



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

**Independent Auditor's Report  
on the Export-Import Bank's  
Short-Term Insurance  
Claims Processing**

**March 16, 2016**  
**OIG-AR-16-04**



**EXPORT-IMPORT BANK**  
*of the* **UNITED STATES**

**INSPECTOR GENERAL**

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To: David Sena, Senior Vice President and Chief Financial Officer  
Walter Keating, Vice President, Asset Management Division

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

Subject: Independent Auditor's Report on the Export-Import Bank's  
Short-Term Insurance Claims Processing

Date: March 16, 2016

This memorandum transmits the Independent Auditor's Report on the Export-Import Bank's Claim Processing for Short Term Insurance. Under a contract monitored by this office, we engaged the independent public accounting firm of Cotton & Company LLP to perform the audit. The objectives of the audit were to determine whether: 1) claims filed in fiscal years (FY) 2014 and 2015 for short-term insurance were processed in compliance with the Bank's policies and procedures; 2) the design of short-term insurance claims processing controls as of September 30, 2015, was suitable to provide reasonable assurance that improper claim approvals, denials, and reconsiderations were prevented or timely detected; and 3) identified short-term insurance claims processing controls were operating effectively during the two years ended September 30, 2015.

Cotton & Company determined Ex-Im Bank's short-term insurance claims filed in FYs 2014 and 2015 were generally processed in compliance with the Bank's policies and procedures. These policies and procedures as of September 30, 2015, were suitably designed to provide reasonable assurance that improper claim approvals, denials, and reconsiderations were prevented or timely detected. Further, Cotton & Company identified that tested processing controls were generally operating effectively during this period. However, Cotton & Company identified several areas for improvement, including incomplete guidance for identifying and addressing fraud risks; areas in which the actions required and/or the parties responsible for a specified action were not clear, and areas in which the procedures did not reflect current operating practices or were outdated. The report contains eleven recommendations and management concurred with all eleven 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 Cotton & Company and this office during the audit. If you have questions, please contact me at (202) 565-3498 or

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[terry.settle@exim.gov](mailto: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](http://www.exim.gov/oig).

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March 16, 2016

Terry Settle  
Assistant Inspector General for Audits  
Export-Import Bank  
811 Vermont Avenue, NW  
Washington, DC 20571

Subject: Independent Auditors' Report on the Export-Import Bank's Short-Term Insurance Claims Processing

Dear Ms. Settle:

Cotton & Company LLP is pleased to submit its report on the results of its performance audit of the Export-Import Bank of the United States (Ex-Im Bank or the Bank)'s short-term insurance claims processing for fiscal years (FY) 2014 and 2015. Cotton & Company conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), as established in the Government Accountability Office (GAO)'s *Government Auditing Standards*, December 2011 revision.

Please feel free to contact me with any questions.

Sincerely,  
COTTON & COMPANY LLP

A handwritten signature in black ink, appearing to read "Steven M. Koons".

Steven M. Koons, CPA, PMP  
Partner

*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

AMD	Asset Management Division
CARDS	Claims and Recoveries Data System
CFO	Chief Financial Officer
CO	Claims Officer
CPG	Claims Processing Group
CRC	Claims Reconsideration Committee
EOL	Ex-Im Online
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
Manual	<i>Claims Processing Group &amp; Asset Recovery Group Operating Manual (June 2014)</i>
MD	Managing Director
OGC	Office of General Counsel
OIG	Office of Inspector General
Resolution	<i>Resolution Regarding Claims Reconsideration Committee</i>
SBCL	Single Buyer Credit Limit
VP	Vice President

**Why OIG Contracted for This Audit**

The Export-Import Bank of the United States (Ex-Im Bank or the Bank) offers U.S. exporters policies to insure their export sales of a wide variety of products. The Bank's Claims Processing Group (CPG) processes claims against the insurance policies using the *Claims Processing Group & Asset Recovery Group Operating Manual (June 2014)* (Manual). The Office of Inspector General contracted us to conduct a performance audit of short-term insurance claims processing for fiscal years (FY) 2014 and 2015.

**What We Recommended**

We made 11 recommendations for Ex-Im Bank to: (1) establish a review mechanism for the Manual; (2) augment the Manual to incorporate fraud procedures and guidance; (3) establish a mechanism to ensure Claims Officers (COs) receive training on fraud procedures and guidance; (4) augment the Manual to provide guidance on factors to determine whether CO should obtain third-party carrier documentation; (5) address areas in which the Manual was not clear; (6) address undocumented and outdated procedures; (7) revise governance documents to articulate the Claims Reconsideration Committee's (CRC) purpose and basis for its decisions; (8) document the rationale for or seek recovery of \$296,000 in inadequately supported claim payments; (9) assure COs follow required procedures; (10) augment the Manual with documentation and approval requirements for consultations with underwriting divisions; and (11) require CPG to locate and store missing FY 2015 claim documentation. Management concurred with all 11 recommendations.

**What We Found**

The objectives of this performance audit were to determine whether: 1) claims filed in FY 2014 and 2015 for short-term insurance were processed in compliance with the Bank's policies and procedures; 2) the design of short-term insurance claims processing controls as of September 30, 2015, was suitable to provide reasonable assurance that improper claim approvals, denials, and reconsiderations were prevented or timely detected; and 3) tested short-term insurance claims processing controls were operating effectively during the two years ended September 30, 2015. We found that Ex-Im Bank's short-term insurance claims filed in FYs 2014 and 2015 were generally processed in compliance with the Bank's policies and procedures. These policies and procedures as of September 30, 2015, were suitably designed to provide reasonable assurance that improper claim approvals, denials, and reconsiderations were prevented or timely detected, and tested processing controls were generally operating effectively during this period.

However, we identified: 1) incomplete guidance for identifying and addressing fraud risks, 2) areas in which the actions required and/or the parties responsible for a specified action were not clear, and 3) areas in which the procedures did not reflect current operating practices or were outdated. We also found that CRC policies and procedures did not identify factors the CRC should consider in claim reconsiderations, require documenting the basis for individual claim reconsideration decisions, or provide a mechanism to assure policies and procedures are up to date. As a result, we identified inadequately documented claim reconsideration payment approvals resulting in \$296,000 of unsupported questioned costs. Further, we identified deficiencies in the operating effectiveness of four internal control activities, as summarized in the figure below.

Summary of Identified Control Activity Deviations

Control Activities	Claims Reviewed by the CPG < \$1 million	Claims Reviewed by the CPG ≥ \$1 million	Claims Reviewed by the CRC
Missing Loss Certifications	3	0	0
Missing Buyer Notification Letters	4	0	1
Missing Release and Assignment Documentation	3	0	0
Incorrect Signatures Following CRC Decisions	n/a	n/a	13

We also noted one other control deviation related to inadequate single buyer credit limit (SBCL) documentation. In addition, we found that certain supporting documentation for short-term insurance claims filed in FY 2015 was not properly stored in EOL. We did not identify deviations for the other control activities we tested.

By not always adhering to the Bank's policies and procedures, Ex-Im Bank increases the risk that it will not properly approve claims for payment, consistently execute claim reconsideration processes, or maintain the documentation to support its subsequent attempt to recover amounts paid.

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

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## Objectives

This report presents the results of Cotton & Company LLP's (Cotton & Company) performance audit of the Export-Import Bank of the United States' (Ex-Im Bank or the Bank) short-term insurance claims processing. The objectives of this performance audit were to determine whether: 1) claims filed in fiscal years (FY) 2014 and 2015 for short-term insurance (to include approved, denied, and reconsidered claims) were processed in compliance with the Bank's policies and procedures; 2) the design of short-term insurance claims processing controls as of September 30, 2015, was suitable to provide reasonable assurance that improper claim approvals, denials, and reconsiderations were prevented or timely detected; and 3) tested short-term insurance claims processing controls were operating effectively during the two years ended September 30, 2015.

