



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

**Independent Auditors'  
Report on Export-Import  
Bank's FY 2018 Payment  
Integrity Annual Reporting  
Compliance with Improper  
Payment Laws**

*May 20, 2019  
OIG-AR-19-04*



To: Inci Tonguch-Murray, Acting Senior Vice President and Chief Financial Officer

From: Jennifer Fain, Assistant Inspector General for Audits and Evaluations 

Subject: Independent Auditors' Report on Export-Import Bank's FY 2018 Payment Integrity Annual Reporting Compliance with Improper Payment Laws

Date: May 20, 2019

This memorandum transmits the Independent Auditors' Report on Export-Import Bank's FY 2018 Payment Integrity Annual Reporting Compliance with Improper Payment Laws. Under a contract monitored by this office, we engaged the independent public accounting firm of Ernst & Young LLP (EY) to perform the audit. The objective of this audit was to determine the Bank's fiscal year (FY) 2018 payment integrity annual reporting compliance with the improper payment laws for its FY 2017 transactions.

EY determined EXIM's FY 2018 Payment Integrity annual reporting fully complied with all reporting requirements of the improper payments laws, as stipulated in OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments. While the Bank fully met payment integrity reporting requirements, EY made three recommendations to improve the risk assessment process: (1) enhance documented IPERA risk assessment procedures to outline steps used by EXIM to show the relationship among programs between its various reports; (2) provide additional formalized training to agency staff on how to perform the risk assessment to ensure personnel have a consistent understanding of the process; and (3) amend the current Risk Assessment Report to accurately reflect the assessment procedures associated with employee compensation. EXIM management concurred with these recommendations. We consider management's proposed actions to be responsive and the recommendation will be closed upon completion and verification of the proposed actions.

We appreciate the cooperation and courtesies provided to EY and this office during the audit. If you have questions, please contact me at (202) 565-3439. You can obtain additional information about the Export-Import Bank Office of Inspector General and the Inspector General Act of 1978 at <http://www.exim.gov/about/oig>.



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Report of Independent Auditors on Export-Import Bank of the United States’  
Compliance with the Improper Payments Information Act of 2002,  
as amended by the Improper Payments Elimination and Recovery Act of 2010  
and the Improper Payments Elimination and Recovery Improvement Act of 2012

The Senior Vice President and Chief Financial Officer and the Inspector General  
of the Export-Import Bank of the United States

We conducted a performance audit of the Export-Import Bank of the United States’ (EXIM Bank, EXIM, or the Bank) compliance with the required calculation and disclosure of Improper Payment Rates as of and for the fiscal year ended September 30, 2018. The objective was to determine if EXIM Bank is in compliance with the Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010 and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 (hereinafter referred to as the IPIA, as amended).

We conducted this performance audit in accordance with the Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, and 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.

To assess EXIM Bank’s compliance, we performed specific procedures to address the objectives requested by the EXIM Bank Office of the Inspector General (OIG) and summarized in the 2018 Statement of Work Section 4 – Objectives, Scope and Methodology and are summarized in Appendix A of this report.

In our opinion, EXIM Bank complied with the reporting requirements of the improper payments laws as stipulated in OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments as presented in the FY18 Annual Report (AR). Our findings and recommendations are documented in this report.

This report is intended solely for the information and use of EXIM Bank and the EXIM Bank Office of Inspector General, Office of Management and Budget, Congress and the U.S. Government Accountability Office, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Ernst & Young LLP*

May 15, 2019

*The Export-Import Bank of the United States (EXIM or the Bank) is the official export credit agency of the United States (U.S.). EXIM is an independent, self-sustaining executive agency and a wholly-owned U.S. government corporation. The Bank's mission is to support jobs in the United States by facilitating the export of U.S. goods and services. EXIM 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 EXIM, was statutorily created in 2002 and organized in 2007. The mission of the EXIM 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.*

*This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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 objectives.*

# EXECUTIVE SUMMARY

Independent Auditors' Report FY 2018 Payment Integrity  
OIG-AR-19-04, May 20, 2019

## Why We Did This Audit

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) (herein after referred to collectively as the “improper payment laws”), requires each agency’s Inspector General to perform an annual review of the agency’s compliance with improper payments reporting requirements, as stipulated in Office of Management and Budget (OMB) guidance. The Office of Inspector General (OIG) engaged EY to conduct an independent audit to determine whether the Bank was in compliance with the reporting requirements of the improper payment laws for fiscal year (FY) 2018 reporting. In addition, the audit assessed the accuracy and completeness of EXIM Bank’s improper payment reporting, agency performance in reducing and recapturing improper payments, and the Bank’s implementation of the prior year audit recommendation.

