



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

Fiscal Year 2014
Financial Statement Audit -
Management Letter

January 14, 2015
OIG-AR-15-02



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

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

Subject: Fiscal Year 2014 Financial Statement Audit - Management Letter
OIG-AR-15-02

Date: January 14, 2015

This memorandum transmits Deloitte and Touche LLP's Management Letter of the Export-Import Bank of the United States (Ex-Im Bank) financial statements for fiscal year ended 2014. Under a contract monitored by this office, we engaged the independent public accounting firm of Deloitte and Touche LLP to perform the audit. The contract required the audit to be performed in accordance with United States generally accepted government auditing standards and Office of Management and Budget Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

This report contains comments and recommendations related to internal control deficiencies and other matters. Deloitte and Touche LLP identified one significant deficiency and four other deficiencies in Ex-Im Bank's internal control over financial reporting. The significant deficiency was properly reported in the Independent Auditor's Report, *Audit of the Export-Import Bank of the United States Fiscal Year 2014 Financial Statements*, dated November 14, 2014 (OIG-AR-15-01). The four other internal control deficiencies noted in this report were not required to be reported in the Ex-Im Bank's independent audit report. Deloitte and Touche LLP's observations and recommendations, and management's responses regarding such matters are presented in the Attachment.

Deloitte and Touche, LLP is responsible for the attached management letter dated December 19, 2014 and the conclusions expressed in the letter. We do not express opinions on Ex-Im Bank's financial statements, internal control, or conclusions on compliance with laws and regulations.

We appreciate the cooperation and courtesies provided to Deloitte and Touche LLP and this office during the audit. If you have questions, please contact Terry Settle, (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.

cc: C.J. Hall, Executive Vice President and Chief Risk Officer
Michael Cushing, Senior Vice President and Chief Operating Officer
Audit Committee
Nathalie Herman, Treasurer, Office of the Chief Financial Officer
Patricia Wolf, Controller, Office of the Chief Financial Office
John Lowry, Director, Information Technology Security and Systems
Assurance
Inci Tonguch-Murray, Deputy Chief Financial Officer
Duncan Barks, Partner, Deloitte and Touche LLP

December 19, 2014

Mr. Mike McCarthy, Acting Inspector General
Export-Import Bank of the United States
811 Vermont Avenue NW
Washington, D.C. 20571

Dear Mr. McCarthy:

We have performed an 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, 2014, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements* (together, “generally accepted auditing standards”) and have issued our report thereon dated November 14, 2014.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of Ex-Im Bank is responsible. These matters were communicated verbally to you and Ms. Terry Settle, Assistant Inspector General, on November 13, 2014.

Our Responsibility under Generally Accepted Auditing Standards

Our responsibility under generally accepted auditing standards has been described in our engagement letter dated April 20, 2014. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of Ex-Im Bank’s financial statements for the year ended September 30, 2014, in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Office of Inspector General (“OIG”) are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the OIG of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to Ex-Im Bank’s preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Ex-Im Bank’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ex-Im Bank’s internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in Ex-Im Bank's 2014 financial statements include the allowances for losses on loans receivable, subrogated claims receivable, guarantees and insurance. The allowances for losses reduce the recorded balances to their estimated net present value. The allowances are established through a provision charged to earnings. These estimates for losses are based upon collectability of individual credits and their related cash flow forecasts, historical and current market loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, expected defaults, fees and recoveries, and prevailing worldwide economic and political conditions. Therefore, the value used to determine the allowances for losses are subject to the reasonableness of these estimates. Although management believes the estimates underlying the calculation of allowances for losses reflected in Ex-Im Bank's 2014 financial statements are reasonable, there can be no assurances that Ex-Im Bank could ultimately realize these values. The basis for our conclusions as to the reasonableness of these estimates when considered in the context of the financial statements taken as a whole, as expressed in our auditors' report on the financial statements, is our understanding and testing of the process used by management to develop the estimates.

Uncorrected Misstatements

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. There were no uncorrected misstatements or disclosure items passed identified during our audit.

Material Corrected Misstatements

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. There were no material misstatements that were brought to the attention of management as a result of our audit procedures.

