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

Fiscal Year 2009
Financial Statement Audit –
Management Letter Excerpt

March 9, 2010
OIG-AR-10-03

Office of Inspector General

EXPORT-IMPORT BANK
OF THE UNITED STATES

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This report presents a summary of certain matters that were identified by Deloitte & Touche LLP (Deloitte) in connection with their 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, 2009, on which Deloitte issued their report dated November 13, 2009. These findings and recommendations were communicated to Ex-Im Bank management in a letter dated March 4, 2010. Due to the limited distribution of the 2009 Management Letter, the Ex-Im Bank Office of Inspector General does not include it here.

We engaged Deloitte to perform the FY 2009 audit under a contract monitored by this office. The contract required the audit to be conducted 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 issued an unqualified opinion on Ex-Im Bank's FY 2009 financial statements. Also, Deloitte reported that no internal control deficiencies were identified and no reportable noncompliance with laws and regulations was found. However, Deloitte noted certain control deficiencies related to Ex-Im Bank's internal control over financial reporting and other matters that Deloitte determined should be brought to management's attention. Deloitte's observations are summarized in this report, and Deloitte's recommendations and management's responses regarding such matters are included.

Deloitte is responsible for the observations and recommendations appearing in the 2009 Management Letter. We do not express an opinion on Ex-Im Bank's internal controls or conclusions regarding its compliance with laws and regulations.

Jean Smith

Jean Smith
Assistant Inspector General for Audit

Excerpts of the *Fiscal Year 2009 Financial Statement Audit –Management Letter* (OIG-AR-10-03, March 9, 2010)

I. CONTROL DEFICIENCIES

1. <u>Ex-Im Online User Access Controls</u>

General computer controls pertaining to the Ex-Im Online application do not effectively restrict user access. Administrator level privileges were granted to individuals whose daily job responsibilities do not require such access. Deloitte noted instances where developers were granted access to commit changes to the production Ex-Im Online application. These observed user access assignments do not support a segregation of duties among Information Management and Technology personnel. Additionally, while it was noted that Ex-Im Online user activities are systematically logged, there was no evidence that these logs are routinely monitored. Even though several of the observed user access exceptions had been remediated after identification, Deloitte continued to note that specific user access assignments that do not support a segregation of duties have been retained for Continuity of Operations (COOP) situations.

Recommendation 1
The CIO should remove administrative access from users in Ex-Im Online where it is not required to perform daily job responsibilities. Administrative access should be assigned in a manner that supports a logical segregation of duties, and Ex-Im online administrative level access privileges should be actively monitored. In addition, the CIO should implement alternative/emergency user access procedures and/or detective controls to address privileged and COOP related user access risks.

Management Response
Completion date: December 2010

Management agrees in principle with this recommendation for large organizations. However, as we are a small agency, our staff (employees and contractors) are required to “wear many hats” in order to provide services under many conditions of operation. Our need to support the Bank’s COOP requires that mission essential staff have sufficient access to EXIM Online to maintain continuity of operations.

Management will incorporate and enhance additional layers of reviews of logs and save evidences of these reviews for future audits. In addition, the Bank is planning to establish a true HOT-COOP capability for EOL and therefore would not require the set-up of a three-tier recovery mechanism.

The Bank is presently following the Federal Continuity Directives and guidelines with a three-tier list of staff available for recovery (Primary, alternate and second alternate). The three-tier recovery is essential in the case of flu pandemic where planning is for 40% absenteeism for a period of two weeks. The CIO considers the risk of having these individuals with additional accesses for recovery to be very low risk and there were no incidents in the last three years indicating the contrary:

The OCIO does annual reviews of the lists and security access rights to ensure the right balance between segregation of duties and COOP and having to operate in a limited resources environment. In addition, EOL 'segregation of duties' and 'least privilege' are well defined, documented, and passed our security testing.

The OCIO has processes in place to track work on EOL production. Changes are authorized by management in advance and tracked via Remedy tickets.

The OCIO employs a "defense in depth" IT security program. We have deployed and use a suite of auditing and monitoring tools capable of providing all the capabilities required to adequately audit and monitor both external and internal user activity. Any unusual information system-related activities are investigated and tracked until resolved. For example, the OCIO logs all events on the EOL servers and send alerts to the security team (segregation) in case of a restart of a system (which is required if the executable code was changed).

The EXIM Online Application (internal to the application) enforces separation of duties through the use of role-based access restrictions.

Note: The Chief Technology Officer (CTO) is a position of trust at the Bank (same as the Director of Operations and Security). The CTO is the COOP primary application-level recovery coordinator and he is not involved in daily EOL production.

2. <u>Subsidy Re-Estimate Calculation</u>

Deloitte noted that the sum of cash flow for a specific cohort did not agree to the outstanding balance used to generate the summary file which is used to prepare the Credit Subsidy Calculator (CSC2) load sheet. The CSC2 load sheet is uploaded to the CSC2 provided by the Office of Management and Budget to calculate each product's subsidy re-estimates. Management also noted an additional issue with the linking of source data of a specific product to the summary file which caused the summary file to update incorrectly.

