

Office of Inspector General  
EXPORT-IMPORT BANK *of the* UNITED STATES



**SEMIANNUAL  
REPORT TO CONGRESS**



April 1, 2008 – September 30, 2008  
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**Michael W. Tankersley**  
**Inspector General**

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

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October 31, 2008

I am pleased to present the third Semiannual Report to Congress of the Office of Inspector General (OIG) of the Export-Import Bank of the United States (Ex-Im Bank) covering the reporting period of April 1, 2008 to September 30, 2008.

This reporting period was marked by the arrival of the OIG's initial senior staff, experienced members of the IG community serving as Counsel to the Inspector General, Assistant Inspector General for Audit and Assistant Inspector General for Investigations. Their resumes can be viewed on the OIG webpage at [http://www.exim.gov/oig/senior\\_staff.cfm](http://www.exim.gov/oig/senior_staff.cfm). We are working together to develop goals and a strategic plan for the OIG, identify additional staff and resource requirements and implement policies that will produce an OIG well suited to the particular risks impacting Ex-Im Bank.

The OIG has continued to expand its activity in the areas of auditing, evaluations and investigations during the reporting period with the objectives of improving the economy, efficiency and effectiveness of Ex-Im Bank export credit programs and operations and promoting integrity among all participants in Ex-Im Bank's programs and operations. These objectives were advanced during the reporting period by:

Conducting evaluations and investigations of open and new credit fraud cases affecting Ex-Im Bank, responding to hotline referrals and providing support for pending fraud prosecutions.

Selecting a contractor and initiating work on a performance audit of Ex-Im Bank's medium-term credit programs to evaluate the effectiveness of, and identify opportunities for improvement in, the areas of credit and fraud risk management, transaction processing and IT systems, support and governance.

Commencing the independent audit of Ex-Im Bank's fiscal 2008 financial statements.

Continued work with management on a detailed evaluation of Ex-Im Bank's economic impact procedures to identify opportunities to improve their efficiency, effectiveness and transparency.

I look forward to providing future reports to Congress of the expanded program of work of this new office as our staffing is completed and the OIG mission is executed within Ex-Im Bank.

Sincerely,

A handwritten signature in cursive script that reads "Mike Tankersley".

Michael W. Tankersley  
Inspector General

## Overview

### **Mission of Ex-Im Bank and the Office of Inspector General**

The Export-Import Bank of the United States (Ex-Im Bank) is the official export credit agency of the United States. Ex-Im Bank's mission is to assist in financing the export of U.S. goods and services to international markets. Ex-Im Bank enables U.S. companies — large and small — to turn export opportunities into sales that help to maintain and create U.S. jobs and contribute to a stronger national economy.

The Office of Inspector General (OIG) at Ex-Im Bank is an independent office within Ex-Im Bank that seeks to support Ex-Im Bank's overall mission and goals while helping to protect it from fraud, waste and abuse. The Inspector General Act of 1978 (IG Act) states that the Inspector General is responsible for conducting audits, inspections and investigations and recommending policies and procedures that promote economic, efficient and effective use of Ex-Im Bank resources and programs that prevent fraud, waste, abuse and mismanagement. The IG Act also requires the Inspector General to keep the Chairman of Ex-Im Bank and Congress fully and currently informed about problems and deficiencies relating to the administration of Ex-Im Bank programs and operations and the necessity for corrective action.

This semiannual report describes the principal actions undertaken by the OIG during the reporting period of April 1, 2008 to September 30, 2008.

### **Expansion of Ex-Im Bank OIG Staff and Operations**

Ex-Im Bank's OIG began its existence on August 6, 2007 with the swearing in of Ex-Im Bank's first Inspector General. During the reporting period, the OIG's activities undertaken to support the commencement of the full range of operations required by the IG Act included:

- (i) Continuing work with Ex-Im Bank staff as well as other government agencies to identify the particular program, operational and financial opportunities, challenges and risks facing Ex-Im Bank;
- (ii) Reaching out to members of the inspector general community for advice and support relative to organizing the Ex-Im Bank OIG;
- (iii) Developing a financial plan for the OIG to be reflected in its budget request for the 2010 fiscal year based on spending requirements to support the audit, evaluation and investigative work required by Ex-Im Bank and the IG Act;

(iv) Meeting with Ex-Im Bank's staff in small departmental gatherings to explain the responsibilities and objectives of the OIG and how Ex-Im Bank staff can assist and benefit from the operations of the OIG;

(v) Hiring senior staff to serve as Counsel to the Inspector General, Assistant Inspector General for Audits and Assistant Inspector General for Investigations and commencing searches for subordinate positions; and

(vi) Developing strategic plans, policies and procedures to support the operations of the OIG.

