OFFICE OF INSPECTOR GENERAL

EXPORT-IMPORT BANK

of the UNITED STATES

FISCAL YEAR 2011 FINANCIAL STATEMENT AUDIT - MANAGEMENT LETTER

January 3, 2012

OIG-AR-12-03

Office of Inspector General

Export-Import Bank
of the United States

January 03, 2012

MEMORANDUM

TO: David Sena
Senior Vice President and Chief Financial Officer (Acting)

Fernanda Young
Chief Information Officer

Joseph Sorbera
Vice President, Controller

Jeffrey Abramson
Vice President, Trade Finance

Walter Kosciow
Vice President, Trade Credit Insurance

FROM: Christine Staley
Senior Auditor

Christine Staley

SUBJECT: Fiscal Year 2011 Financial Statement Audit - Final Management Letter (OIG-AR-12-03, January 3, 2012)

This memorandum transmits Deloitte & Touche LLP's Management Letter for the fiscal year 2011 financial statement audit. Under a contract monitored by this office, we engaged the independent public accounting firm of Deloitte & Touche to perform the audit. The contract required the audit to be done in accordance with United States generally accepted government auditing standards; Office of Management and Budget audit guidance; and the Government Accountability Office/President's Council on Integrity and Efficiency *Financial Audit Manual*.

Deloitte and Touche issued an unqualified opinion on Ex-Im Bank's financial statements. Also, Deloitte and Touche reported a significant deficiency in Ex-Im Bank's internal control over financial reporting and no reportable noncompliance with laws and regulations were found. In addition, Deloitte & Touche noted control deficiencies related to Ex-Im Bank's internal control over financial reporting and other matters that needed your attention. The observations, recommendations, and your response regarding such matters are presented in the Attachment.

Deloitte & Touche is responsible for the attached management letter comments dated December 29, 2011. We do not express opinions on Ex-Im Bank's internal control or conclusions on compliance with laws and regulations.

We appreciate the courtesies and cooperation provided to Deloitte & Touche and this office during the audit.

cc: Fred P. Hockberg, Chairman and President
Audit Committee
Alice Albright, Executive Vice President and Chief Operations Officer
Michael Cushing, Senior Vice President – Resource Management
Patricia Wolf, Financial Reporting Supervisor

Attachment

Deloitte & Touche LLP
1750 Tysons Boulevard
Suite 800
McLean, VA 22102
USA

Tel: 1 + 703-251-1000
Fax: 1+ 703- 332-7124
www.deloitte.com

December 29, 2011

Management of the Export-Import Bank of the United States
811 Vermont Avenue NW
Washington, DC 20571

Dear Members of Management:

In planning and performing our audit of the financial statements of the Export-Import Bank of the United States ("Ex-Im Bank") as of and for the year ended September 30, 2011 (on which we have issued our report dated November 14, 2011), in accordance with auditing standards generally accepted in the United States of America, the standards applicable to the financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, we considered Ex-Im Bank's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Ex-Im Bank's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Ex-Im Bank's internal control over financial reporting. This report is based on our knowledge as of the date of our report on the financial statements, obtained in performing our audit thereof, and should be read with that understanding.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified a significant deficiency, *Subsidy Reestimate on Foreign Transaction*, which we reported in our *Independent Auditors' Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based upon the Audit Performed in Accordance with Government Auditing Standards,* dated November 14, 2011.

We have also identified, and included in Sections I and II below, other deficiencies related to Ex-Im Bank's internal control over financial reporting and other matters as of September 30, 2011, that we wish to bring to your attention.

Our audit work on the significant deficiency, *Accounting for Subsidy Expense*, reported in our prior-year's *Independent Auditors' Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based upon the Audit Performed in Accordance With Government Auditing Standards* determined that Ex-Im Bank adequately addressed this deficiency. Furthermore, Ex-Im Bank adequately addressed the deficiencies we reported in the FY 2010 management comment letter (see APPENDIX A).

The definition of a deficiency, a material weakness, and a significant deficiency is set forth in Section III.