Recommendation 2

The Treasurer should automate the process of preparing and summarizing cash flows used in the CSC2. They should perform a detailed review of the cash flow models in advance of time when the re-estimate calculation is performed and should utilize a data integrity checklist to assist in the detailed review to check for formulaic and linkage issues.

Management Response

Management agrees with the recommendation and is working to automate the process and preparation of the cash flows models used in the re-estimate calculation. The Treasurer's office expects to have this completed prior to the start of the FY 2010 audit. These cash flow models will be reviewed using a data integrity checklist.

3. <u>Accounting for Expired Transactions</u>

Expired insurances and working capital guarantees over 120 and 180 days, respectively, were not removed from the accounting system as of September 30, 2009. Therefore, Ex-Im Bank's total portfolio exposure was overstated. Ex-Im uses this exposure amount to calculate loss reserves; therefore, loss reserves were also overstated.

Recommendation 3
The Controller should coordinate with IMT Office to correct the code to ensure the expired contracts are properly removed from LGA system in accordance with management's policy.

Management Response
Management agrees with the recommendation and the IMT Office has already removed the expired contracts from the LGA system.

4. <u>Accounting for Capitalized Interest</u>

Capitalized interest calculated on a specific loan from the Deloitte sample selection was erroneously recorded to the wrong loan.

Recommendation 4
The Controller should improve the level of review of the capitalized interest calculations and related journal entries.

Management Response
Management agrees with the recommendation and will incorporate additional layers of review into the capitalized interest process beginning in the 2nd quarter of FY 2010. In addition, management completed a thorough review all outstanding rescheduled credits to identify and correct any other calculation errors.

5. <u>Accounting for Allowance for Capitalized Interest</u>

Transaction code (CI0C) for capitalized interest was mapped to a pre-credit reform loan loss reserve GL account while it should have been mapped to a pre-credit reform claim reserve GL account.

Recommendation 5
The Controller should perform a roll forward reconciliation of the allowance for credit losses balance and in addition, perform an analysis of each significant component within the roll forward at a level of precision necessary to identify any significant error.

Management Response
Management agrees with the recommendation and will begin performing a roll forward reconciliation of the allowance for credit losses balance and an analysis of each significant component in the first quarter of FY 2010. By March 31, 2010, management will also perform a manual review of all transaction code mappings to the general ledger to identify any potential errors.

II. OTHER MATTERS

1. February 2009 Confirmation of Portfolio (Repeat Condition)

As of February 28, 2009, Ex-Im Bank sent confirmations of its portfolio, excluding outstanding balances below $20 million and rescheduled transactions. In several circumstances, Ex-Im Bank was unable to reach the contract person responsible for replying to the confirmations.

Recommendation 6
Ex-Im Bank should complete their confirmation process prior to the date when audit confirmations are prepared and sent so contact information is updated for any necessary corrections. Ex-Im Bank should develop improved processes and procedures to ensure Ex-Im Bank is timely notified of changes affecting Ex-Im Bank's portfolio, such as issuing an annual letter to the lenders requesting such information to be provided to Ex-Im Bank within a specific time.

Management Response
The purpose of the February confirmation exercise is to compare, prior to the start of the financial audit, portfolio information in Ex-Im's accounting systems with information confirmed by guaranteed lenders. This would obviously include contact information. However, ongoing mergers, consolidations, and staff changes in the private sector financial community have made it increasingly difficult, especially for older credits, to identify a responsible contact person and obtain a response to our inquiries.

Management agrees with the recommendation to obtain a more complete response to the confirmations sent for February. In preparation for the February 2010 confirmation process, the Financial Reporting Office will reach out to the Project and Corporate Portfolio Management division and the Transportation Portfolio Monitoring division in an effort to update contact information and will continue doing so on a quarterly basis throughout the year. In addition, the CFO's office will send out a letter to lenders prior to the start of the FY10 audit encouraging their cooperation with Ex-Im's confirmation process and requesting any changes in contact information.

2. Reconciliation of Suspense Accounts – Cohort Allocation of Insurance Receipts (Repeat Condition)

Although the insurance receipts were properly recorded for financial statement purposes, they had yet to be allocated to a cohort in the financing account. Currently, insurance receipts are allocated manually, which is time consuming and has led to backlogs in allocating these receipts.

Recommendation 7
The process of allocating insurance receipts to the proper cohort in the financing account should be automated in order to reduce the number of unallocated items. The automated process could resemble the process currently used for allocation of loan and guarantee cash receipts.

Management Response
Management agrees with the recommendation and believes that the upcoming changes to the insurance interface with the general ledger (scheduled for February 2010) will enable the Controller's office and IMT to automate the process by the end of the fiscal year.