## **Summary of Activity**

As required by the IG Act, presented below is an activity summary of the audits, evaluations, requests from Congress, hotline complaints and fraud investigation referrals conducted by our office for this reporting period.

### **Audits and Evaluations**

**Audit Staff.** During the reporting period, the Ex-Im Bank OIG hired its first Assistant Inspector General for Audit, who is responsible for audits, reviews and evaluations of Ex-Im Bank programs and operations. She joined the Ex-Im Bank OIG from the U.S. International Trade Commission OIG, where for the past seven years she served as the Assistant Inspector General for Audit and as Acting Inspector General from November 2005 to December 2007. Prior to working at the ITC/OIG, she served for ten years as a senior audit manager in the U.S. Department of the Treasury OIG. Additional audit support will be provided by a senior auditor hired in September 2008 who brings sixteen years of experience working with the Department of Veterans Affairs' OIG and VA Office of the Chief Financial Officer.

**Relationship Between the OIG and Audit Committee.** Ex-Im Bank's Bylaws provide for an Audit Committee consisting of members of the Board of Directors other than the Chairman and Vice-Chairman. The Bylaws state that:

The Audit Committee, reporting to the Board of Directors, shall be responsible for providing assistance to the Board in fulfilling its accounting and reporting responsibilities, determining that Ex-Im Bank has adequate administrative and financial controls, reviewing the financial statements prepared by management for distribution to Congress and the public, and providing direction over the internal audit function and the independent accountants.

The OIG and the Audit Committee addressed several matters of common interest during this reporting period in a mutually supportive manner intended to be consistent with the independence of the OIG and the working relationship

principles for agencies and OIGs developed by the President's Council on Integrity and Efficiency. These projects included assistance in the technical review of the contractor selected by the Audit Committee to provide internal audit services to Ex-Im Bank and providing comment and technical review for that contractor's initial assessment of risks affecting Ex-Im Bank that will be relevant to their work.

Assessment of Ex-Im Bank Audit Universe. The OIG continued work, in consultation with Ex-Im Bank management and the Audit Committee, to identify and prioritize audit and evaluation subjects relative to Ex-Im Bank's operations and financial reporting that would assist Ex-Im Bank by: (i) reducing risks and increasing integrity in Ex-Im Bank's export credit programs and operations; (ii) improving efficiency and effectiveness in the delivery of Ex-Im Bank export credit programs; (iii) enhancing Ex-Im Bank's internal controls; and (iv) improving transparency and accountability in Ex-Im Bank decision-making.

### **Reports Issued During this Period**

Annual Information Security Audit. An Independent Public Accountant (IPA), working under our supervision, conducted an audit of Ex-Im Bank's compliance with Title III of the E-Government Act (Public Law 107-347) of 2002 (the Federal Information Security Management Act (FISMA)) during the reporting period. The audit included assessing the Bank's progress in developing, documenting and implementing a Bank-wide program to provide security for the information and information systems that support operations and assets of Ex-Im Bank, including those provided or managed by third parties. The audit also included reviewing Ex-Im Bank's privacy program and its privacy impact assessment process.

The audit determined that Ex-Im Bank's systems inventory was accurate and complete, the plan of action and milestones process was adequate and the certification & accreditation process was satisfactory. Additionally, Ex-Im Bank maintained an excellent privacy impact assessment process. Opportunities for improvement were noted with respect to the certification & accreditation process, security controls testing, the comprehensive privacy program and security awareness training.

We provided the results of this audit to Ex-Im Bank officials and the Office of Management and Budget (OMB) during this reporting period as prescribed in OMB Memorandum M-08-21, *FY 2008 Reporting Instructions for the Federal Information Security Management Act and Agency Privacy Management*. We will issue an audit report containing detailed audit results during the next reporting period.

## **On-Going Audits**

We commenced work on the following audits during this reporting period:

Annual Financial Statement Audit. An IPA, working under our supervision, is performing an audit of Ex-Im Bank's fiscal year 2008 financial statements. Audit work commenced in July 2008. The Ex-Im Bank OIG anticipates providing assurance with respect to the audit of the fiscal year 2008 financial statements based on the work of its audit staff. Assurance was not provided with respect to the audit of the Bank's fiscal year 2007 financial statements due to the limited time and available OIG staff to perform the required oversight duties according to generally accepted government auditing standards.