## Scope and Methodology

The scope of our audit included short-term insurance claims originally filed during FYs 2014 or 2015 and that had a disposition status of approved, partially approved, or denied as of September 30, 2015. Our scope did not include claims withdrawn, forfeited, or pending final disposition as of September 30, 2015, as these claims may not have been subject to all controls or were still in process at that time. Our scope was limited to the claims review and decision-making processes. As such, it did not include assessing the design or operating effectiveness of Ex-Im Bank's controls over short-term insurance policy underwriting and issuance processes, or its processes for paying approved short-term insurance claims.

We used a risk-based approach in planning and performing our audit. We met with Bank officials and reviewed relevant documentation to obtain an overall understanding of the Bank's short-term insurance claim review and decision-making processes, as well as the associated risks, including fraud risks. We conducted interviews with and made inquiries of personnel from the Claims Processing Group (CPG) and the Office of General Counsel (OGC) and interviewed Ex-Im Bank's business architect for its Ex-Im Online (EOL) system. We also read recent Government Accountability Office (GAO), Ex-Im Bank Office of Inspector General (OIG), and Cotton & Company products to assist in determining the extent of risks to consider in planning our audit. We augmented our understanding of existing controls and the related risks by conducting walkthroughs of one claim filed in 2014 and one in 2015. We did this to better determine whether the controls were placed in operation. We also observed the operation of key controls and edits and the associated documentation capabilities built into EOL. Ex-Im Bank used EOL to generate claim numbers for FY 2014, and it became the Bank's official repository for claim records starting in FY 2015. For FY 2014, the Bank maintained hard-copy claim files.

We obtained data on the claims filed during the two-year period of our audit. We conducted data reliability procedures to obtain reasonable assurance of the completeness of the claims population data we received. We determined that the numbers for the claim

files we received were sequential and that there were no duplicates or gaps in numbering. We also determined that the submitted dates for the claims were within FY 2014 or FY 2015. We determined from EOL-generated sequential claim numbering that the claim number before our first population item was submitted in FY 2013 and that the claim number after our last population item was submitted in FY 2016, to help determine proper cut-off. Further, we performed limited analytical procedures to obtain additional assurance that logical relationships among related claim data elements were as expected.

We evaluated the design of the Bank’s internal control activities for short-term insurance claims. We then developed and documented our risk-based plan for selecting a sample of claims and used this sample to test the operating effectiveness of internal control activities and compliance with applicable insurance policies and procedures. We selected a stratified attribute sample from the population using the following parameters: 95 percent confidence level, zero percent expected deviation rate, and five percent tolerable deviation rate. Our sampling plan included testing all claims in the population equal to or greater than \$1 million and all claims in the population that were approved or denied by the Claims Reconsideration Committee (CRC) during FYs 2014 and 2015. We did not stratify the data by FY. Figure 1 shows the claim population and sample size in each stratum:

Figure 1: Claims Population and Sample Size by Strata

Strata	Population	Sample
1. Claims Reviewed by the CPG < \$1 million	236	51
2. Claims Reviewed by the CPG ≥ \$1 million	4	4
3. Claims Reviewed by the CRC <sup>1</sup>	19	19
<b>Total</b>	<b>259</b>	<b>74</b>

Appendix A presents a summary of the control activities that we tested. Although we did not test all Claims Officer (CO) actions or test all steps on the CO’s claim checklist, we reviewed the narrative in each claim memorandum to identify risk factors that may indicate a potentially improper claim decision. For those claims, we examined additional documentation and made inquiries of CPG personnel, as appropriate.

We did not conduct a financial statement audit, nor was our performance audit designed to: 1) determine the accuracy of claim payment amounts (which would require access to data and information beyond the scope of our audit), or 2) project the extent and financial impact of any improper short-term insurance claim payments. Although we tested certain control activities, we did not evaluate the other elements of internal control, namely the Bank’s control environment, risk assessment, information and communication, and monitoring processes.

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<sup>1</sup>The CRC log included a claim that was not reviewed by the CRC, but was related to another claim that was reviewed by the CRC. However, since we had excluded that item from stratum one, we included it in stratum three and tested the relevant CPG control activities.

Cotton & Company conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), as established in GAO's *Government Auditing Standards*, December 2011 revision. 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We conducted our audit on-site at Ex-Im Bank in Washington, DC, as well as remotely at the Cotton & Company office in Alexandria, VA, from September 2015 through March 2016.

We discussed our findings and conclusions with management officials on February 4, 2016; provided management with a draft of our report on February 11, 2016; and included management's comments and our responses where appropriate. We did not audit management's responses, and accordingly, we express no opinion on them.

## Background

Ex-Im Bank is an independent, self-sustaining executive agency and a wholly-owned United States government corporation. Ex-Im Bank's charter, *The Export Import Bank Act of 1945*, as amended through Public Law 112-122 on May 30, 2012, states:

*It is the policy of the United States to foster expansion of exports of manufactured goods, agricultural products, and other goods and services, thereby contributing to the promotion and maintenance of high levels of employment and real income, a commitment to reinvestment and job creation, and the increased development of the productive resources of the United States.*

In pursuit of its mission of supporting U.S. exports, Ex-Im Bank offers four types of financial programs supported by the full faith and credit of the U.S. Government:

- Direct loans
- Loan guarantees
- Working capital guarantees
- Export-credit insurance

Relevant to this audit is the export-credit insurance program, which is intended to provide U.S. exporters with protection against foreign buyer or other foreign debtor default on payment for goods or services that they receive from the U.S. exporter. The export-credit insurance program includes multiple insurance products covering medium- and short-term export sales. Medium-term insurance covers exporters' goods or services that involve repayment periods of up to five years.

Ex-Im Bank's short-term insurance program offers U.S. exporters policies to insure their export sales of a wide variety of consumer goods, non-durables, spare parts, and bulk agriculture products produced in the U.S. For most products, Ex-Im Bank's short-term

insurance policies are available for export sales that have repayment terms of up to 180 days. To be eligible for Ex-Im Bank's short-term insurance program, goods must have more than 50 percent U.S. content and be shipped from the U.S., and services must be performed by U.S.-based personnel. Two Ex-Im Bank divisions share responsibility for underwriting and issuing policies under the short-term insurance program: the Trade Credit Insurance Division and the Trade Finance Division.

According to the Bank, the majority of insurance claims filed with Ex-Im Bank related to short-term insurance products (84 percent for FY 2014 and 79 percent for FY 2015). These claims represented 32 percent, and 12 percent, respectively, of the total dollar amount of insurance claims paid in FYs 2014 and 2015. However, Ex-Im Bank made relatively few insurance claim payments compared to the number of new short-term insurance authorizations issued in FYs 2014 and 2015. Specifically, the Bank reported that it made short-term insurance policy authorizations totaling \$5.1 and \$3.2 billion, for FYs 2014 and 2015, respectively; but only paid short-term insurance policy claims totaling \$26.5 and \$22.3 million, for those years.

