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United States General Accounting Office
Washington, DC 20548

September 6, 2001

The Honorable Doug Bereuter
Chairman
The Honorable Bernard Sanders
Ranking Minority Member
Subcommittee on International
Monetary Policy and Trade
Committee on Financial Services
House of Representatives

Subject: U.S. Export-Import Bank: Views on Inspector General Oversight

This letter responds to your request that we provide our views on whether an office of inspector general (IG) should be established at the Export-Import Bank. To address this issue, we held discussions with the Export-Import Bank's Chairman, General Counsel, immediate past General Counsel, Chief Financial Officer (CFO), Manager of the Portfolio Management and Review Division, and the Director of the Internal Audit Group. We also compared the budget resources of the Export-Import Bank with other federal departments, agencies, and entities with and without IGs. In addition, we determined whether other federal agencies that provide loans or loan guarantees have IG offices and compared these agencies to the Export-Import Bank. We conducted our review from May 2001 to August 2001 in accordance with generally accepted government auditing standards.

We believe there should be sound independent audits of all significant federal operations, activities, and offices. We have also supported the creation of independent IG offices in appropriate federal departments, agencies, and entities through provisions in the IG Act of 1978, Public Law 95-452, as amended. For example, we supported the IG Act and the current establishment of 29 IGs appointed by the President and confirmed by the Senate in federal agencies and departments. These IGs have specific duties and responsibilities for providing independent audits and investigations in their departments and agencies. We also supported the creation of additional IG offices through the IG Act amendments of 1988. These amendments established IGs appointed by their respective entity heads in the designated federal entities identified by the act. Currently, there are 28 designated federal entity IGs¹ with duties and responsibilities similar to those of IGs appointed by the President.

¹The provisions governing the Government Printing Office (GPO) IG are essentially identical to those governing the IGs at the 27 designated federal entities. For purposes of our study, we consider GPO to be a designated federal entity (DFE) and refer to it as a DFE in this report.

We believe that all significant federal programs and entities should be subject to oversight by IGs. At the same time, we have some concern about creating and maintaining small IG offices with limited resources that might not have the ability to maintain the technical skills and expertise needed to provide adequate oversight cost-effectively. In the final analysis, the determination of whether to place IGs in specific agencies is a policy decision to be decided by the Congress. As a result, we are providing alternative approaches in this letter to achieve IG oversight at the Export-Import Bank.

The Export-Import Bank is an export credit agency of the United States. The Export-Import Bank's mission is to match officially supported foreign competition and fill financing gaps in order to maximize support for U.S. exports and contribute to the promotion and maintenance of U.S. jobs. The bank offers three main products: (1) working capital guarantees to help U.S. exporters obtain the funds to fulfill sales orders or finance inventory and accounts receivable, (2) export credit insurance to enable U.S. exporters to offer competitive credit terms to their foreign buyers and cover the risk of nonpayment, and (3) direct loans or guarantees of commercial loans to foreign buyers of U.S. goods and services in markets in which financing would otherwise not be available. In fiscal year 2000, the bank had total portfolio exposure of \$61.6 billion; total budget authority of about \$3.556 billion, which includes \$811 million in appropriations for administration and loan subsidies; \$1.663 billion in appropriations for re-estimates of loan subsidies; and \$1.082 billion in spending authority from offsetting collections.

The Export-Import Bank is a federal entity as defined by the IG Act. Under the act, federal entities are not required to have IG offices but are required to report their annual audit and investigative activity to both the Office of Management and Budget (OMB) and to the Congress. Federal entities can obtain audits either from internal audit staff or through contracts with independent public accountants and/or agreements with IG offices in other federal agencies. Specifically, the Export-Import Bank contracts for an annual financial statement audit² with an independent public accountant as required by 31 U.S.C. Chapter 91 and receives additional audits of administrative operations from its Internal Audit Group.

With \$3.556 billion in fiscal year 2000 total budget authority, the Export-Import Bank is the largest of the 55 federal entities not currently required to have an IG. (See enclosure I.) The bank accounts for about 66 percent of the fiscal year 2000 total budget authority available for these 55 federal entities. The relative size of its budget resources makes it comparable to both departments and agencies with IGs appointed by the President and with designated federal entities with IGs appointed by their entity heads. (See enclosures II and III.) Enclosure II indicates that, when compared to the 29 agencies with IGs appointed by the President, the bank's fiscal year 2000 budget authority would be 24th. Enclosure III indicates that if the bank were included as a designated federal entity, its budget authority for fiscal year 2000 would be the fourth largest. Enclosure IV shows that of the 17 federal agencies or

²Audits of the Export-Import Bank's financial statements do not include reviews of economy and efficiency and the results of program effectiveness.

corporations that provide loans and/or loan guarantees, the Export-Import Bank is one of the two agencies without IG oversight.³

The Export-Import Bank Chairman and management staff do not object to having IG oversight and support and recognize the value of independent audits. However, they do question the need for establishing an IG office when provisions already exist for independent financial audits and for an active Internal Audit Group. The CFO explained that the loan approval and guarantee process does receive some outside review. For example, the bank seeks the advice of the National Advisory Council on International Monetary and Financial Policies for all credits over \$30 million and reports all activities above \$100 million to the Congress.