Although we have included management's written response to our comments in the attached Appendix, such responses have not been subjected to the auditing procedures applied in our audit and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

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

Yours truly,

Deloitte & Touche LLP

cc: The Inspector General of the Export-Import Bank of the United States and the Audit Committee of the Export-Import Bank of the United States

SECTION I –CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving Ex-Im Bank's internal control over financial reporting as of September 30, 2011, that we wish to bring to your attention:

Loss Factor Historical Claims Data

Condition:
Certain historical claims data were excluded from the loss factor calculation. Therefore, net claims data used to develop the default rate were not complete and accurate. The subsidy re-estimate based on default rate derived from the incomplete and inaccurate net claims data was also inaccurate. Management immediately corrected the data, recalculated the subsidy, and made adjusting entry to the financial statements.

Criteria:
Historical claims should be matched with the related original disbursement in the sub-records to ensure the loss factors used for the subsidy re-estimate are based on accurate underlying information.

Cause:
The claims data used to calculate the loss factors was sorted to exclude $0 disbursement transactions reported in the EXIM Online (EOL) system. During migration of records from the AS400 system (old system used to process transactions by Ex-Im) into EXIM Online (EOL), certain records were incorrectly transferred over as $0 disbursements instead of the actual disbursed value. Consequently, certain claims were applied to incorrect sub records with $0 disbursements.

Effect or potential effect:
The omission of the historical claims data resulted in inaccurate loss rates which caused an overstatement of the allowance of approximately $28 million. The error was corrected by management.

Recommendation:
The Chief Financial Officer (CFO) should require that a detailed review of the historical claims data be performed at least by two competent individuals in the Office of the CFO to ensure that historical claims data is complete and accurate.

Management Response:
Management agrees with the recommendation. The supervisor of the Portfolio Review & Budget Reporting Office and a staff financial analyst will review the annual update to the historical claim data used to calculate loss factors for the budget and the loss re-estimate.

Trade Credit Insurance Originations

Condition:
Certain Multi-buyer Insurance products, including Special Buyer Credit Limit (SBCL) or Issuing Bank Credit Limit (IBCL) products, did not receive the required approval as specified in the individual delegated authority (IDA) policy. Seventeen transactions were approved by personnel without appropriate approval authority.

Criteria:
Ex-Im Bank's IDA policy designates the dollar limit on the size of an individual transaction that authorized personnel can approve. The IDA requires an additional level of approval for transactions with higher amounts as Ex-Im Bank is exposed to higher liability.

Cause:
Due to inaccurate coding of business rules, the EOL system did not recognize the increased policy limit from amendments and renewals to certain Multi-buyer Insurance products, including SBCL and IBCL products; therefore, the product renewals and amendments were not properly routed through the EOL system in accordance with the IDA approval policy.

Effect or potential effect:
Seventeen transactions were not properly approved in accordance with the IDA policy. These transactions in question were subsequently reviewed and approved in accordance with the IDA policy. We have been informed that the coding in EOL was corrected on September 24, 2011.

Recommendation:
The Vice Presidents – Trade Finance and Trade Credit Insurance should perform an annual review of the EOL business rules to ensure the IDA policy is implemented properly.

Management Response:
Management agrees with the recommendation. Trade Credit Insurance and Trade Finance will annually review the EOL business rules to ensure IDA policy is implemented properly.

Reprographic Error on the Published Annual Report

Condition:
Several figures and words in the 2010 published financial statements, footnotes, and Management Discussion and Analysis (MD&A) were changed between the final printer's proof and published versions.

Criteria:
The published financial statements, footnotes, and MD&A contain important information that users such as U.S Treasury, Office of Management and Budget (OMB), and U.S. Government Accountability Office (GAO) rely upon.

Cause:
The figures and words in the financial statements, footnotes, and MD&A were altered by the printing office without approval from the Office of CFO of Export-Import Bank.

Effect or potential effect:
Several numbers were incorrect. Some words were changed and some phrases were re-arranged. The numerical changes were insignificant. Changes in words and phrases did not affect the meaning of the sentence or paragraph.

Recommendation:
The CFO should work with the printing office to ensure all changes to documents to be printed are reviewed and approved by Ex-Im Bank personnel. The final printed financial statements, footnotes, and MD&A should be compared to the final printers proof to ensure no unauthorized changes have been made.

Management Response:
Management agrees with the recommendation. Beginning with the FY2011 report, the CFO’s office and the Communications office will allocate additional time for review of the financial report before it is posted on the Bank’s web site. The printer’s page proofs will also be reviewed by the Financial Reporting Office before the report goes to print.

Inaccurate Risk Rating

Condition:
The risk ratings for credits monitored by the Project & Corporate Portfolio Management (PCPM) division (excluding Portfolio Monitoring and Control Group - PMCG) were not fully reconciled between Loan/Guarantee and Accounting System (LGA) and Asset Management System (AMS).