Significant Accounting Policies

Ex-Im Bank's significant accounting policies are set forth in Note 1 to Ex-Im Bank's 2014 financial statements. During the year ended September 30, 2014, there were no significant changes in previously adopted accounting policies or their application.

Disagreements with Management

We have not had any disagreements with management related to matters that are material to Ex-Im Bank's 2014 financial statements.

Our Views about Significant Matters That Were the Subject of Consultation with Other Accountants

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2014.

Significant Findings or Issues Discussed, or Subject of Correspondence, with Management prior to Our Initial Engagement or Retention

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

Other Significant Findings or Issues Arising from the Audit Discussed, or Subject of Correspondence, with Management

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to you.

Significant Difficulties Encountered in Performing the Audit

In our judgment, we received the full cooperation of Ex-Im Bank's management and staff and had unrestricted access to Ex-Im Bank's senior management in the performance of our audit.

Management's Representations

We have made specific inquiries of Ex-Im Bank's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations Ex-Im Bank is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix A, a copy of the representation letter we obtained from management.

Emphasis-of-Matter or Other-Matter Paragraph

As discussed in Footnote 1 to the financial statements, the Export-Import Bank Reauthorization Act of 2012 extended the Bank's charter until September 30, 2014. In accordance with its enabling legislation, continuation of Ex-Im Bank as an independent corporate agency of the United States is subject to periodic extensions granted by Congress. The Administration has requested a five-year extension of the Bank's charter through FY 2019. Congressional authorization has been temporarily extended through June 30, 2015. Management believes that Ex-Im Bank's authorization will be further extended until a final authorization is passed by Congress. If the charter is temporarily not extended, the Bank will not be able to authorize new credits; however, under the terms of its charter the Bank will continue to service existing loans, guarantees, and insurance policies. Ex-Im is currently appropriated through a continuing resolution through December 11, 2014 and the Bank expects to receive a full year appropriation when Congress approves an Omnibus Appropriations Bill funding the entire U.S. Government. Our opinion was modified to emphasize this matter.

Control-Related Matters

We have identified, and included in Appendix B, certain matters involving Ex-Im Bank's internal control over financial reporting that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants.

We have also identified, and included in Appendix B, other deficiencies involving Ex-Im Bank's internal control over financial reporting as of September 30, 2014, that we wish to bring to your attention.

The definitions of a deficiency, a material weakness, and a significant deficiency are also set forth in Appendix B.

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This report is intended solely for the information and use of management, the Audit Committee of the Board of Directors of ExIm Bank, the Inspector General, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

Deloitte + Touche LLP

cc: The Management of the Export-Import Bank of the United States

- Appendix A: Representations from Management
- Appendix B: Matters Related to Internal Control over Financial Reporting



EXPORT-IMPORT BANK
OF THE UNITED STATES

November 14, 2014

Deloitte & Touche LLP
7900 Tysons One Place
McLean, VA 22102-4219

We are providing this letter in connection with your audits of the balance sheets of Export-Import Bank of the United States, (“Ex-Im Bank” or “we”) as of September 30, 2014 and 2013 and the related statements of net costs, changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the financial statements, (hereinafter referred to collectively as the “financial statements”) for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of Ex-Im Bank, its net costs of operations and changes in net position, and combined budgetary resources, in conformity with accounting principles generally accepted in the United States of America.

We confirm that we are responsible for the following:

- a. The fair presentation in the financial statements of financial position, net costs of operations and changes in net position, and combined budgetary resources in conformity with accounting principles generally accepted in the United States of America.
- b. The fair presentation of the required supplemental information, including Management’s Discussion and Analysis and additional information accompanying the financial statements that is presented for the purpose of additional analysis of the financial statements
- c. The design, implementation, and maintenance of programs and controls to prevent and detect fraud
- d. Establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits..