For FY 2014, Ex-Im Bank maintained official records documenting claim reviews and decisions in hard-copy files, but generated some of the hard-copy documentation using the Bank's legacy Claims and Recoveries Data System (CARDS). For FY 2015, Ex-Im Bank designated EOL as the official system of record for documenting claim reviews and decisions. According to the Bank, EOL is an interactive, web-based system that is accessible not only by Ex-Im Bank employees, but also by U.S. exporters seeking financing support. An exporter can access EOL to apply for an insurance policy, monitor application status, receive and accept insurance quotes, report shipments, and file claims. In addition, Ex-Im Bank uses EOL to perform automated underwriting.

The Bank's CPG is responsible for processing all insurance claims and providing "fair and consistent claim analysis." Specifically, CPG's stated mission is to fairly and consistently interpret and administer the insurance policies and guarantees of Ex-Im Bank and strike a balance between the premium-paying customer and the interests of taxpayers that support the programs. CPG is to follow guidance in the Asset Management Division (AMD)'s *Claims Processing Group & Asset Recovery Group Operating Manual (June 2014)* (Manual).

The CPG Managing Director (MD) reports to the Bank's AMD Vice President (VP), who in turn reports to the Chief Financial Officer (CFO). CPG's responsibilities for processing claims against short-term insurance instruments include reviewing documents to support its approval (including partial approval) or denial of claims and preparing documentation supporting its decisions in accordance with the Bank's policies and procedures.

The MD assigns a CO to carry out and document CPG's initial claim review. The MD is responsible for day-to-day oversight of CO activities, including reviewing the CO's claim review documentation and making a CPG claim approval or denial decision. According to the MD, the AMD VP is responsible for reviewing all CPG claim denial decisions and partial approval decisions, as well as any approval decisions for claim amounts equal to or greater than \$1 million. CPG's responsibilities for claims processing end with either: 1) a claimant

decision letter setting out Ex-Im Bank's basis for its denial, or 2) a notice of approval for payment to the Office of the CFO once CPG receives all supporting documentation necessary to make a payment.

In the event that CPG receives a request to reconsider a claim that it has denied in whole or in part, it reviews the request and may approve the previously denied claim based on new information provided by the claimant. Otherwise, the MD refers the appeal to Ex-Im Bank's CRC. The CRC is responsible for reviewing claim reconsideration requests related to any CPG insurance or guarantee-related claim denials, and voting to affirm or reverse the previous claim denial. The February 2006 *Resolution Regarding Claims Reconsideration Committee* (Resolution) grants the CRC broad authority to receive, review, evaluate, and make final decisions on all requests for reconsideration of insurance claim denials. In accordance with this three-page resolution, the CRC is authorized to make final decisions on any requests for reconsideration of any initial claim denials based on a majority vote of at least three CRC members. The CRC is composed of Ex-Im Bank's CFO (who chairs the committee), the Senior VPs for Export Finance and Credit and Risk Management, the General Counsel, and the VP for Small Business. The MD serves as the CRC secretariat, but is not a voting member of the committee. As part of the CRC's review process, it receives a summary of the circumstances around the reconsideration from CPG and analysis and recommendations from OGC.

## Summary

During our performance audit, we found that Ex-Im Bank's short-term insurance claims filed in FYs 2014 and 2015 were generally processed in compliance with the Bank's policies and procedures. These policies and procedures as of September 30, 2015, were suitably designed to provide reasonable assurance that improper claim approvals, denials, and reconsiderations are prevented or timely detected, and identified processing controls were generally operating effectively during this period.

Generally the policies and procedures were suitably designed; however, we identified: 1) incomplete guidance for identifying and addressing fraud risks, 2) areas in which the actions required and/or the parties responsible for a specified action were not clear, and 3) areas in which the procedures did not reflect current operating practices or were outdated. We also found that the Bank's policies and procedures for the CRC did not identify the factors that the CRC should consider in its claim reconsiderations, require documenting the basis for individual claim reconsideration decisions, and provide a mechanism to assure that the policies and procedures are up to date. As a result, we identified inadequately documented claim reconsideration payment approvals resulting in \$296,000 of unsupported questioned costs.

Further, we identified deficiencies in the operating effectiveness of four internal control activities related to instances of missing loss certifications, missing buyer notification letters, missing release and assignment documentation, and incorrect signatures following CRC decisions.

We also noted one other control deviation related to inadequate single buyer credit limit (SBCL) documentation. And lastly, we found that certain supporting documentation for short-term insurance claims filed in FY 2015 was not properly stored in EOL in accordance with the Bank's procedures.

Without clear and up-to-date policies and procedures and consistent adherence to existing procedures, there is an increased risk that Ex-Im Bank will improperly approve a claim for payment or lack the documentation to support its subsequent attempt to recover amounts paid. We made 11 recommendations to address the above issues. These recommendations, if implemented, should help reduce the risk of improper claim approvals, denials, and reconsiderations. Ex-Im Bank management agreed with our recommendations and stated that it has already taken action in response to certain recommendations and that it has planned actions for the other recommendations. Management's responses to the findings identified in our performance audit are included within the report and in Appendix B. We did not audit management's responses, and accordingly, we express no opinion on them.

## **Finding 1: While Ex-Im Bank Claims Policies and Procedures were Suitably Designed, Opportunities for Improvement Remain**

Ex-Im Bank's Manual states that it is the mission of Ex-Im Bank's CPG to fairly and consistently interpret and administer the insurance policies to strike a balance between the premium-paying customer and the taxpayers' interests. The Manual further provides that sound claim processing practices are to be applied in considering documents provided by the claimant in relation to the provisions of the policy in order to recommend a claim decision. Overall, the Bank's policies and procedures set out in the Manual were sufficient to provide reasonable assurance that improper claim approvals, denials, and reconsiderations were prevented or timely detected; however, our audit identified several areas in which the Manual should be revised to further minimize the Bank's control risks. Specifically, we found that the Manual is incomplete with respect to guidance for fraud risk considerations, is unclear on the actions required and/or parties responsible for performing certain actions, and does not reflect current operating practices or is outdated.

In addition, we found that CRC policies and procedures did not fully achieve the transparency intended when the Bank established the committee. In a June 2006 hearing before the Senate Banking, Housing, and Urban Affairs Committee, the Bank's Acting Chairman and President at the time testified that, "In addition, we have established a new claims reconsideration procedure and 'Claims Committee' consisting of five senior Bank officials. The Claims Committee is responsible for evaluating and reconsidering claims originally denied by the Asset Management Division. I believe these changes are helping all of our customers, but are particularly useful to small businesses, by improving transparency in the claims process. In addition, the new procedure establishes formal consultation among the business units of the Bank and the Asset Management Division as part of the reconsideration process." Specifically, we found that the Bank could more fully achieve the intended transparency by clearly documenting the factors the CRC should consider with respect to "the interests of taxpayers," clarifying the requirement that the CRC conform to Ex-Im Bank's current policy requirements, documenting the basis for individual claim reconsideration decisions, and establishing a mechanism to assure that CRC membership includes all appropriate senior Bank leadership. We identified inadequately documented claim reconsideration payment approvals resulting in \$296,000 of questioned costs.

### ***Opportunities Exist for Improving Ex-Im Bank's Claims Processing Procedures***

We noted three areas of deficiency concerning Ex-Im Bank's Manual. Specifically, the Manual did not:

- Include guidance for CPG on fraud risk considerations to implement the Bank's overall Fraud Prevention, Detection and Prosecution Procedures issued in 2015.
- Clearly specify actions required and/or the parties responsible for specified actions.
- Always reflect current operating practices or included outdated procedures.

Ex-Im Bank issued the Manual in June 2014, as a “living document” to be reviewed and updated as policies and informational requirements warrant. However, Ex-Im Bank has not established a routine review mechanism for the Manual (including organizational accountability) to ensure that it effectively serves as a living document reflecting comprehensive, clear, and current procedures for short-term insurance claims processing and decisions and that it clearly and accurately reflects current practice and sufficiently addresses fraud risks.

