspector General McCarthy,

Thank you for providing Export-Import Bank of the United States (“Ex-Im Bank” or “the Bank”) management with the Office of the Inspector General’s (OIG) “Independent Auditor’s Report on the Export-Import Bank’s Compliance with the Improper Payments Laws for FY 2015 Reporting”. Ex-Im management continues to support the mission of the OIG, which complement the Bank’s efforts to continuously improve its process. Ex-Im Bank is proud of the professional and constructive relationship it maintains with the OIG.

The Bank is committed to full cooperation with the OIG and is pleased that the OIG audit recognized that the Bank fully complied with all improper payment laws and met all six reporting requirements. Additionally, the Bank appreciates that the OIG credits the Bank with “significant improvement” in assessing improper payments risk. The Bank notes that a thorough improper payment analysis was performed, but was not fully disclosed in the FY 2015 Annual Report. The Bank will fully document the improper payment analysis, as recommended by the OIG in all future annual reports. The Bank strives to continuously improve and will implement all four audit recommendations that focused on reporting, policies and procedures, and documentation that supported the Bank’s risk assessment process.

Recommendation 1A: The presentation of the improper payments discussion in the Annual Report be revised to conform to the guidance provided in OMB Circular No. A-136, Financial Reporting Requirements as revised, and OMB Circular No. A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments, as revised, as follows:

- a) Enhance the risk assessment discussion in the Annual Report by including all the required elements:
 - i. Add a specific discussion of the risk of improper payments to employees,

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-
- ii. Describe each of the nine minimum risk factors in OMB Circular No. A-123, Appendix C that were examined during the risk assessment process, and
 - iii. Provide a brief overview of the changes in the risk assessment methodology or results since the prior year, if any.
- b) Discuss in the Annual Report how the requirements of the Do Not Pay Initiative are met based on cost-benefit considerations for the Bank's business model and unique circumstances, addressing all the required information.
 - c) Discuss in the Annual Report the following improper payments reporting information:
 - i. The timing of the improper payments,
 - ii. The approval that the Bank has received from OMB to report improper payments one year in arrears, and
 - iii. Consistency of the reporting time period with prior years.

Management Response: The Bank agrees with this recommendation and will work with staff to further enhance the improper payment discussion in the Annual Report. Staff will be directed to conform to the guidance provided in OMB Circular No. A-136, Financial Reporting Requirements as revised, and OMB Circular No. A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments as pointed out in the recommendation.

Recommendation 2: Ex-Im Bank's Improper Payments Review – Policies and Procedures align with OMB requirement and thoroughly and accurately cover the full breadth of OMB requirements, including:

- a) Incorporating all sources that provide authoritative guidance related to specific aspects of improper payments, including Presidential Memorandums as the key source of requirements for the Do Not Pay Initiative and OMB Circular No. A-136 as the key source of requirements related to improper payments reporting,
- b) Incorporating the annual evaluation of the cost-effectiveness of recapture audits,
- c) Incorporating the annual evaluation of the Do Not Pay Initiative,
- d) Incorporating how the scoping decisions are to be made in determining programs and activities that will be subject to the improper payments risk assessment process, including both quantitative and qualitative factors,
- e) Incorporating detailed guidance on how the specific evaluation processes and procedures (e.g. sampling, testing, etc.) will be performed,
- f) Incorporating detailed guidance on the supporting documentation that should be maintained,
- g) Documenting the sampling methodology and the rationale for the sample selection process, if a quantitative analysis that involves sampling is to be used,
- h) Considering program requirements in determining the sample frame, if a quantitative analysis that involves sampling is used, and
- i) Requiring transactions be adequately tested and that testing results be documented, if a quantitative analysis that involves sampling is used.

Management Response: The Bank agrees with this recommendation and will direct staff to review Ex-Im Bank's current Improper Payments Review Policies and Procedures and to ensure that they align with OMB requirements and that they thoroughly and accurately cover the full breadth of OMB requirements.

Recommendation 3: Guidance for completing the Improper Payments risk Assessment Questionnaires be enhanced to require:

- a) The dollar amounts of program activity to provide perspective on the potential improper payment risk, and
- b) More open ended responses and documented support for the basis of the respondent's assessment.

Management Response: The Bank agrees with this recommendation and will direct staff to review and revise guidance for completing the Improper Payments risk Assessment Questionnaires. This guidance will be enhanced to require the inclusion of dollar amounts of program activity to provide perspective on the potential improper payment risk and more open ended responses and documented support for the basis of the respondent's assessment.

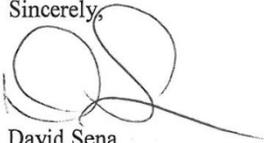
Recommendation 4: Thorough, accurate, and consistent supporting documentation be maintained to properly inform the decision making process, including:

- a) Maintaining supporting documentation for the inputs used in the calculation of claim payments on fraudulent authorizations, including the assumptions used in the estimation process,
- b) Documenting how the relevant OIG and GAO reports are evaluated and considered in the analysis of improper payments, and
- c) Enhance the documentation of analysis of the returned wires and checks during the risk assessment process and document the results of such consideration.

Management Response: The Bank agrees with this recommendation and will direct staff through policy revisions reflective of the OIG recommendation to maintain thorough, accurate and consistent supporting documentation to properly inform the decision making process.

We thank the OIG for your efforts in ensuring the Bank's policies and procedures continue to improve, as well as the work performed in tandem with the Bank to protect taxpayer dollars from fraud, waste, and abuse. We look forward to strengthening our working relationship and continuing to work closely with the Office of the Inspector General.

Sincerely,



David Sena
Sr. Vice President and Chief Financial Officer
Export-Import Bank of the United States



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