Medium Term Export Credit Programs. The OIG initiated a performance audit of the Bank's Medium Term Export Credit (MT) programs in May 2008 at the request of the Bank's Chairman utilizing the services of a contractor. The MT programs have accounted for a disproportionate share of Ex-Im Bank's credit losses in recent years. Indictments and plea agreements in several high-profile fraud cases emanating from the MT programs have been announced in the past 12 months. For example, of \$965 million of MT transactions authorized in 2004 that were funded, approximately \$256 million of claims for defaulted loans have been paid by the Bank (reduced by recoveries of approximately \$14 million). Approximately \$100 million of these claims were associated with the publicly disclosed fraud schemes. Management has taken action to reduce these losses; claims rates and reported instances of fraud in subsequent years have declined from this high level but have remained above historic norms.

The audit's principal objectives are:

- Credit and Fraud Risk Management – evaluate the effectiveness of processes in place to manage credit risk and losses and identify and respond to fraud risk;
- Business Process Improvement – review the design and operating effectiveness of the MT programs' transaction processes with primary focus on business process effectiveness, identification of control deficiencies and a secondary emphasis on process efficiency; and
- IT Systems, Support and Governance – assess the adequacy of IT systems and support to provide timely, accurate and useful information, with primary focus on Ex-Im Online and other related systems used throughout the MT programs' transaction lifecycle. Also, review the state of IT governance as it relates to Ex-Im Bank's processes for creating, modifying and executing plans for the development and improvement of IT system support for the MT programs.

The OIG issued a working draft report to management for discussion during this reporting period. We will issue an audit report containing our detailed audit findings and recommendations and management's response in the next reporting period.

## **On-Going Evaluation**

Further Review of Economic Impact Procedures. The Ex-Im Bank OIG continued work on its review of the Bank's economic impact procedures and the recommendations made in a report prepared by the U.S. Government Accountability Office (GAO), *Export-Import Bank – Improvements Needed in Assessment of Economic Impact* (GAO-07-1071). This review is intended to provide management with focused recommendations for improvements to Ex-Im Bank's economic impact review policies and procedures and is expected to be completed during the next reporting period.

## **Government Accountability Office (GAO)**

The IG Act states that each IG shall give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and ensuring effective coordination and cooperation. The GAO issued two reports related to Ex-Im Bank activities during the reporting period. Only one of the reports contained recommendations for Ex-Im Bank. The reports are:

- *Export-Import Bank: Performance Standards for Small Business Assistance Are in Place but Ex-Im Is in the Early Stages of Measuring Their Effectiveness* (GAO-08-915, July 17, 2008).

GAO recommended that Ex-Im Bank establish performance standards for functions not currently addressed, revise several current measures to include measurable targets and time frames and take steps to establish a measure for financing for small businesses owned by socially and economically disadvantaged individuals and women. Management concurred with GAO's recommendations.

- *Export Promotion: The Export-Import Bank's Financing of Dual-Use Exports* (GAO-08-1182R, September 30, 2008). GAO reported to Congress that Ex-Im Bank did not finance any dual-use (military and civilian) export projects in fiscal year 2006. Ex-Im Bank has authority to provide loans, guarantees and insurance to help finance exports of dual-use defense articles and services, subject to limitations set forth in the Bank's Charter.

## INVESTIGATIONS AND HOTLINE ACTIVITY

Investigations Staff. The Ex-Im Bank OIG hired its first Assistant Inspector General for Investigations during the reporting period. He joins the Ex-Im Bank OIG from the Environmental Protection Agency OIG, where he organized its Financial Fraud Unit and served as its director for the past six years. He has served in federal law enforcement for more than 20 years. Actions taken during the reporting period to build the OIG's investigative infrastructure include:

Addressing new investigative matters, organizing pending investigations and case files, creating a framework for documenting and reporting the disposition of investigative efforts and establishing an Ex-Im Bank OIG case management system.

Working with the Ex-Im Bank Human Resources Office to write new position descriptions and announcements to hire additional investigators.

Meeting with law enforcement colleagues and other staff within the IG community to access law enforcement resources required by the Office of Investigations to perform its mission.

Working with the U.S. Department of Justice (DOJ) and other investigative agencies to pursue domestic and foreign investigative leads relative to pending and new cases referred for investigation.

Investigations. The Ex-Im Bank OIG commenced investigative efforts on 9 discreet fraud cases during the reporting period, representing 73 individual claims paid by Ex-Im Bank. The losses associated with these claims are approximately \$112,408,900. All matters remained pending as of the end of the reporting period.