The effectiveness of Ex-Im Bank’s claims processing and claim decision-making currently relies heavily on the long tenures and resulting extensive institutional knowledge of the MD and COs to enable them to make consistent, fair, and timely judgments on short-term insurance claims. As a result, unless Ex-Im Bank takes immediate action to ensure that the Manual is comprehensive, clear, and current, it is at increased risk of fraud and unfair and inconsistent claim review and decision-making should any of its key staff leave the Bank.

GAO’s *Standards for Internal Control in the Federal Government* (1999) states, “Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and, in doing so, supports performance-based management. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.” The standards further provide that control activities (such as clearly documented policies, procedures, techniques, or operating manuals) should be established to support control objectives and enforce management’s directives. Although not required during the period covered by our performance audit, GAO’s *A Framework for Managing Fraud Risks in Federal Programs* (2015) is available to Ex-Im Bank and supplements internal control standards with comprehensive guidance for conducting fraud risk assessments. In addition, the framework “describes leading practices for establishing an organizational structure and culture that are conducive to fraud risk management, designing and implementing controls to prevent and detect potential fraud, and monitoring and evaluating to provide assurances to managers that they are effectively preventing, detecting, and responding to potential fraud.”

### **Incomplete Guidance for Identifying and Addressing Fraud Risks**

We noted two areas in which Ex-Im Bank should revise its Manual to specify procedural requirements for short-term insurance claims review concerning fraud risks and third-party carrier documentation. In February 2015, the Bank issued *Fraud Prevention, Detection and Prosecution Procedures*. Although bank-wide in scope, the procedures primarily reference the underwriting process and individuals involved in the loan application and approval processes. The fraud procedures do not include specific guidance for claims officers other than to indicate, “Some groups in the Bank that are not involved in the prevention of fraud are heavily involved in the detection of fraud. Chief among these would be the Claims Processing Group and the Asset Recovery Group in the Asset Management Division...” However, the fraud procedures do not provide guidance on what constitutes fraud or how to detect fraud. Further, the Manual lacks procedures for the timely detection and referral of any potential fraud risk indicators associated with short-

term insurance claim filing documentation. Specifically, the Manual does not include guidance to ensure that:

- Any fraud risk indicators in claim documents are timely identified, such as including guidance on specific examples of previously identified fraudulent documentation and requiring COs to receive periodic training on identifying fraud risk indicators.
- Any potential fraud risk indicators are properly tracked and referred to Ex-Im Bank's OIG for consideration of whether any additional administrative or legal action may be warranted.

The Manual currently only states, "The quality of the documentation should also be noted and if necessary, investigate further." It has not been updated to reference the Bank's overall fraud procedures issued in February 2015. In addition, the Manual does not include guidance on how COs are to document fraud risk considerations identified as part of CPG's claims review. We identified several possible fraud issues in the sampled claims we reviewed that were not fully documented.

For example, in the memorandum for one FY 2014 claim, the CO stated, "Ex-Im coverage was approved on February 2013 leading staff to believe the insured made misrepresentations [regarding its payment terms] on its policy application. Staff is referring this transaction to the OIG for possible fraud." We checked with the OIG, which stated that it never received a referral related to this claim. In addition, CPG redacted this statement when providing a copy of the claims memorandum to the CRC. According to Bank officials, "When the case was submitted to CRC, staff no longer believed that the Insured misrepresented its payment terms. As this was no longer relevant, the matter was not referred to [OIG] and the notation provided in the original claim memo was redacted from the memo submitted to CRC." However, the claims file was unclear as to the ultimate disposition of this fraud risk indicator.

For another FY 2014 claim, we found that the third-party shipping documentation was not dated and the overall validity of the document was questionable. The CO had noted the missing date in the claims memorandum; however, CPG's claims file did not provide evidence to document consideration of whether any further action was warranted to investigate the validity of the documentation.

We also noted in another claim that the claims memorandum indicated that the claimant was alleging fraud on the part of the buyer. In response to our inquiry, the Bank stated, "The buyer alleged that the end-user, which was not part of the transaction, was engaged in fraudulent behavior. While CPG's examination of the claim for fraud typically focuses on the insured's actions, there was nothing in CPG's examination that indicated fraud." The claims file did not include documentation of the ultimate disposition of this fraud risk indicator. Potential fraud impacting Ex-Im Bank should be referred to the OIG regardless of who allegedly perpetrated the fraud.

The second area in which Ex-Im Bank should revise its Manual concerns guidance to assist the COs in determining whether to obtain additional third-party carrier documentation. We noted that some COs have adopted the practice of obtaining third-party carrier documentation acknowledging the buyer's receipt of Ex-Im Bank's notification that there is a claim related to a transaction(s) involving the buyer. Additional guidance on factors COs should consider in determining whether to document buyers' receipt of this notification would help provide Ex-Im Bank with enhanced third-party assurance that the claimed debt is valid and that the buyer exists. For example, the Bank stated that, in one instance, the buyer responded to the notification by stating they had never even heard of the claimant. Although the carrier's inability to confirm receipt is not always indicative of a fraudulent situation (e.g., the buyer moved to an unknown location subsequent to original export transaction), it provides further opportunity for the CO to identify fraud.

### **Unclear Procedural Requirements and Accountability**

We noted a number of instances in which the Manual should be revised to either clearly set out the procedural steps required to be followed and/or assign responsibility for a specific procedure to an individual position. The Manual specifies four individual positions within CPG—AMD VP, MD, CO, and administrative assistant—but does not always identify which position is responsible for a particular procedure.

### **Written Procedures Not Aligned with Current Operating Practices or Outdated**

Ex-Im Bank issued the Manual in June 2014 as a living document to be reviewed and updated as policies and informational requirements warrant; however, we noted several instances in which the Manual was not up to date. For example, Ex-Im Bank stated that CPG has adopted the practice of forwarding all claims with proposed approval amounts equal to or greater than \$1 million and all partial and complete denials to the AMD VP for consideration; however, the \$1 million threshold is not documented as a requirement in the current Manual and is not reflected in the *Individual Delegated Authority Board Resolution*. Moreover, the Manual refers to CARDS as the current system for processing claims, even though EOL became the system of record on October 1, 2014. Finally, other references in the manual are incomplete or outdated.

### ***Lack of Transparency and Documentation Requirements in Ex-Im Bank's Claims Reconsideration Committee Policies and Procedures Resulted in Questioned Costs***

Ex-Im Bank's Board of Directors established the CRC in its February 14, 2006, Resolution. This three-page document granted the CRC "authority to receive, review, evaluate, and make final decisions on all requests for reconsideration of insurance and guarantee claim denials." Further, the Resolution provides that claim reconsideration decisions are to be based on a majority vote of a quorum of three CRC members and that the CRC is to promptly provide written notification to claimants regarding its decision. In addition, Ex-Im Bank's Manual states that the Bank is to strike "a balance between the premium paying customer and the interests of taxpayers...and that its claims review process is to provide for 'consistent and fair' claim reviews and decisions." During FYs 2014 and 2015,

according to CPG data, the CRC reviewed and made final decisions, including approvals and denials, on 38 short-term insurance claims, with a dollar value of approximately \$4.5 million.<sup>2</sup> The CRC also reviews claims associated with other programs; however, these claims were not within the scope of our audit.