## What We Recommend

We made three recommendations to improve EXIM Bank’s improper payment risk assessment process.

We recommend:

- (1) enhance documented IPERIA risk assessment procedures to outline steps utilized by EXIM to show the relationship among programs between its various reports;
- (2) provide more formalized training to agency staff on how to perform the risk assessment to ensure that sufficient personnel have a consistent understanding of the process to (a) be able to perform the function and (b) be able to explain the sources and rationale behind the analysis; and
- (3) amend the current Risk Assessment Report to accurately reflect the assessment procedures associated with employee compensation.

## What We Found

We determined that EXIM Bank complied with the reporting requirements of the improper payment laws as stipulated in OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments as presented in the Bank’s FY 2018 Annual Report.

While EXIM Bank met the payment integrity reporting requirements, our audit determined that the risk assessment process could be enhanced. We found that the Bank did not have a detailed process in place to re-perform the FY 2018 Improper Payment Risk Assessment, which was conducted based on FY 2017 data. The Bank’s Risk Assessment Report did not show the relationship between the Risk Assessment and the Annual Report.

In addition, EXIM Bank’s FY 2018 Risk Assessment Report indicated employee compensation payments were part of the Bank’s improper payment assessment. However, the Bank does not perform this review and relies on a third-party processor through a Service Level Agreement with the provider.

Although we were ultimately able to reasonably determine the completeness and accuracy of EXIM Bank’s improper payment risk assessment for its payment programs, we have made three recommendations aimed at improving the risk assessment process.

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

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## INTRODUCTION

The Improper Payments Elimination and Recovery Act of 2010 (IPERA; P.L. No. 111-204) requires Offices of Inspector General (OIGs) to review and report on agencies' annual improper payment information included in their Annual Reports to determine compliance with the Improper Payments Information Act of 2002 (IPIA; P.L. No. 107-300), as amended by IPERA, as well as the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. No. 112-248) (hereinafter referred to as improper payment laws). This report presents the results of our performance audit of the Export-Import Bank of the United States' (EXIM Bank, EXIM, or the Bank) compliance with improper payment laws and Office of Management and Budget (OMB) guidance for the fiscal year (FY) ending September 30, 2018. The objectives of the audit were to:

1. Determine whether EXIM Bank was in compliance with the reporting requirements of the improper payment laws and OMB guidance,
2. Assess the accuracy and completeness of EXIM Bank's improper payment reporting,
3. Assess agency performance in reducing and recapturing improper payments, and
4. Assess the Bank's implementation of the prior year audit recommendations.

In addition, we evaluated EXIM Bank's assessment of the level of risk and quality of improper payments and methodology for four payment programs (short-term authorizations, medium-term authorizations, long-term authorizations, and cash-control disbursements). EXIM Bank issued its FY 2018 Annual Report on November 15, 2018.<sup>1</sup> The Bank determined that these programs were not susceptible to significant improper payments.

To address our objectives, our audit was performed from September 2018 through April 2019 and covered the information that was reported in the "Payment Integrity" section of EXIM Bank's FY 2018 Annual Report and its four payment programs. We interviewed Bank personnel, gained an understanding of EXIM's payment and improper payment evaluation processes, and inspected risk assessments, related results and AR disclosures to determine if EXIM Bank complied with payment integrity laws. For more details on the audit scope and methodology, see Appendix A.

We conducted this performance audit in accordance with the Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, and 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.

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<sup>1</sup> See <https://www.exim.gov/sites/default/files/reports/annual/2018/EXIM-AnnualReport-2018.pdf>.