<b>Summary of Investigative Activity During Period</b>	<b>Total Cases</b>	<b>No. of Claims*</b>	<b>\$ Amount Of Claims*</b>
Cases open as of April 1, 2008	6	23	\$17,637,500
Cases opened during period	9	73	\$112,408,900
Cases closed during period	0		
<b>Total Pending as of September 30, 2008</b>	15	96	\$130,046,400

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\* *The number and amount of claims subject to investigation. The referral of a claim to the OIG for investigation does not establish the existence of fraud, and not all claims included in a case under investigation are necessarily fraudulent until proven to be so by evidence developed in the investigation. The number and amount of claims may vary during the course of an investigation as facts and findings develop. Accordingly, the number and amount of claims reported will vary between reporting periods.*



## Significant Prosecutions During Period

*\$80 Million Scheme to Defraud Ex-Im Bank.* The Ex-Im Bank OIG provided support to DOJ, the U.S. Postal Inspections Service and the FBI in a pending investigation of several subjects related to an \$80 million scheme to defraud Ex-Im Bank. To date, eight individuals - Carlos Serrano, Daniel Curran, David Villongco, Edward Chua, Christina Song, Robert Delgado, Edward Javier and Jaime Galvez - have been convicted for their involvement in the fraud scheme. Pursuant to those convictions, Delgado was sentenced on October 5, 2007, to 24 months in prison, Galvez was sentenced on January 7, 2008, to 12 months in prison and Villongco was sentenced on February 29, 2008, to 33 months in prison.

During this reporting period:

On April 23, 2008, Daniel Curran, a former owner of Dankim Trading Corp., Boynton Beach, Florida, was sentenced in the U.S. District Court for the District of Columbia to 41 months in prison, 3 years supervised release, forfeiture of \$140,000 he received from the fraud and restitution of \$23,156,828 to Ex-Im Bank. Curran pled guilty after admitting that from October 2000 to June 2005, he acted as a purported "exporter" in approximately \$30 million of fraudulent transactions, falsified documents sent to U.S. banks and to Ex-Im Bank and misappropriated approximately \$24 million in loan proceeds. Curran admitted keeping approximately \$400,000 of those proceeds and transferring approximately \$23 million to bank accounts owned and controlled by a co-conspirator in the Philippines.

On April 30, 2008, Edward Javier, of Cerritos, California, pled guilty to one count of conspiracy to defraud the United States and one count of mail fraud. In the plea, Javier admitted that between February 2003 and July 2003, he acted as an "exporter" in a \$1 million transaction by falsifying documents sent to U.S. banks and to Ex-Im Bank and misappropriated approximately \$870,000. He transferred approximately \$550,000 of those proceeds to bank accounts owned and controlled by a co-conspirator in the Philippines and \$300,000 to a company in the United Kingdom. On July 18, 2008, Javier was sentenced in the U.S. District Court for the District of Columbia to six months in jail, six months home detention and 36 months of supervised release following his release from prison. He was also ordered to pay restitution of \$684,934 to Ex-Im Bank.

On May 14, 2008, Edward Chua was sentenced in the U.S. District Court for the District of Columbia to 37 months in prison, 3 years probation and was ordered to pay more than \$10.7 million in restitution to Ex-Im Bank. Chua pled guilty in July 2007 to conspiracy to defraud the United States and mail fraud, admitting to acting as a purported exporter in approximately \$10 million in fraudulent loan transactions, falsifying documents sent to U.S. banks and Ex-Im Bank and misappropriating approximately \$10 million in loan proceeds. Chua also

admitted keeping approximately \$300,000 of the proceeds and transferring approximately \$9 million to bank accounts owned or controlled by a co-conspirator in the Philippines.

On September 18, 2008, a federal jury in Los Angeles, California, convicted Carlos Serrano, of Glendale, California, the owner of Serv-Ease Office Systems Inc., for his role in a \$1.3 million scheme to defraud First International Bank of Connecticut and Ex-Im Bank. Serrano was found guilty on both counts charged in the indictment: conspiracy to commit bank fraud and bank fraud. Sentencing is scheduled for Jan. 26, 2009.

Investigation of this and related cases and the pursuit of criminal penalties by DOJ and civil recoveries by Ex-Im Bank is continuing. As the Ex-Im Bank OIG Office of Investigations continues to develop its capabilities, further involvement in this matter is expected.

*(The investigation was conducted by the U.S. Postal Inspection Service and the FBI and was prosecuted by trial attorneys of the DOJ Criminal Division's Fraud Section and the U.S. Attorney's Office for the Central District of California).*

*Exporter Pleads Guilty to Stealing Millions from Ex-Im Bank.* The Ex-Im Bank OIG provided support to DOJ, IRS Criminal Investigations Division, Immigrations and Customs Enforcement (ICE) and the FBI in connection with an investigation of Andrew M. Parker, owner of San Antonio Trade Group, San Antonio, Texas, for conspiracy, wire fraud, money laundering, tax evasion and filing false tax returns.