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1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America applicable to federal agencies, and include all disclosures necessary for such fair presentation and disclosures otherwise required to be included by the laws and regulations to which Ex-Im Bank is subject, including the Export-Import Bank Act of 1945, as amended and the Federal Credit Reform Act of 1990.
 2. The required supplemental information (Management's Discussion and Analysis), accompanying the financial statements are fairly presented and are consistent with the financial statements.
 3. Ex-Im Bank has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
 4. Ex-Im Bank has provided you:
 - a. Financial records and related data
 - b. Minutes of the meetings of directors and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. Regulatory examination reports, supervisory correspondence or agreements, enforcement actions, and similar materials from applicable regulatory agencies, (particularly, communications concerning supervisory actions or noncompliance with, or deficiencies in, rules and regulations).
 5. There has been no communication from regulatory agencies or from the Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements. Further, we have advised you that there are no any regulatory examinations in process or completed for which reports have not yet been issued.
 6. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2014 taken as a whole.
 7. We have provided to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 8. We have no knowledge of any fraud or suspected fraud affecting Ex-Im Bank involving:
 - a. Management
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others if the fraud could have a material effect on the financial statements.
 9. We have no knowledge of any allegations of fraud or suspected fraud affecting Ex-Im Bank received in communications from employees, former employees, analysts, regulators, lenders, exporters, or others except for allegations of fraud deemed non-credible or deemed credible enough to have been referred to the Office of the Inspector General as of the date of this letter and
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which we have disclosed to you.

10. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with the Statement of Federal Financial Accounting Standard (“SFFAS”) No. 5, Accounting for Liabilities of the Federal Government.
 11. Significant assumptions used by us in making accounting estimates are reasonable.
 12. Except for the pending Omnibus Appropriation Bill for fiscal year 2015 and the extension of Ex-Im Bank’s charter as disclosed in footnote 1, we are not aware of any recent or pending legislation having direct effects on the operations of Ex-Im Bank that are required to be accrued or disclosed in the financial statements.
 13. According to OMB Circular A-136, Financial Reporting Requirements, we are not required to prepare the Schedule of Spending.
 14. We have no intention of terminating our participation in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) or taking any other action that could result in an effective termination or reportable event of any of the plans. We are not aware of any occurrences that could result in the termination of our participation in the CSRS or FERS. Although Ex-Im Bank funds a portion of pension benefits under the CSRS and FERS relating to its employees and makes the necessary payroll withholdings for them, Ex-Im Bank has no liability for future payments to employees under these programs and does not account for the assets of the CSRS and FERS, nor does Ex-Im Bank have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management (OPM) for the Retirement Systems and are not allocated to the individual employers. OPM also accounts for the health and life insurance programs for current and retired civilian federal employees. Similar to the accounting treatment afforded the retirement programs, the actuarial data related to the health and life insurance programs is maintained by OPM and is not available on an individual employer basis.
 15. We have disclosed to you the accounting conventions used when preparing our financial statements. We believe that the effect of applying these accounting conventions and the use of such applications, in particular the use of (a) August 31, 2014 outstanding balances, and (b) June 30, 2014 default rates, to compute the subsidy re-estimate as of September 30, 2014 are immaterial to the financial statements.
 16. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of the Federal Credit Reform Act of 1990. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. We are responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
 17. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
 18. We have included in the corrective action plan for current-year findings, the name of the person in
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our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy findings that you report.

19. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

Except where otherwise stated below, matters less than \$ 18,300,000, in the aggregate, are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the financial statements.

20. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
21. We have disclosed to you any changes in Ex-Im Bank's internal control over financial reporting that occurred during Ex-Im Bank's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, Ex-Im Bank's internal control over financial reporting.
22. Ex-Im Bank has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

23. Regarding related parties:

- a. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
- c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.
- d. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:
- a. The extent, nature, and terms of financial instruments with off-balance-sheet risk;
- b. The amount of credit risk of financial instruments with off-balance-sheet risk and information about the collateral supporting such financial instruments; and
- c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
- e. Ex-Im Bank believes that it does not have any derivative instruments that require identification or any embedded derivative instruments that require bifurcation.
- f. Loan receivables and claims recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been
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appropriately reduced to their estimated net realizable value and disclosed in the financial statements.