## BACKGROUND

An improper payment is any disbursement or transfer of Federal funds to any non-Federal person, non-Federal entity, or Federal employee, that is made by a Federal agency, a Federal contractor, a Federal grantee, or a governmental or other organization administering a Federal program or activity that should not have been made or that was made in an incorrect amount (either overpayments or underpayments), as well as other causes listed in the OMB implementation guidance. To improve accountability of Federal agencies' administration of funds, the improper payment laws require agencies, including EXIM Bank, to annually report information to the President and Congress on the agencies' improper payments. OMB Circulars provide guidance on the implementation of and reporting under the IPIA (OMB Circular A-123, Appendix C, parts I and II, and OMB Circular A-136, § II.5.8).

In its Independent Auditors' Report on EXIM Bank's FY 2017 *Payment Integrity Annual Reporting Compliance with Improper Payment Laws*, EXIM Bank complied with payment integrity reporting requirements for the FY 2017 reporting of its FY 2016 transactions and fully met payment integrity reporting requirements.

Additionally, in accordance with OMB Circular A-123, EXIM performed a risk assessment of the programs it deemed low risk for significant improper payments and which had not experienced a significant change in legislation and/or funding level. The risk assessment is performed once every three years. With OMB's approval, EXIM Bank reports its improper payments one year in arrears as the results of its analysis are not available by November 15 of the current period. Based on the most recent risk assessment, which was performed in FY 2018 on FY 2017 transactions,<sup>2</sup> EXIM deemed each of its four payment programs (short-term authorizations, medium-term authorizations, long-term authorizations, and cash-control disbursements) as not susceptible to significant improper payments.

As each program is deemed low risk, improper payment laws do not require EXIM to perform certain processes, including:

- Publishing improper payment estimates for all programs and activities identified in its risk assessment as susceptible to significant improper payments,
- Publishing whether the Bank met annual reduction targets for each program assessed to be at risk and measured for improper payments, and
- Reporting a gross improper payment rate of less than 10 percent for each program or activity for which an improper payment estimate was obtained and published in the Annual Report.

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<sup>2</sup> The Export-Import Bank's Compliance with the Improper Payments Elimination Act of 2010: Review of Fiscal Year 2017, dated February 6, 2019 (i.e., the Risk Assessment Report).

## AUDIT RESULTS

### EXIM Bank Complied with the Improper Payment Laws for FY 2018 Payment Integrity Annual Reporting

For FY 2018, EXIM Bank complied with the improper payment laws for annual reporting as required by OMB Circular A-123 (see Table 1 below for a summary) and the reporting was accurate and complete.<sup>3</sup> In addition, the Bank performed the procedures outlined in the Risk Assessment Report aimed at reducing and recapturing improper payments.<sup>4</sup> Furthermore, we determined that EXIM adequately addressed the prior year’s audit recommendation relating to the discussion of the recapture audit plan by revising the FY 2018 Annual Report. Accordingly, this recommendation is closed.

*Table 1: Summary of EXIM Bank’s Compliance with OMB A-123, Appendix C Requirements:*

Program Name	Published an Annual Report	Conducted a Risk Assessment, as required	Published an Improper Payment Estimate, as required	Published Corrective Action Plans, as required	Published and is Meeting Reduction Targets, as required	Report an Improper Payment Rate of Less Than 10%, as required
Short-term Authorizations	Compliant	Compliant	Not Required	Not Required	Not Required	Not Required
Medium-term Authorizations	Compliant	Compliant	Not Required	Not Required	Not Required	Not Required
Long-term Authorizations	Compliant	Compliant	Not Required	Not Required	Not Required	Not Required
Cash Disbursements	Compliant	Compliant	Not Required	Not Required	Not Required	Not Required

Lastly, we evaluated EXIM Bank’s assessment of the level of risk for the four payment programs to determine susceptibility to significant improper payments, and the quality of improper payments estimates and methodologies. The Bank conducted an assessment of risk in FY 2018 utilizing FY 2017 data. Management’s analysis determined that the Bank programs were low risk and not susceptible to significant improper payments. Management is only required to determine improper payment rates where risk assessments were assessed as high risk. Whereas EXIM complied with the improper payment laws for FY 2018 payment integrity annual reporting, we observed that the Bank can improve controls over its risk assessment procedures as described below.