On May 1, 2008, the United States Attorney for the Western District of Texas announced the arrest of Parker on conspiracy, wire fraud, money laundering, false statements and tax charges, resulting in losses to Ex-Im Bank exceeding \$100 million. Parker was earlier indicted by a federal grand jury which charged that from February 2003 to November 2006, Parker schemed to defraud Ex-Im Bank by stealing millions of dollars in loan proceeds obtained by Mexican business owners from private U.S. lenders and causing multi-million dollar losses to Ex-Im Bank, which guaranteed or insured those loans based on false applications and supporting documentation submitted by Parker. The indictment also charged Parker with defrauding lenders in transactions not insured or guaranteed by Ex-Im Bank. On August 21, 2008, Parker pled guilty to eleven counts of the indictment including conspiracy, wire fraud, money laundering, tax evasion and filing false tax returns.

Investigation of this and related cases and the pursuit of criminal penalties by DOJ and civil recoveries by Ex-Im Bank is continuing. As the Ex-Im Bank OIG Office of Investigations continues to develop its capabilities, further involvement in this matter is expected.

*(This investigation was conducted by the FBI, the IRS Criminal Investigations Division and ICE and prosecuted by the U.S. Attorney's Office for the Western District of Texas.)*



## **Regulatory Review**

The OIG did not undertake any reviews of proposed legislation, rules or Ex-Im Bank policies during the reporting period.

**CROSS-REFERENCE TO REPORTING REQUIREMENTS  
OF THE INSPECTOR GENERAL ACT**

Set forth below are cross-references of the reporting requirements prescribed by the identified sections of the IG Act to the specific pages in this Semiannual Report where they are addressed.

<b>CITATION</b>	<b>REPORTING REQUIREMENTS</b>	<b>PAGE</b>
Section 4(a)(2)	Review of legislation and regulations	None
Section 5(a)(1)	Significant problems, abuses and deficiencies	None
Section 5(a)(2)	Recommendations with respect to significant problems, abuses and deficiencies	None
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed	None
Section 5(a)(4)	Matters referred to prosecutorial authorities	None
Section 5(a)(5)	Summary of instances in which information was refused	None
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs and recommendations that funds be put to better use	4
Section 5(a)(7)	Summary of each particularly significant report	4
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs	13
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	14
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by end of reporting period	None
Section 5(a)(11)	Significant revised management decisions	None
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees	None

**Table 1: AUDIT REPORTS WITH QUESTIONED COSTS**

	Number of Reports	Dollar Value	
		Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the period	0	0	0
B. Which were issued during the reporting period	0	0	0
Subtotals (A + B)	0	0	0
C. For which a management decision was made during the reporting period			
(i) Dollar value of disallowed costs	0	0	0
(ii) Dollar value of costs not disallowed	0	0	0
D. For which no management decision has been made by the end of the reporting period	0	0	0
E. Reports for which no management decision was made within six months of issuance	0	0	0

**Table 2: AUDIT REPORTS WITH RECOMMENDATIONS  
THAT FUNDS BE PUT TO BETTER USE**

	Number of Reports	Dollar Value
A. For which no management decision has been made by the commencement of the period	0	0
B. Which were issued during the reporting period	0	0
Subtotals (A + B)	0	0
C. For which a management decision was made during the reporting period		
(i) Dollar value of recommendations that were agreed to by management	0	0
(ii) Dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision has been made by the end of the reporting period	0	0
E. Reports for which no management decision was made within six months of issuance	0	0

## **GLOSSARY**

The following definitions apply to the terms used in this report.

- Questioned cost** means a cost that is questioned because of: (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.
- Unsupported cost** means a cost that is questioned because at the time of the audit, such cost is not supported by adequate documentation.
- Disallowed cost** means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.
- Recommendations that funds be put to better use** means a recommendation that funds could be used more efficiently if management of an establishment took actions to implement and complete the recommendation, including: (1) reduction in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee; (5) avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or (6) any other savings which are specifically identified.



**If you suspect fraud, waste, abuse, or other misconduct at the  
Export-Import Bank of the United States, contact us.**



**The OIG Hotline is available 24 hours per day.**

**The caller can remain anonymous. Federal employees  
are protected from reprisal under the provisions of the  
Whistleblower Protection Act of 1989. For more information,  
see the MSPB publication "Questions and Answers About  
Whistleblower Appeals."**

**If you prefer, you may send written complaints to:**

**IGHotline@exim.gov or**

**Export-Import Bank of the United States**

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