- g. Loans that have been restructured to provide a reduction or deferral of interest or principal payments because of borrower financial difficulties have been properly recorded and disclosed in the financial statements.
 - h. All intra-entity transactions and balances have been appropriately identified and eliminated for financial reporting purposes, unless otherwise noted. All intra-governmental transactions and balances have been appropriately recorded, reported, and disclosed. We have reconciled intra-governmental transactions and balances with the appropriate trading partners for the four fiduciary transactions identified in Treasury's Intra-governmental Fiduciary Transactions Accounting Guide, and other intra-governmental asset, liability, and revenue amounts as required by the applicable OMB Bulletin.
 - i. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America applicable to federal agencies, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events
 - b. The effect of the change would be material to the financial statements.
 - j. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - a. The concentration exists at the date of the financial statements
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
 - k. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Known actual or possible litigation and claims whose effects should be considered and accounted for and disclosed in the financial statements and that have not been disclosed to you
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by SFFAS No. 5, Accounting for Liabilities of the Federal Government
 - l. Ex-Im Bank has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
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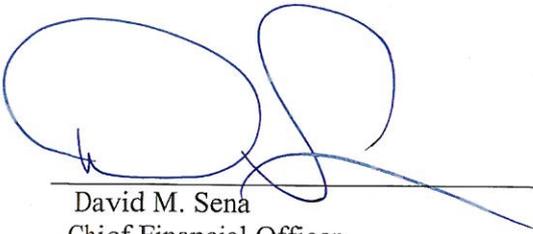
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- m. Ex-Im Bank has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
 - n. No department of the Ex-Im Bank has reported a material instance of noncompliance to us.
 - o. Ex-Im Bank is responsible for determining and maintaining the adequacy of the allowance for losses, as well as estimates used to determine such amounts. Management includes the undisbursed exposure as part of the outstanding balances in re-estimating the subsidy cost allowance for direct loans and the liability for loan guarantees, claims, and insurance. Management believes the allowance is adequate to absorb currently estimated credit losses in Ex-Im Bank portfolio as of September 30, 2014. Management believes the allowance for losses has been determined in accordance with accounting principles generally accepted in the United States of America applicable to federal agencies as of September 30, 2014. At September 30, 2014, management made its best judgment of identifiable probable losses in the loan, claim, insurance, and guarantee portfolios. Management believes that the assumptions, including the budget cost level for each individual credit exposure, used to determine the allowance are appropriate in the circumstances as of September 30, 2014.
 - p. The allowance for losses provides for expected losses inherent in the loan, claim, guarantee, and insurance portfolios. The allowance is established as losses are estimated to have occurred through a provision charged to earnings. Write-offs are charged against the allowance when management believes the uncollectibility of a loan or claim balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.
 - q. There have been no changes to internal controls subsequent to September 30, 2014, or other factors that might significantly affect the effectiveness of internal control.
 - r. The information presented on Ex-Im Bank's statement of budgetary resources ("SBR") agrees with the information submitted on Ex-Im Bank's year-end Reports on Budget Execution and Budgetary Resources (SF 133s). This information will be used as input for the fiscal year 2014 actual column of the Program and Financing Schedules reported in the fiscal year 2014 Budget of the U.S. Government. Such information is supported by the related financial records and related data.
 - s. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, such as pre-credit reform loan receivable, pre-credit reform guarantees, receivable from subrogated claims, claims payable, we believe that:
 - a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.
 - b. The completeness and adequacy of the disclosures related to fair values are in conformity with accounting principles generally accepted in the United States of America applicable to federal agencies.