<sup>3</sup> See OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* at <https://www.whitehouse.gov/wp-content/uploads/2018/06/M-18-20.pdf>.

<sup>4</sup> *Supra* note 2.

## **EXIM Bank Needs to Enhance the Improper Payment Risk Assessment Procedures and Provide Staff with Formalized Training on the Procedures**

While EXIM Bank met payment integrity reporting requirements, our audit determined the risk assessment process could be enhanced. We found that the Bank did not have a detailed process in place to re-perform the FY 2018 Improper Payment risk assessment, which was conducted based on FY 2017 data. The Bank's Risk Assessment Report did not show the relationship between the risk assessment and the Annual Report. This was caused by insufficient detailed procedures which prevented the Bank from addressing discrepancies promptly and inadequate cross-training of personnel. The employee responsible for the risk assessment resigned from EXIM Bank during the audit and few employees outside of this individual could explain the sources and rationale behind this analysis. Therefore, the Bank was unable to readily discuss certain aspects of the risk assessment.

GAO's *Standards for Internal Control* (the standards) paragraph 3.10 states, "Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well to communicate that knowledge as needed to external parties, such as external auditors." In addition, Principle 10 of the standards states that, "Training is aimed at developing and retaining employee knowledge, skills, and abilities to meet changing organizational needs."

Lastly, EXIM Bank's FY 2018 Risk Assessment Report indicated employee compensation payments were part of the Bank's improper payment assessment. However, the Bank does not perform this review and relies on a third-party processor through a Service Level Agreement with the provider. Although we were ultimately able to reasonably determine completeness and accuracy of EXIM Bank's improper payment risk assessment for its payment programs, we have made three recommendations aimed at improving the risk assessment process.

### **Recommendations, Management Comments, and Auditor's Response**

We recommend the Office of the Chief Financial Officer ensure EXIM Bank's improper payment risk assessment adequately document the process and provide adequate training to staff. Specifically, EXIM Bank should:

1. Enhance documented IPERIA risk assessment procedures to outline steps utilized by EXIM to show the relationship among programs between its various reports.
2. Provide more formalized training to agency staff on how to perform the risk assessment to ensure that sufficient personnel have a consistent understanding of the process to (a) be able to perform the function and (b) be able to explain the sources and rationale behind the analysis.
3. Amend the current Risk Assessment Report to accurately reflect the assessment procedures associated with employee compensation.

**Management Comments**

EXIM Bank Management concurred with our recommendations. Management stated:

1. The Bank will enhance its documented IPERIA risk assessment procedures to outline steps utilized by EXIM to show the relationship among programs between its various reports;
2. The Bank will provide more formalized training to agency staff on how to perform the risk assessment to ensure that sufficient personnel have a consistent understanding of the process to (a) be able to perform the function and (b) be able to explain the sources and rationale behind the analysis; and
3. The Bank will amend the current Risk Assessment Report to accurately reflect the assessment procedures associated with employee compensation.

**Auditor's Response**

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

## Appendix A: Scope and Methodology

### Scope

Our audit was performed from September 2018 through April 2019 and covered the information that was reported in the “Payment Integrity” section of EXIM Bank’s FY 2018 Annual Report. EXIM Bank included information on four payment programs, as follows:

- Short-term authorizations: less than or equal to one year, regardless of dollar amount;
- Medium-term authorizations: more than one year and less than or equal to seven years and less than or equal to \$10 million;
- Long-term authorizations: more than seven years or more than one year and more than \$10 million; and
- Cash disbursements: payment related to the disbursement of loans, claims, and expense payments.

EXIM categorizes three of its four IPERIA programs based on credit standards. Since payments for authorizations can occur many years in the future, EXIM Bank developed an internal control and assessment process to review the susceptibility of improper payments at the authorization level during its Risk Assessment.

Our audit determined whether EXIM Bank was compliant with the reporting requirements of the improper payment laws for FY 2018 reporting. In addition, the audit assessed the accuracy and completeness of EXIM Bank’s improper payment reporting, agency performance in reducing and recapturing improper payments, and EXIM Bank’s implementation of the prior year audit recommendation.

