
Statement of
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before the

United States Senate
Committee on Banking, Housing, & Urban Affairs
Subcommittee on Security & International Trade & Finance

June 30, 2011 at 10:00 am

Good afternoon, Chairman Warner, Ranking Member Johanns, and distinguished members of this honorable Subcommittee.

Thank you for the invitation and opportunity to testify before you about the activities of the Office of Inspector General (OIG) and the programs and operations of the Export-Import Bank (Ex-Im Bank) as it relates to Export-Import Bank Reauthorization. Before I continue, I would like to thank the Almighty for this opportunity, my family, and the members of the Ex-Im OIG staff for their hard work.

I. Ex-Im Bank

The Ex-Im Bank is the official export credit agency (ECA) of the United States. Ex-Im Bank supports the financing of U.S. goods and services in international markets, turning export opportunities into actual sales that help U.S. companies of all sizes to create and maintain jobs in the United States. Ex-Im Bank has programs to address short, medium, and long-term needs of exporters; assuming the credit and country risks

that the private sector is unable or unwilling to accept. Ex-Im Bank also helps U.S. exporters remain competitive by countering the export financing provided by foreign governments on behalf of foreign companies. At the same time, Ex-Im Bank must safeguard taxpayer resources by determining that there is a reasonable likelihood of repayment with respect to each of its transactions.

Ex-Im Bank is experiencing unprecedented growth - achieving three straight years of record authorization levels. Ex-Im Bank is projecting another record year in FY 2011. For the first six months of FY 2011, Ex-Im Bank reported \$13.4 billion in new authorizations. Ex-Im Bank has achieved this increase with basically the same staffing level for the past decade. This not only demonstrates the commitment, knowledge, and expertise of the staff at Ex-Im Bank, but also the need in the market for government supported export financing in this very competitive and difficult credit market.

II. Ex-Im OIG

Ex-Im OIG was statutorily created in 2002¹ but the Inspector General did not officially take office until August 2007. Since reaching current staffing levels, the OIG has achieved noticeable success in performing its statutory duties. Specifically, the OIG has issued twenty (20) audit and special reports containing eighty-five (85) findings, recommendations, and suggestions for improving Ex-Im Bank programs and operations. Our investigative efforts have resulted in a number of law enforcement actions, including: sixty-four (64) indictments and arrests; nine (9) convictions, fourteen (14)

¹ Export-Import Bank Reauthorization Act of 2002, P.L. 107-189, Sec 22 (June 14, 2002).

guilty pleas; and over one hundred and ninety-one (191) management referrals for enhanced due diligence actions. Since 2009, the total overall OIG financial impact is approximately \$250 million. Currently, the OIG is investigating thirty-seven (37) open matters representing approximately \$348 million in claims paid by Ex-Im Bank (or around 15.3% of all Ex-Im Bank claims paid as of the end of FY 2010). All of this has been accomplished with a very modest annual budget of \$2.5 million and a staff of eleven professionals.

III. Competitiveness: Operational Areas

In order to better meet export credit needs of the American exporters and improve the customer service experience of its participants while balancing its responsibilities, it is our opinion that Ex-Im Bank needs to address some operational weaknesses and challenges it is facing. We believe that addressing these operational weaknesses and challenges would provide Ex-Im Bank with a more efficient capability to create and maintain jobs in the United States. Besides increasing staffing levels to reflect the growth in authorizations, some of the challenges Ex-Im Bank needs to address are:

- *Inefficient and Ineffective Information Technology (IT) Platform.* Ex-Im Bank uses an ineffective, inefficient, and fragmented IT platform and infrastructure composed of several systems and databases. These systems and databases do not effectively and accurately interface with each other - compromising

data integrity, duplicative information, and creating unreliable files. Further, these systems makes data mining burdensome and time consuming.

- Ex-Im Bank lacks an end-to-end IT system that allows for seamless management of applications/files and flow of information within the Bank and would allow different components within the Bank to work on the same files at the same time from the same platform.
- Ex-Im Bank lacks a centralized and comprehensive participant database that would allow the Bank to capture and track all the participants (lenders, buyers, exporters, suppliers, brokers, agents, and others) involved at different transactions at any given moment in time. This weakness prevents Ex-Im Bank and our office from conducting effective forensic analysis to identify possible patterns in transactions.
- Because the IT platforms do not fully meet business and operational needs, Ex-Im Bank divisions and components have created subsequent data sub-systems to address the specific needs of that office or division. Some of these sub-systems require manual input of data and do not interface with Ex-Im Bank's main IT infrastructure creating additional data repositories.
- The above described IT system fragmentation creates a number of operational consequences for the Ex-Im Bank:
 - delays in approval of transactions
 - data integrity issues (due to manual input or updates of data)
 - multiple data storage locations

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- burdensome and somewhat ineffective management of applications and assets
 - *Develop Performance Standards and Metrics for Programs and Products.* Ex-Im Bank has not developed annual performance plans or product performance metrics in order to properly quantify the effect and success of its products. Ex-Im Bank should develop these metrics in short and medium term products in order to determine whether
 - the product is achieving the intended results;
 - the product is reaching the intended audience;
 - the marketing strategy is effective;
 - the product is similar or more competitive than programs offered by other ECAs;
 - the product should be altered or eliminated;
 - acceptable levels of defaults and claims have been established;
 - levels of defaults and claims should be improved; and
 - changes in original implementation strategies are needed.
 - *Continue Efforts to Expand Small Business Participation.* Ex-Im Bank charter imposes a twenty (20) percent small business participation requirement of all of the authorizations every year. Ex-Im Bank has exceeded this mandate in the last two years and it is expecting to surpass it again in FY 2011. Ex-Im Bank has been able to achieve its mandate by
 - conducting Export Forums throughout the United States;