The Resolution states, “All actions taken by the Claims Committee must conform to Ex-Im Bank’s current policy requirements as they may be amended from time to time.” Further, the Resolution identified the committee membership as the CFO (who chairs the committee), the Senior VPs for Export Finance and Credit and Risk Management, the General Counsel, and the VP for Small Business. The Bank has not made any amendments to the membership list included in the Resolution, even though at least one key leadership position has been created since that time.

In addition, neither the Resolution nor the Manual identify the factors the CRC should consider with respect to “the interests of taxpayers,” require documentation of the basis for individual claim reconsideration decision, or explain what Ex-Im Bank means by “conform to Ex-Im Bank’s current policy requirements...” For example, it is unclear whether “current policy requirements” refers to the Bank’s policies and procedures, specific insurance policies between insured parties and the Bank, or the Bank’s broad public policy objectives. To the extent that “current policy requirements” refers to the Bank’s broader public policy objectives, the Bank’s annual reporting recognizes several areas of emphasis for mission achievement. Specifically, in its FY 2014 Annual Report, Ex-Im Bank cites its record of achievement against broad policy objectives such as “Supporting American Jobs,” “Keeping America Competitive,” “Responsible Risk Management,” “Empowering American Small Businesses,” “Supporting America’s Most Critical Industries,” and “Building Infrastructure in Emerging Markets.”

In the absence of clear documentation concerning the CRC’s purpose, the factors it considers, and the basis for its decisions, we interviewed individuals from the Bank’s OGC to gain a better understanding of the CRC’s intended role and responsibilities. The OGC officials stated that the CRC was intended as an equitable committee with authority to make broad decisions, not as an adjudicatory committee or precedential-setting body. They told us the CRC was established to help assure any equity issues are considered along with any other extenuating circumstances beyond individual insurance policy compliance matters in reconsidering previous claim denials. As such, the CRC members, who are in senior leadership positions across the Bank, would be expected to exercise their professional judgment in considering unspecified extenuating factors in arriving at their individual and collective claim reconsideration decisions. Further, we were told that the CRC is not required to document its meeting deliberations, individual committee member votes, or the rationale for these votes. As a result, the CRC sometimes allows the achievement of broader public policy goals to override violations of individual insurance policies in overturning CPG denial decisions and approving claims.

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<sup>2</sup>This includes short-term insurance claims originally filed prior to FY 2014 that were not within our audit scope.

We evaluated CRC decisions with respect to four late claims totaling approximately \$213,000.<sup>3,4</sup> CPG denied the original claim in each of these four instances because the claimants did not file the claims within the timeframe prescribed in the applicable insurance policy. In all four cases, OGC concurred with CPG's original denial; however, we found that the CRC overturned CPG's denials for two of the claims, which totaled approximately \$110,000, and upheld CPG's denials in the other two cases. The CRC did not document its rationale for these decisions; however, for one of the cases that the CRC overturned and ultimately approved, OGC included the following explanation in the documentation: "OGC concurs with AMD's denial given the clear claim filing deadline under the Policy. Nevertheless, the Insured presents extenuating circumstances which may, at the discretion of the Committee, warrant redress of its claim. Such circumstances included the Insured's transition from one owner to a new owner and from one credit team to a new one, both of which, as it explains, led to a delay in the discovery of the overdue invoice and the filing of the claim."

For two other claim reconsiderations, the CRC overturned CPG's original claim denial despite clear insurance policy violations. As above, it did not document its rationale for these decisions. In both cases, OGC concurred with CPG's original denial. Specifically, for one claim totaling approximately \$125,000, OGC concurred with CPG's denial because "the Insured failed to submit bills of lading or other shipping documents that were issued by an unaffiliated third party, evidencing shipment of the order from the United States to Guatemala as required under Article 3, Section E of the Policy." In the other claim, which totaled approximately \$61,000, OGC concurred with CPG's denial "due to lack of buyer credit limit for the Buyer."

Consequently, in the absence of adequate documentation supporting CRC approvals, we are questioning a total of \$296,000 in unsupported costs. In accordance with the Inspector General Act of 1978, as amended, any federal payments made without adequate documentation represent unsupported questioned costs. In addition, GAO's *Standards for Internal Control in the Federal Government* provides that internal control and all transactions and other significant events must be clearly documented, and the documentation should be readily available for examination.

Without clearly documented procedures, including a definition of the current policy requirements noted in the Resolution, the CRC is at increased risk of making, or at least appearing to make, claim reconsideration decisions that are unfair and inconsistent, especially for cases in which the CRC reconsideration results in paying claims previously denied due to deficiencies in complying with procedures applicable to individual short-term insurance policies. We questioned \$296,000 in unsupported costs related to inadequately documented claim reconsideration payment approvals. Further, unless Ex-Im Bank takes immediate action to revise or augment CRC policies and procedures to provide

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<sup>3</sup>A fifth reconsidered claim that was within the scope of our audit was filed late; however, there were also questions involving the insured's credit limit, and the CRC ultimately denied the claim.

<sup>4</sup>Claim amounts are based upon the CRC log maintained by the MD.

greater transparency regarding how the committee is to balance individual policy compliance with broader taxpayer interests, Ex-Im Bank is at risk of adverse publicity for inconsistent or unfair claims reconsideration decisions. Given the CRC approved decisions to disburse more than \$1.3 million in claim payments for 10 claims in FY 2014 and 2015, it is critical that its decisions be well documented and justified.

## **Recommendations, Management's Response, and Evaluation of Management's Response**

### **Recommendations:**

We recommend that the AMD VP take immediate action to:

1. Establish a mechanism for routinely reviewing the Manual to ensure that it is comprehensive, clear, and current.
2. Augment the 2014 Manual to a) incorporate by reference Ex-Im Bank fraud procedures related to identifying, tracking, and referring instances of potential fraud and b) provide guidance on fraud considerations specifically related to the CPG's responsibilities consistent with guidance contained in GAO's 2015, *A Framework for Managing Fraud Risks in Federal Programs*.
3. Establish a mechanism to ensure COs periodically receive training on Ex-Im Bank's fraud procedures and CPG-specific fraud consideration guidance for identifying, tracking, and referring potential fraud risk indicators.
4. Augment the 2014 Manual to provide additional guidance on factors the CPG should consider in determining whether COs should obtain third-party carrier documentation acknowledging the buyer's receipt of notification from Ex-Im Bank.
5. Augment the 2014 Manual to address areas in which the Manual was not clear with respect to procedural steps required and the title of the individual responsible for carrying out specified procedures.
6. Address deficiencies in the 2014 Manual concerning instances in which the Manual either does not reflect undocumented operating practices or includes outdated procedures.

We recommend that the Bank's Chairman work with the Board of Directors to:

7. Revise Ex-Im Bank's governance documents to define "current policy requirements" and clearly articulate the CRC's purpose and the basis for the CRC's reconsideration reviews and decisions. At a minimum, we recommend evaluating current CRC membership and augmenting the governance documents to: a) set out the broad

public policy factors that the CRC is to consider in carrying out its claims reconsideration responsibilities and b) include requirements for the CRC to document the rationale for individual decisions.

We recommend that the CFO take immediate action to:

8. Document the rationale for or seek recovery of the \$296,000 in inadequately supported claim payments, as appropriate.

**Management's Response:**

Ex-Im Bank Management concurred with the eight recommendations and stated it is currently updating the Manual and plans to put in place by April 30, 2016, a formal procedure for annually reviewing the Manual. In addition, management said it will establish specific training for CPG claims officers on the Bank's fraud procedures and CPG-specific fraud risk assessment. With respect to the CRC, management stated it has introduced a new CRC Charter to expand the 2006 Resolution, including creation of a *Form for Polling Members of the Claims Reconsideration Committee*. Using this form, Bank Management stated that it has documented the rationale for overturning the four identified claims totaling \$296,000.