Criteria:
AMS contains the approved risk rating reports. These risk ratings should be fully reconciled to LGA to ensure the accuracy of the risk ratings used for subsidy re-estimate calculation. The re-estimate calculation is a critical process to evaluate Ex-Im Bank’s future cash flow needs based on current borrowings and investments with US Treasury, and any expected portfolio cash flows and defaults.

Cause:
The PCPM division performed the review of the risk ratings between AMS and LGA on a sample basis instead of reviewing all transactions under the responsibility of PCPM division.

Effect or potential effect:
Five credits under PCPM did not have a correct risk rating which resulted in an overstatement of allowance of approximately $8.4 million.

Recommendation:
The CFO should direct the PCPM division officer to reconcile all risk ratings between AMS and LGA for all transactions under its portfolio.

Management Response:
Management agrees with the recommendation. The CFO's office is working with the Chief Information Officer's (CIO) office to develop reports for all the monitoring units that will compare the risk rating in AMS with the risk rating in the LGA/EOL systems. The reports will assist in highlighting differences between the systems and enable the monitoring units to resolve any discrepancies.

Short Term Single Buyer (STSB) Insurance Subsidy Calculation

Condition:
During our subsidy calculation testing, D&T noted that the subsidy for short-term single buyer insurance was incorrectly calculated. The subsidy was calculated based on 100% of the transaction amount instead of 90%.

Criteria:
The subsidy for short-term single buyer insurance should be based on 90% of the transaction amount, which is the risk assumed by Ex-Im Bank.

Cause:
The EOL system calculated the subsidy amount for short-term single buyer insurance by applying the subsidy rates to the incorrect field.

Effect or potential effect:
Subsidy for short-term single buyer transactions authorized in FY 2011 was overstated by approximately $1.6 million.

Recommendation:
The Chief Information Officer should correct the EOL system code so that the subsidy rates are applied to the appropriate field.

Management Response:
The CIO's office corrected the business rule in EOL. On December 10, 2011, Change Request EXIM0006966 (correcting the EOL rule for the calculation of the subsidy rates) was implemented in production as part of EOL release 4-30-0.

Monitoring of Credits "In Transfer"

Condition:
Most credits are monitored by the Office of the CFO to determine the appropriate risk rating. However, certain transactions with "in transfer" status were not monitored by the Office of the CFO. These transactions were monitored by the originating department.

Criteria:
All transactions authorized by Ex-Im Bank should be monitored by the Office of the CFO to help ensure proper risk rating for financial reporting purposes.

Cause:
Under existing Exim policy operative credits can, in certain circumstances, remain with the originating department for an extended period and therefore are not part of the monitoring process by the Office of the CFO.

Effect or potential effect:
No change in risk rating was noted. However, there is a possibility that a review by the Office of the CFO could result in a change to the risk rating determined by the originating department.

Recommendation:
The CFO should ensure that transactions with “in-transfer” status are included in the monitoring process performed by the Office of the CFO.

Management Response:
Management agrees with the recommendation. The CFO’s office is working with the CIO’s office to develop a system to notify the monitoring units when a credit becomes operative or a medium term insurance policy is issued. The monitoring units will then consult with the originating units regarding responsibility over ongoing monitoring of the transaction and eventual “hand-off” to the CFO’s office.

SECTION II – OTHER MATTERS

Refer to Appendix A below for the status of the FY2010 management letter comments.

SECTION III– DEFINITIONS

The definition of a deficiency, a material weakness, and a significant deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

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

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

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

APPENDIX A

The table below provides the status of the FY 2010 management comment letter.

No.	Prior Year Comments	Elevated to Material Weakness	Still Relevant and Repeated	Adequately Resolved or No Longer Relevant
1.	Subsidy Re-Estimate Calculation			X
2.	Risk Rating Process			X
3.	Accounting for Expired Transactions			X

The table below provides the status of the FY 2010 significant deficiency

No.	Prior Year Comments	Elevated to Material Weakness	Still Relevant and Repeated	Adequately Resolved or No Longer Relevant
1.	Accounting for Subsidy Expense			X

Office of Inspector General
Export-Import Bank *of the* United States
811 Vermont Avenue, NW
Washington, DC 20571
202-565-3908
www.exim.gov/oig