### Methodology

We conducted this performance audit in accordance with the Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To determine whether EXIM Bank complied with the improper payment laws, we:

- Reviewed applicable Federal laws and OMB circulars;
- Obtained and analyzed information from EXIM Bank on the four payment programs;
- Reviewed improper payment information reported in EXIM Bank’s FY 2018 Annual Report and determined whether it met improper payment law disclosure requirements. Additionally, we verified that the Bank’s FY 2018 Annual Report was published on EXIM.gov;
- Interviewed Bank personnel to obtain an understanding of (1) the processes and events related to determining improper payments, (2) the process for assessing the level of risk for each program, (3) EXIM’s approach to meeting OMB’s guidance, and

(4) the processes to gain assurance about the quality of the improper payment estimates and methodology for each program;

- Inspected the risk assessment process and related results performed by EXIM, including the methodologies to determine completeness of its programs;
- Performed walk-throughs and inspected key processes, steps and documentation used to estimate improper payments in each program; and
- Inspected EXIM Bank’s application of the Character, Reputational, and Transaction Integrity (CRTI) process, which includes the assessment of Do Not Pay Initiative at a program level in FY 2018.

We discussed the results of our work with EXIM Bank and received written comments on the report’s recommendations. Refer to Appendix B of this report for EXIM Bank’s formal response.

## Appendix B: Management Response



*Reducing Risk. Unleashing Opportunity.*

May 7, 2019

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

Dear Ms. Salehi,

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 Auditors’ Report on Export-Import Bank’s FY2018 Payment Integrity Annual Reporting Compliance with Improper Payment Laws” dated April 18, 2019 (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 OIG contracted with Ernst & Young LLP (“EY”) to conduct a performance audit of the Bank’s payment integrity and improper payment practices. The Bank appreciates EY recognizing that the Bank “complied with reporting requirements of the improper payments laws as stipulated in OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments”.

The OIG, through EY, has made three new recommendations to improve EXIM’s improper payment risk assessment process. The Bank concurs with all three recommendations and will move forward with implementing the recommendations.

Recommendation 1: Enhance documented IPERIA risk assessment procedures to outline steps utilized by EXIM to show the relationship among programs between its various reports.

Management Response: The Bank concurs with this recommendation.

The Bank will enhance its documented IPERIA risk assessment procedures to outline steps utilized by EXIM to show the relationship among programs between its various reports.

Recommendation 2: Provide more formalized training to agency staff on how to perform the risk assessment to ensure that sufficient personnel have a consistent understanding of the process to (a) be able to perform the function and (b) be able explain the sources and rationale behind the analysis.



*Reducing Risk. Unleashing Opportunity.*

Management Response: The Bank concurs with this recommendation.

The Bank will provide more formalized training to agency staff on how to perform the risk assessment to ensure that sufficient personnel have a consistent understanding of the process to (a) be able to perform the function and (b) be able explain the sources and rationale behind the analysis.

Recommendation 3: Amend the current Risk Assessment Report to accurately reflect the assessment procedures associated with employee compensation.

Management Response: The Bank concurs with this recommendation.

The Bank will amend the current Risk Assessment Report to accurately reflect the assessment procedures associated with employee compensation.

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,

Jeffrey Goettman  
Executive Vice President and Chief Operating Officer  
Export-Import Bank of the United States

## **Appendix C: Distribution List**

Kimberly Reed, President and Chairman  
Jeffrey Goettman, Executive Vice President and Chief Operating Officer  
Doug Adler, Acting Senior Vice President and General Counsel  
Margaux Matter, Senior Vice President and Chief of Staff  
David Sena, Senior Vice President of Board Authorized Finance  
Kenneth Tinsley, Senior Vice President and Chief Risk Officer  
Patricia Wolf, Controller, Vice President Controller  
Cristopolis Dieguez, Director, Internal Controls and Compliance  
Eleanor Crawford, Managing Director, Ernst & Young LLP  
Parisa Salehi, Acting Inspector General, OIG  
Amanda Myers, Attorney-Advisor, OIG  
Courtney Potter, Acting Deputy Assistant Inspector General for Audits  
and Evaluations and Manager, OIG

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