**Our Evaluation of Management's Response:**

Ex-Im Bank Management's proposed actions are responsive to the recommendations. The recommendations will be closed upon completion and verification of the proposed actions.

**Finding 2: Deficiencies Exist in the Operating Effectiveness of Certain Ex-Im Bank Control Activities and Storage of Related Documentation for Claims Processing**

In general, testing showed the Bank's claims processing controls were operating effectively. However, as summarized in Figure 2, we identified deviations in the operating effectiveness of four control activities associated with Ex-Im Bank's claims process.

Figure 2: Summary of Identified Control Activity Deviations

Control Activities	Claims Reviewed by the CPG < \$1 million	Claims Reviewed by the CPG ≥ \$1 million	Claims Reviewed by the CRC
Missing Loss Certifications	3	0	0
Missing Buyer Notification Letters	4	0	1
Missing Release and Assignment Documentation	3	0	0
Incorrect Signatures Following CRC Decisions	n/a	n/a	13

We also noted one other control deviation related to inadequate SBCL documentation. In addition, we found that certain supporting documentation for short-term insurance claims filed in FY 2015 was not properly stored in EOL. Appendix A presents a summary of the control activities we tested.

***Deficiencies Exist in the Operating Effectiveness of Certain Ex-Im Bank Internal Control Activities for Claims Processing***

We identified deficiencies in the operating effectiveness of four control activities associated with Ex-Im Bank’s claims process. These deficiencies occurred because Ex-Im Bank CPG personnel did not always adhere to the Bank’s policies and procedures set out in the Manual. In cases where documentation was missing, CPG personnel either did not execute certain control activities or did not retain required documentation to evidence execution of the control activities. Without proper documentation, it is not possible to verify which situation occurred. By not always adhering to the Bank’s policies and procedures, Ex-Im Bank increases the risk that it will not properly approve claims for payment, consistently execute claim reconsideration processes, or maintain the documentation to support its subsequent attempt to recover amounts paid.

GAO’s internal control standards provide that internal control and all transactions need to be clearly documented, and the documentation should be readily available for examination.

**Missing Loss Certifications.** Ex-Im Bank did not provide signed loss certifications for three of the claims we tested. This documentation is important because a claimant certifies, subject to penalties provided in federal law,<sup>5</sup> that, among other things, it is owed the amount claimed from another party, it has complied with the terms and conditions of the insurance policy, all information it has supplied is complete and true, and it has not withheld any material facts. The CO checklist requires COs to verify the Bank’s receipt of the loss certification. The COs indicated on the individual checklists that they had obtained the certifications; however, the Bank was not able to provide these certifications.

<sup>5</sup>18 U.S.C. 1001.

Nevertheless, other documentation supported the validity of the claims. For two claims, the Bank obtained the loss certifications in December 2015 in response to our inquiry.

**Missing Buyer Notification Letters.** The Bank did not provide copies of standard notification letters to buyers for four approved claims and one denied claim we tested. The standard notification letters facilitate communication between the buyer and the Bank, providing an opportunity to obtain information that can help the Bank determine whether the buyer exists and the claim is valid. Bank officials told us that although EOL is the official system of record for FY 2015, the Bank had difficulty tracking buyer notification letters due to EOL implementation. Although the Bank did not submit evidence of the notification letters to us, it stated that the buyers associated with the four approved claims have made partial payments to the Bank, which indicates their awareness of the debt.

**Missing Release and Assignment Documentation.** Ex-Im Bank did not provide required release and assignment documentation for three approved or partially approved claims we tested. The notarized release and assignment documentation is how the insured assigns to Ex-Im Bank the rights to amounts due from the buyer. This helps Ex-Im Bank recover the amounts paid for the claim. Nevertheless, other information contained in the claim files helped document the validity of the claims. For two claims, the Bank obtained the release and assignment documentation in December 2015 in response to our inquiry.

**Incorrect Signatures Following CRC Decisions.** For approval decisions by the CRC, the Manual requires that CPG personnel prepare an approval letter to the insured. If the CRC upholds the CPG denial, the Manual requires that the CPG prepare and transmit a denial letter to the insured under the CRC Chairman's signature. These requirements are inconsistent with the 2006 Resolution which states, "Upon final disposition of a reconsideration request by the Claims Committee, a member of the Claims Committee shall promptly notify the claimant in writing of the decision rendered by the Claims Committee." Therefore, the notification should come from the CRC regardless of the CRC's final decision. If the CRC overrules CO and MD decisions and then expects the overruled parties to execute the final decisions, as per the Manual, an inherent conflict arises. Our review of Ex-Im Bank's letters following CRC decisions identified 13 cases in which the official that signed the letter was not a CRC member, but rather an individual from the CPG.

### ***Other Control Deviation Identified in Claims Review Concerning SBCL Requirements***

The Bank does not have adequate control procedures for the documentation and approval of claims when discrepancies exist between the intended coverage of an insurance policy and associated endorsements according to the underwriter, and the explicit coverage stated in the policy, for cases in which the discrepancy would negatively affect the insured party. We determined that such discrepancies were not handled consistently and may require a higher level of approval. Absent appropriate approval and sufficient documentation of any consultations with the Bank's underwriting divisions, there is an

increased risk of improper claims approvals for such situations, including shipments of goods to countries on the Bank's Country Limitation Schedule.

For example, the supporting documentation for one \$14,000 claim indicated the insured goods were shipped to Pakistan, even though the SBCL associated with the insurance policy only explicitly allowed invoicing to Pakistan and was silent with respect to shipping goods there. Ex-Im Bank's Country Limitation Schedules in effect at the time of these shipments indicated that shipments to Pakistan require insured parties to obtain special endorsements. We found no evidence that CPG consulted with the underwriters prior to partially approving the claim to determine if the shipments to Pakistan were permitted. Furthermore, a higher level of approval may be appropriate for these types of discrepancies.

In another claim partially approved by CPG, the CO and MD explicitly noted that the associated policy was never amended to allow shipments to Iraq, a condition that "could be viewed as a basis for denial of the entire claim. However, TCI [Trade Credit Insurance Division] has explicitly stated that they were aware that the goods were going to Iraq and failure to endorse the Policy to reflect this was an oversight on TCI's part." In this instance, CPG had conferred with the underwriter prior to the partial approval of the claim, but given the discrepancy with the policy, a higher level of approval should have been required. Ex-Im Bank's CO checklist includes steps requiring COs to consider SBCLs and discretionary credit limits associated with the insurance policy.

### ***Instances in Which Certain Claims Documentation Was not Stored in Required System of Record***

We found that certain supporting documentation for five short-term insurance claims filed in FY 2015 was not stored in EOL. For FY 2015, Ex-Im Bank designated EOL as the official system of record for documenting all claim reviews and decisions. Claim review documentation that COs did not always maintain in EOL included: bills of lading or other third-party shipping documentation to evidence export, loss certifications, evidence of claimants' efforts to collect amounts due to them from foreign buyers, and release and assignment documentation. Ex-Im Bank was ultimately able to locate these items in COs' hard-copy files and e-mail accounts. We did not identify a similar condition for FY 2014 claims, which were properly stored in hard-copy file folders.

By not consistently using EOL to store this documentation, COs impede the Bank's ability to assure that it meets the overall claim processing goal of fair and consistent review and decision-making for all claims received. Moreover, improperly stored documentation increases the risk that the Bank will not be able to locate evidentiary matter for consideration when evaluating claim appeals and making recommendations to the CRC.