 - c. No events have occurred after September 30, 2014, but before November 14, 2014, the date the financial statements were available to be issued that require adjustment to the fair value measurements and disclosures included in the financial statements.
 - t. There have been no changes in the amount of capital stock held by the U.S. Treasury during the fiscal year.
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- u. Ex-Im Bank is not obligated to repay the U.S. Treasury borrowings on a set payment schedule. Ex-Im Bank will repay the full amount of the borrowings by 2042.
 - v. We have complied in all material respects with certain provisions of law, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of the financial statements amounts. We represent that the applicable laws and regulations with which noncompliance could have a direct and material effect are the following:
 - a. Export-Import Bank Act of 1945, as amended
 - b. Federal Credit Reform Act of 1990
 - c. OMB Circular A-136
 - d. OMB Circular A-11
 - e. Federal Financial Management Improvement Act of 1996
 - f. Federal Acquisition Regulations (48 CFR Chapter 1)
 - g. Federal Information Security Management Act of 2002 (FISMA)
 - h. Government Corporation Control Act
 - i. OMB Bulletin No. 07-04 Appendix E.
 - j. Export Import Bank Reauthorization Act of 2012, as extended by the Joint Resolution H.J. Res. 124, section 147
 - w. As of September 30, 2014, Ex-Im Bank was named in several legal actions, virtually all of which involved claims under guarantee and insurance programs. It is not possible to predict the eventual outcome of the various actions; however, it is management's opinion that these claims will not result in liabilities to such an extent they would materially affect the financial position or results of operations of Ex-Im Bank.
 - x. Ex-Im Bank does not have earmarked funds as defined by SFFAS No. 27, "Identifying and Reporting Earmarked Funds."
 - y. We believe our allowance for losses is sufficient to cover any losses that Ex-Im Bank may have incurred with respect to transactions that may have been affected by fraud. For non-monitored transactions, when there is a payment default (under a direct loan) or claim payment (under a guarantee), Ex-Im Bank writes down the receivable to a Budget Cost Level (BCL) 11 or 12. We are not aware of any credible evidence of fraud relating to monitored loans or guarantees.
 - z. We are not aware of any violations of the Anti-deficiency Act that we must report to the Congress and the President (and provide a copy of the report to the Comptroller General) for the years ended September 30, 2014 and 2013 and through the date of this letter.
 - aa. Ex-Im Bank is not a party to major treaties and other international agreements except for an international agreement with the Government of Vietnam. We believe that the agreement does not result in any claims or contingencies which are required to be disclosed in Note 14, Commitments and Contingencies as required by OMB Circular No. A-136.
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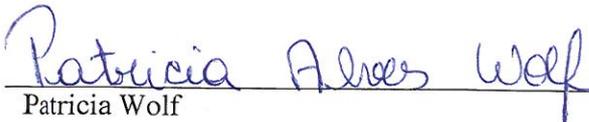
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- bb. We believe that substantial doubt regarding the ability of Ex-Im Bank to continue as a going concern does not exist as of September 30, 2014.
- cc. We believe that Ex-Im Bank will be included in the Omnibus Appropriation Bill for fiscal year 2015 and the Administration has requested a five-year extension of the Bank's charter. Congressional authorization has been temporarily extended through June 30, 2015. Management strongly believes that if necessary Ex-Im Bank's authorization will be further extended until a final authorization is passed by Congress. If the charter is temporarily not extended, the Bank will not be able to authorize new credits; however, under the terms of its charter the Bank will continue to service existing loans, guarantees, and insurance policies. Ex-Im is currently appropriated through a continuing resolution through December 11, 2014 and the Bank fully expects to receive a full year appropriation when Congress approves an Omnibus Appropriations Bill funding the entire U.S Government.
- dd. No events or transactions have occurred after September 30, 2014, but before November 13, 2014, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
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Fred P. Hochberg
Chairman & President