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- developing partnerships with different lenders, local governments and industries;
 - creating products specifically for small businesses (Global Access, Express Insurance and Reinsurance products); and
 - continuing collaboration and cooperation with other agencies, including the Small Business Administration and Department of Commerce, in order to reach out to small businesses. Enhancing export opportunities requires the participation, training, and collaboration of other federal agencies. The National Export Initiative addresses and encourages collaboration between agencies.
- *Continue Efforts to Expand Renewable Energy Products and to Create Clean Energy Export Opportunities.* Ex-Im Bank charter contains a Renewable Energy mandate of ten (10) percent of all the authorizations every year. Ex-Im Bank has not met this mandate yet, mainly due to the fact that the renewable energy exports have not reached significant numbers (compared with the size of Ex-Im Bank's portfolio). Nonetheless, Ex-Im Bank has taken a proactive approach in developing renewable energy specific products such as Solar Express, as well as reaching out to local companies such as wind and solar manufacturers.
- *Improve Operational Efficiency by Reducing the Time it takes to Approve Short and Medium Term Transactions.* Some Ex-Im Bank participants have complained in the past about the approval times and process. Reducing the

time it takes to approve transactions would allow American exporters to develop better relationships with clients and customers, would encourage borrowers and sellers to use Ex-Im Bank, and would improve the services Ex-Im Bank provides to its users.

- *Absence of systematic approach to measure customer satisfaction.* Ex-Im Bank does not conduct customer satisfaction surveys on a regular basis. Customer surveys provide valuable insight into customer priorities, perceptions of Ex-Im Bank performance, areas for improvement, and other ECA best practices. On April 27, 2011, President Obama issued Executive Order 12862 instructing Federal agencies (including independent agencies) to develop a customer service plan to streamline service delivery and improve customer experience. To this end, we recommend that Ex-Im utilize customer surveys to validate the priorities of its customers and the Bank's performance.

IV. Other Observations from OIG Cases and Reports

Ex-Im Bank has the important responsibility of providing export financing in a very difficult credit environment while also protecting the taxpayers, the integrity of its programs, and the full faith and credit of the United States. In conducting our audits, evaluations, inspections, and investigations, the OIG has conveyed to Ex-Im Bank the following observations developed from transactions and programs under the OIG purview.

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- *Enhance Due Diligence and Credit Underwriting Practices (specifically for Short and Medium Term programs) and Improve Training Efforts to Address the Surge in Applications under a Decentralized Application Approval Process.* Currently, Ex-Im Bank uses a decentralized underwriting process. Given the lessons learned from the Medium Term program, the surge in the number of transactions, and insufficient credit information and history from borrowers in some regions, it is vital that Ex-Im Bank enhance due diligence practices in order to better identify fraudulent transactions. With Individual Delegated Authority (IDA) as high as \$10 million, Ex-Im Bank needs to develop effective policies, procedures, and compliance practices to assess effectiveness of the delegations. Some of these policies should address the following:
- Uniform credit and underwriting standards to be used by all Ex-Im Bank credit officers.
 - At a minimum, Ex-Im Bank should make more frequent use of security interest and sporadic inspections in order to better mitigate risks in programs and regions where defaults and fraud experience has been high.
 - Use of financial statements in programs where defaults and fraud experience is high. Further, Ex-Im Bank should require independently audited financial statements in regions where Ex-Im Bank has limited or unfavorable lending experience.

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- *Encourage Lender Partners and Participants to Conduct, at a Minimum, Industry Standard Due Diligence on Government Guarantees and Insurance Transactions.* One of the patterns our office has observed in conducting our investigations is the lack of due diligence efforts conducted by lenders, specifically the ones who have a history of defaulted transactions. Even though there is an expectation that such efforts have been taken, Ex-Im Bank does not require participating lenders to conduct due diligence on their transactions. The OIG has anecdotal evidence of loan officers in lending institutions expressing their position that the lender would not devote resources on due diligence efforts when there is a government guarantee and such efforts are not required by Ex-Im Bank. Although the OIG is not in a position to state that this is a behavior demonstrated by all lenders, we can certainly state that this “moral hazard” issue has been prevalent in fraud cases involving multiple transactions. Effective implementation of “Know Your Customer” practices by lenders could help in minimizing or preventing the number of fraudulent cases Ex-Im Bank has experienced.
 - *Improve Corporate Governance, Business Processes and Internal Control Policies and Practices.* One of the consistent observations arising out of audits, evaluations, and investigations conducted by the OIG are the weaknesses in governance and internal controls, as they relate to business operations. Internal policies providing clear guidance to staff and establishing clear roles and authorities are not prevalent at Ex-Im Bank. These areas

need to be addressed as part of creating a better corporate governance culture.

V. Conclusion

Ex-Im Bank has an important role in creating and maintaining jobs by facilitating exports through export finance products provided to American exporters. Three years of record export authorization levels only support that role. While Ex-Im Bank continues to provide export credit and financing as part of its export credit agency functions, it should work to improve its operational effectiveness and efficiencies in its quest of achieving the National Export Initiative's goal of doubling exports in the next four years.

I have highlighted some of those areas based on observations and relevant work performed by the OIG in order to illustrate the importance of proper management, oversight of strategies, and to incorporate lessons learned from Ex-Im Bank's prior activities. The OIG will continue to enhance its independent oversight role as well as strengthen its efforts in preventing and detecting fraud, waste, and abuse.

Chairman Warner, Ranking Member Johanns, and members of this honorable Subcommittee, thank you once again for the opportunity to testify before you today. I would be pleased to respond to any questions you may have. Thank you!