GAO's *Standards for Internal Control in the Federal Government* provides that internal control and all transactions should be clearly documented, and the documentation should be readily available for examination. Those standards also dictate that all documentation and records should be properly managed and maintained.

## Recommendation, Management's Response, and Evaluation of Management's Response

### Recommendation:

We recommend that the AMD VP:

9. Take immediate action to establish a mechanism for assuring all COs follow the required claims processing policies and procedures set out in the Manual, including the requirement to use EOL as the official system for storing all supporting documentation for claims.
10. Augment the Manual to include a control procedure concerning documentation and approval requirements for any CPG consultations with the Bank's underwriting divisions for any claim that includes a discrepancy between the intended coverage of an insurance policy and associated endorsements according to the underwriter, and the explicit coverage stated in the policy.
11. Require CPG staff to locate and upload into EOL missing FY 2015 claim documentation.

### Management's Response:

Ex-Im Bank Management concurred with the three recommendations. Management stated that the MD communicated to CPG staff required procedures for reviewing and submitting claim information in EOL and circulated a newly implemented *Claim Document Filing Checklist*. In addition, management said it is updating the Manual to include approval procedures for situations involving discrepancies between insurance policies and endorsements. Finally, management stated it plans to ensure all necessary FY 2015 claims data is uploaded into EOL by September 30, 2016.

### Our Evaluation of Management's Response:

Ex-Im Bank Management's proposed actions are responsive to the recommendations. The recommendations will be closed upon completion and verification of the proposed actions.

## Appendix A: Summary of Control Activities Tested

As part of our audit, we tested the following control activities:

- Claimant completed the proof-of-loss form
- Claimant certified its loss
- EOL assigned unique claim numbers
- MD monitored claims assignment against the 60-day review requirement
- CO issued buyer notification letters
- CO and MD completed claims memoranda and claims checklists (which included among other things, requirements for the CO to evaluate evidence such as export shipping documentation, collection efforts by claimant, and payment of premiums)
- MD and AMD VP approved claims, as required
- EOL routed claims and maintained a routing history
- CO notified the claimant regarding the Ex-Im Bank decision
- CO obtained release and assignment documentation
- MD maintained an appeals log
- CPG and OGC prepared documentation for appeals submitted to the CRC
- The CRC notified the claimant regarding the CRC decision

## Appendix B: Management Comments

EXPORT-IMPORT BANK  
OF THE UNITED STATES

March 11, 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 Mr. McCarthy,

Thank you for providing the Export-Import Bank of the United States (“EXIM Bank” or “the Bank”) management with the Office of the Inspector General’s (“OIG”) “Independent Auditor’s Report on the Export-Import Bank’s Short-Term Insurance Claims Processing”, dated February 11, 2016 (the “Report”). Management continues to support the OIG’s work which complements the Bank’s efforts to continually improve its processes. EXIM Bank is proud of the strong and cooperative relationship it has with the OIG.

The Bank appreciates the OIG recognizing that “EXIM Bank’s short-term insurance claims filed in FYs 2014 and 2015 were generally processed in compliance with the Bank’s policies and procedures. Further, the policies and procedures as of September 30, 2015, were suitably designed to provide reasonable assurance that improper claim approvals, denials, and reconsiderations are prevented or timely detected and identified processing controls were generally operating effectively during this period.”

The OIG has made eleven recommendations to help reduce the risk of improper claim approvals, denials and reconsiderations. The Bank concurs with all eleven recommendations, and has already taken action to fully address three of the recommendations. The Bank will move forward with implementing the eight remaining recommendations.

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Recommendation 1: Establish a mechanism for routinely reviewing the Claims Processing Group & Asset Recovery Group Operating Manual (“Manual”) to ensure that it is comprehensive, clear, and current.

Management Response: The Bank concurs with this recommendation.

The Bank will develop a procedure to review the Manual on an annual basis to ensure that it is comprehensive, clear and current. The Bank expects to have a formal procedure in place by April 30, 2016.

Recommendation 2: Augment the 2014 Manual to a) incorporate by reference EXIM Bank fraud procedures related to identifying, tracking, and referring instances of potential fraud and b) provide guidance on fraud considerations specifically related to the Claim Processing Group’s responsibilities consistent with guidance contained in GAO’s 2015, *A Framework for Managing Fraud Risks in Federal Programs*.

Management Response: The Bank concurs with this recommendation.

The Bank is currently updating the Manual to: a) incorporate by reference the Bank’s comprehensive fraud procedures, “*Fraud Prevention, Detection and Prosecution Procedures*” for identifying, tracking, and referring instances of fraud, and b) document procedures for referring instances of possible fraud to the Office of General Counsel in accordance with GAO’s 2015, *A Framework for Managing Fraud Risks in Federal Programs*. It is important to note that the Bank and the OIG have a protocol for fraud referrals, which is detailed in the Bank’s fraud procedures.

The Bank expects to have an updated Manual completed by September 30, 2016.

Recommendation 3: Establish a mechanism to ensure claims officers periodically receive training on EXIM’s fraud procedures and Claims Processing Group (“CPG”)-specific fraud consideration guidance for identifying, tracking, and referring potential fraud risk indicators.

Management Response: The Bank concurs with this recommendation.

The Bank will establish periodic training sessions specifically for CPG claims officers on EXIM Bank’s fraud procedures and CPG-specific fraud risk assessment. The Bank expects the first training session to be conducted prior to September 30, 2016.

It is important to note that the Bank currently offers periodic bank-wide fraud training through the Bank’s Human Resources training and development team. In FY 2015, Human Resources hosted 4 training sessions on Detecting and Preventing Fraud in Lending conducted by an outside consultant and this course will continue to be one of the Bank’s key staff trainings.

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Recommendation 4: Augment the 2014 Manual to provide additional guidance on factors the CPG should consider in determining whether claims officers should obtain third-party carrier documentation acknowledging the buyer's receipt of notification from EXIM Bank.

Management Response: The Bank concurs with this recommendation.

The Bank will update the Manual to provide additional guidance on factors the CPG should consider in determining whether claims officers should obtain third-party carrier documentation acknowledging the buyer's receipt of notification from EXIM Bank.

The Bank expects to have an updated Manual completed by September 30, 2016.

Recommendation 5: Augment the 2014 Manual to address areas in which the Manual was not clear with respect to procedural steps required and the title of the individual responsible for carrying out specified procedures.

Management Response: The Bank concurs with this recommendation.

The Bank is currently updating the Manual to document procedural steps required for individuals responsible for performing certain functions related to claims processing within CPG and other related divisions.

The Bank expects to have an updated Manual completed by September 30, 2016.

Recommendation 6: Address deficiencies in the 2014 Manual concerning instances in which the Manual either does not reflect undocumented operating practices or includes outdated procedures.

Management Response: The Bank concurs with this recommendation.

The Bank is currently updating the Manual to document current and comprehensive operating practices and procedures.

The Bank expects to have an updated Manual completed by September 30, 2016.

Recommendation 7: Revise EXIM Bank's governance documents to define "current policy requirements" and clearly articulate the Claim Reconsideration Committee's ("CRC's") purpose and the basis for the CRC's reconsideration reviews and decisions. At a minimum, we recommend evaluating current Claim Reconsideration Committee ("CRC" or "Committee") membership and augmenting the governance documents to: a) set out the broad public policy factors that the CRC is to consider in carrying out its claims reconsideration responsibilities and b) include requirements for the CRC to document the rationale for individual decisions.