David M. Sena
Chief Financial Officer



Patricia Wolf
Controller

SECTION I—SIGNIFICANT DEFICIENCY

We consider the following deficiencies in Ex-Im Bank’s internal control over financial reporting to aggregate to a significant deficiency as of September 30, 2014:

2014-001 Guaranteed Loan Liability

Condition: During our testing of the Guaranteed Loan Liability, the following errors were noted:

1. A short term single buyer insurance (“ESS”) transaction was rated using the Sovereign Risk Budget Cost Level (“BCL”) while a Non-Sovereign BCL rating should have been used,
2. Due to a formula error, cash balances for short term and medium term insurance in the CSC2 input form were incorrectly entered, and
3. The authorization dates of amended working capital guarantees (“WC”) were incorrectly entered.

Criteria: BCL Ratings, formulas in input forms, and authorization dates of transactions should be correctly reflected.

Cause: Causes of errors identified above are listed below, respectively:

1. An input error in the BCL rating for an ESS transaction occurred and was not detected by review of the BCL ratings,
2. Incorrect formulas were entered in the CSC2 input form for short term and medium term insurance and were not detected by review of the input form, and
3. The proper documents of amended WC were not received by the Office of the Chief Financial Officer (OCFO) until January 2014, despite the fact that they were approved prior to September 30, 2013.

Effect or Potential Effect: The effect of CSC2 input error resulted in an understatement of \$42 million in guaranteed loan liabilities as of September 30, 2014. Ex-Im Bank reflected an adjustment in the financial statements for this amount. Errors due to ESS BCL rating and authorization date errors were not corrected by Ex-Im Bank as the monetary effects of the ESS BCL rating and authorization date error were approximately \$350,000 and deemed to be immaterial by Ex-Im Bank.

Recommendation: We recommend that Ex-Im Bank enhances the effectiveness of the review processes over the ESS risk rating and CSC2 input form to ensure that correct ratings are assigned and formulas in the input form are accurate. For the amendment of WC transactions, we recommend that management established a process to ensure that the OCFO is timely notified of amendments to documents.

Ex-Im Bank’s Response to Finding: Management agrees with the recommendation. The Trade Finance Division is developing a process to review ESS ratings for accuracy. The Office of the CFO is developing enhance review procedures to ensure input files to the CSC2 calculator are reviewed prior to their upload to the CSC2 calculator. Finally, Ex-Im Bank is developing procedures to ensure the CFO Office is timely notified when amendments to working capital transaction take place. Management expects findings to be resolve in Fiscal Year 2015.

SECTION II—OTHER DEFICIENCIES

We identified the following other deficiencies involving the Ex-Im Bank’s internal control over financial reporting as of September 30, 2014, that we wish to bring to your attention:

2014-002 Access Security—Terminated User Access

Condition: During our testing of Access Security, the following deficiencies were noted

1. Four terminated users maintained active accounts to Financial and Administrative Systems (“F&As”) post-termination date,
2. Four terminated users maintained active accounts to EXIM Online (“EOL”) post termination date, and
3. Three terminated users maintained active accounts to EXIM Reporting System (“ERS”) post-termination date.

Criteria: Per GAO’s Federal Information Systems Controls Audit Manual (FISCAM) methodology that guides our testing for the Information System (IS) control audit of Ex-Im Bank, terminated users should not maintain active accounts to Ex-Im Bank systems (i.e., access should be revoked).

Cause: The users identified maintained active accounts to the corresponding systems post-termination as a result of either non-responses to employee separation notifications or responses to the notification without committing the updates to the production systems (i.e. did not remove the access after communicating that the change was made).

Effect or Potential Effect: No direct effect to the financial statements was noted as a result of these deficiencies as the access was not exploited (used after termination). However, if access were to be exploited, unauthorized changes could have been made to Ex-Im Bank’s financial reporting systems. Nevertheless, compensating controls, such as the annual access review, were in place and operating effectively, and the users did not retain elevated privileges in the systems and did not login after termination, making the risk of a material misstatement as a result of these deficiencies low.

Recommendation: We recommend that Ex-Im Bank enhances and follows the process for removing user access as part of the employee separation process. As a part of this process, we recommend that follow-up action is taken for each terminated user to confirm that access was removed.

Ex-Im Bank’s Response to Finding: As of the report date, Ex-Im Bank has revoked all user access for the errors identified above.

2014-003 Access Security—Privileged EXIM Online User Access

Condition: One user who did not require access, based on assigned job responsibilities, had privileged access to EOL.

Criteria: Per GAO’s Federal Information Systems Controls Audit Manual (FISCAM) methodology that guides our testing for the IS control audit of Ex-Im Bank, users’ access privileges should be limited to those required based on assigned job responsibilities.

Cause: The user maintained access due to a transition in the management of the information technology (“IT”) organization. The user was granted access during the transition, but due to a change in responsibilities, this user’s access to EOL should have been removed.