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Management Response: The Bank concurs with this recommendation.

The Bank has implemented this recommendation. On March 1, 2016, the Bank presented for re-evaluation the existing CRC membership and introduced a new CRC Charter to the Bank's Executive Working Group ("EWG") for consideration and approval. The EWG approved the CRC membership (number of members and offices) and Charter which expands the 2006 Resolution to clarify the CRC's authority to uphold claim denials or order payment of claims, and member roles and responsibilities. Further, the Charter stipulates the Committee's requirements for documenting its authority to make claim decisions using a polling document *Form for Polling Members of the Claims Reconsideration Committee* (attached to Charter as Annex A) to poll committee members that voted in favor of overturning a claim denial. The CRC decisions will continue to be non-precedential as each claim will be considered on a case-by-case basis.

Recommendation 8: Document the rationale for or seek recovery of the \$296,000 in inadequately supported claim payments, as appropriate.

Management Response: The Bank concurs with this recommendation.

The Bank has implemented this recommendation and documented its rationale for overturning the four identified claims in the amount of \$296,000 using the newly implemented *Form for Polling Members of the Claims Reconsideration Committee*.

Recommendation 9: Take immediate action to establish a mechanism for assuring all COs follow the required claims processing policies and procedures set out in the Manual, including the requirement to use EXIM Online ("EOL") as the official system for storing all supporting documentation for claims.

Management Response: The Bank concurs with this recommendation.

The Bank has implemented this recommendation. On December 23, 2015, the Managing Director of Claims circulated an email to CPG staff informing them of the required procedures for reviewing and submitting claim information in EOL. As part of this implementation, the Managing Director of Claims circulated a newly implemented *Claim Document Filing Checklist* so that claims officers can document their review for compliance with existing procedures. As part of claims officers' year-end performance evaluations, claims officers are required to follow this procedure.

Recommendation 10: Augment the Manual to include a control procedure concerning documentation and approval requirements for any CPG consultations with the Bank's underwriting divisions for any claim that includes a discrepancy between the intended coverage of an insurance policy and associated endorsements according to the underwriter, and the explicit coverage stated in the policy.

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Management Response: The Bank concurs with this recommendation.

The Bank is currently updating the Manual to document the procedure for approving claims when there is a discrepancy between an insurance policy and endorsement.

The Bank expects to have an updated Manual completed by September 30, 2016.

Recommendation 11: Require CPG staff to locate and upload into EOL missing FY 2015 claim documentation.

Management Response: The Bank concurs with this recommendation.

The Bank is committed to having all supporting claims documentation stored in EOL. The Bank will ensure all necessary FY 2015 claims data is uploaded into EOL by September 30, 2016.

We thank the OIG for your efforts to ensure the Bank's policies and procedures continue to improve, as well as the work you do with us to protect EXIM funds 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,



Charles J. Hall  
Executive Vice President and Chief Operating Officer  
Export-Import Bank of the United States

## To Report Fraud, Waste, or Abuse, Please Contact:

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

Telephone: 1-888-OIG-Ex-Im (1-888-644-3946)

Fax: (202) 565-3988

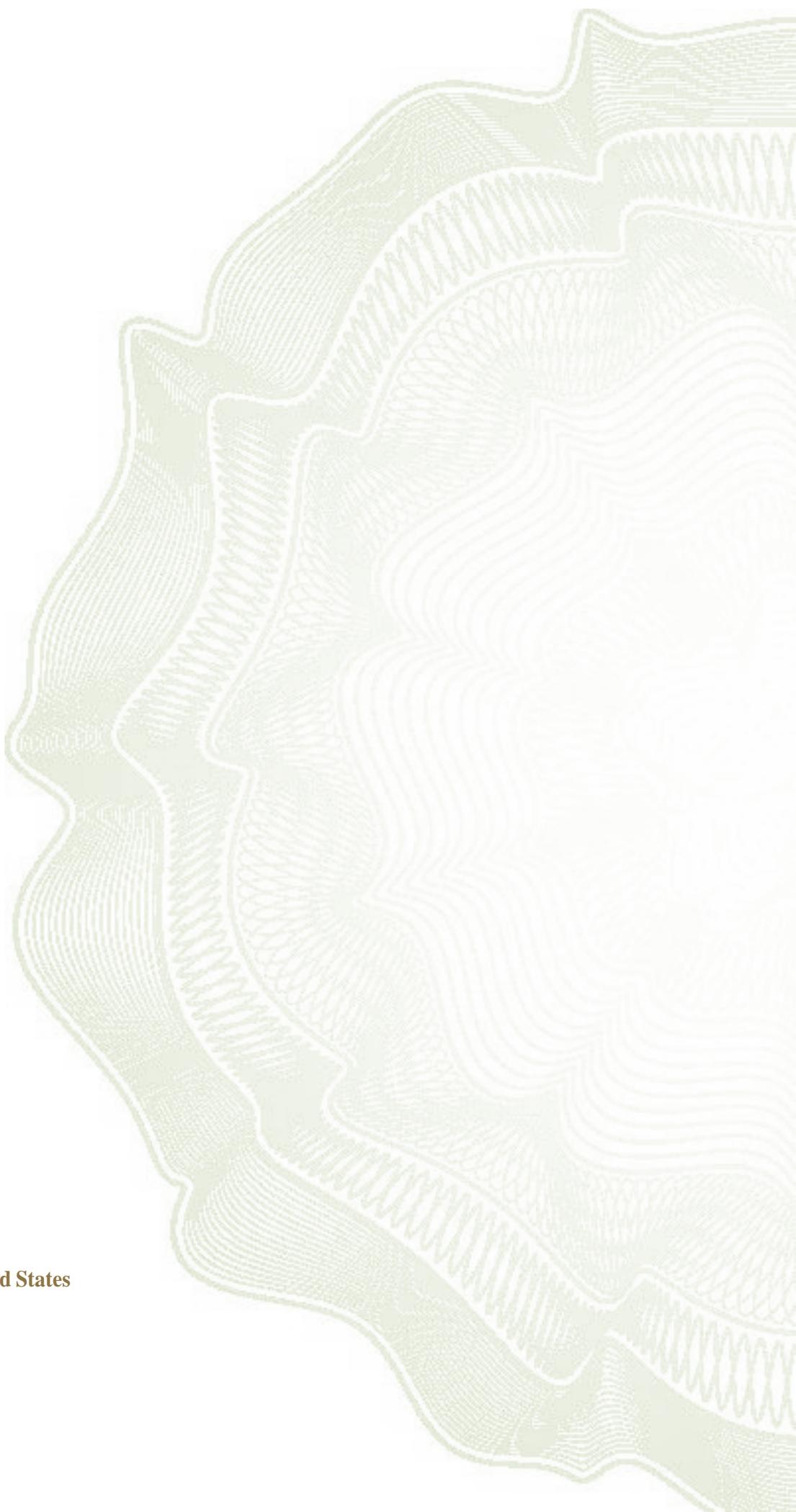
Address: Office of Inspector General  
Export-Import Bank of the United States  
811 Vermont Avenue, NW  
Suite 138  
Washington, DC 20571

## Comments and Suggestions

If you wish to comment on the quality or usefulness of this report or suggest ideas for future audits please contact Terry Settle, Acting Assistant Inspector General for Audits, at [Terry.Settle@exim.gov](mailto:Terry.Settle@exim.gov) or call (202) 565-3498. Comments, suggestions, and requests can also be mailed to the attention of the Assistant Inspector General for Audits at the address listed above.



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



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