Effect or Potential Effect: No direct effect was noted as a result of this deficiency as the elevated access granted to this user through the privileged group was not used during the year and the access was removed following identification of the exception. However, if access were to be exploited, unauthorized security modifications could have been made to Ex-Im Bank financial reporting systems. Based on management’s remediation, the low risk of material misstatement, and considerations that limit the severity of the deficiency, we concluded that this exception is considered to be a deficiency.

Recommendation: We recommend that Ex-Im Bank expand its review process over the privileged access groups to include LDAP (Lightweight Directory Access Protocol) groups with privileged access to the EOL system to ensure all users are given and maintain only the required access based on assigned job responsibilities.

Ex-Im Bank’s Response to Finding: As of the report date, Ex-Im Bank has remediated the exception identified above.

2014-004 Access Security—Privileged Server Access

Condition: One system/service account and one individual user account have access to the EXIMFA01/EXIMFA02 application servers. Such access is not required based on system functionality purposes and/or assigned job responsibilities.

Criteria: Per GAO’s Federal Information Systems Controls Audit Manual (FISCAM) methodology that guides our testing for the IS control audit of Ex-Im Bank, system/service account and user account access privileges should be limited based on system functionality and/or assigned job responsibilities.

Cause: Causes of errors identified above are listed below, respectively

1. The system/service account maintained access due to a change in platforms and tools used by the IT management team. However, although the platforms and tools associated with the account were no longer used, a review over the system/service accounts was not performed.
2. The user account maintained access due to a transition in the management of the IT organization. The user was granted access during the transition, but due to a change in responsibilities, access was no longer required.

Effect or Potential Effect: No direct effect to the financial statements was noted as a result of these deficiencies as the identified accounts did not retain elevated access rights in the corresponding systems. Additionally, per our inspection of the last login dates, we noted that there were no logon events for the individual user account from October 1, 2013 and September 30, 2014. We noted that there were logon events for the service account between October 24, 2013 and September 30, 2014; however, as this account is used to install the content management software and to run processes for the software, and the software was no longer supported or installed on the servers, it is deemed that no elevated financial statement risk is posed as a result of this deficiency.

Recommendation: We recommend that Ex-Im Bank establish a review process for privileged access to the application servers to ensure all user and system/service account access privileges are based on assigned job responsibilities and/or required system functionality.

Ex-Im Bank's Response to Finding: As of the report date, Ex-Im Bank has removed the two accounts identified as exceptions above.

2014-005 Access Security—Password Settings Not Configured

Condition: During our testing of the 'system-auth-ac' file for the EXIM-DB-PROD1 and EXIM-DB-PROD2 servers, we noted that the minimum password complexity, history, and length settings have not been configured.

Criteria: Password settings (complexity, history, and length settings) should be configured in accordance with the Ex-Im Bank Access Control Policy.

Cause: The password settings for Linux servers were not changed from the default delivered configurations.

Effect or Potential Effect: No direct effect was noted as a result of this deficiency as the users with access to the servers were appropriately restricted based on assigned job responsibilities, and new users had not been added to the system in the current year. However, the lack of password criteria or standards increases the risk a password may be guessed or obtained by an unauthorized individual and used to gain access to the system. Based on management's remediation efforts and the considerations that limit the severity of the deficiency identified, we concluded that this exception would be considered a deficiency, as the risk of a material misstatement as a result of this deficiency is low. Additionally, we noted that this exception is a deviation from internal policy and does not represent a compliance issue related to laws and regulations.

Recommendation: We recommend that Ex-Im Bank configures the password settings for its servers in accordance with its Access Control Policy, and reviews settings for new systems upon installation, and for production servers on a periodic basis to ensure compliance with associated policies.

Ex-Im Bank's Response to Finding: Subsequent to the identification of the deficiency, research is being performed to determine the impact of changing the password settings for the servers supporting the Oracle database applications. However, as of the report date no changes to the password configurations were made.

SECTION III — DEFINITIONS

The definitions of a deficiency, a material weakness, and a significant deficiency are as follows:

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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