There are several ways for obtaining IG oversight of the Export-Import Bank in order to provide sound and independent audits and investigations of bank operations, activities, and offices. Each approach has differing benefits and costs. For instance, the IG Act could be amended to establish an IG appointed by either the President or by the Export-Import Bank Chairman. Either option includes establishing a new IG office to provide oversight of the Export-Import Bank and would therefore include the costs associated with establishing and maintaining a new IG office. IGs appointed by the President have been recognized by the Congress as having the benefit of increased independence when compared to IGs appointed by their agency heads.⁴ In addition, under the IG Act, IGs appointed by the President are required to be confirmed by the Senate.

Another alternative for providing IG audits and investigations at the Export-Import Bank includes having an already established IG office provide independent audits and investigations of the bank. This would not involve the expense of creating a new IG office and could provide independent reviews of all bank operations, activities, and offices necessary for adequate IG coverage. This alternative would also address the Chairman's concern about an additional office at the bank created by a new IG and could be established through legislation designating an existing IG office to provide oversight. For instance, the Overseas Private Investment Corporation (OPIC) is subject to reviews, investigations, and inspections by the Agency for International Development (AID) IG.

Another option for oversight is through a memorandum of understanding, which acts as a contract for outside IG services and would not require an amendment to the IG Act. However, the alternatives of having audit coverage provided by another IG

³The Presidio Trust, like the Export-Import Bank, has no IG oversight. The trust is a wholly owned government corporation established by the Omnibus Parks and Public Lands Management Act of 1996, Public Law 104-333, to manage, improve, maintain, and lease property in the Presidio of San Francisco.

⁴Public Law 103-204, December 17, 1993, converted the Federal Deposit Insurance Corporation (FDIC) IG from appointment by the head of FDIC to appointment by the President with Senate confirmation to increase the independence of the IG. More recently, an amendment to the IG Act, Public Law 106-422, November 1, 2000, converted the Tennessee Valley Authority (TVA) IG from appointment by the head of TVA to appointment by the President with Senate confirmation to obtain increased IG independence.

rather than a new IG office at the Export-Import Bank could result in less audit oversight due to competing priorities for IG audits outside the bank.

At the request of Congressman Dan Burton, we are currently reviewing the potential impact of consolidating certain IG offices so that the oversight provided by an IG could include more than one federal agency. We will provide you with a copy of this report when it is completed.

We obtained comments from the Export-Import Bank Chairman on this letter and the enclosures. The Chairman generally agreed with the information in the letter regarding efforts by the bank to address internal controls and provided additional emphasis on the bank's efforts in this area. However, the Chairman disagreed with our presentation of the bank's fiscal year 2000 budget authority and requested that we present only the discretionary budget authority of \$811 million because it would significantly change the comparisons of the bank with other federal agencies.

We disagree that only the discretionary portion of the bank's budget should be reported. We used the \$3.556 billion in total budget authority to be consistent with the presentation of total budget authority for the other entities listed. In addition, total budget authority shows the magnitude of the budget subject to oversight by a potential IG or other audit organization. Moreover, if the \$811 million were used for comparison, the Export-Import Bank would continue to be the largest federal entity without an IG and would remain comparable to other agencies with IGs appointed either by the President or agency heads. The Chairman also suggested that we compare the FTEs of the bank to agencies with IGs appointed by the President. We provided the FTE levels in the federal entities and designated federal entities for information purposes only. We do not emphasize them for comparison purposes due to the varying degrees to which agencies obtain outside services that are not reflected in their FTE levels.

The Chairman also stated Export-Import Bank's position that the Congress should consider the OPIC model and the use of AID's IG if the Congress determines that the bank should have IG oversight. While our report does not specifically recommend how oversight should be provided to the bank, we do provide several alternatives for IG oversight that includes the use of the IG from AID or another agency. Other clarifying comments by the Chairman were incorporated into our letter as appropriate.

We are sending copies of this letter to the Chairman of the Senate Committee on Governmental Affairs, the Chairman of the House Committee on Government Reform, the Chairman of the Export-Import Bank, the Director of the Office of Management and Budget, the Vice Chair of the President's Council on Integrity and Efficiency, and the Vice Chair of the Executive Council on Integrity and Efficiency. This letter will also be available on GAO's home page at <http://www.gao.gov>. Please contact me at (202) 512-2600 or by e-mail at steinhoffj@gao.gov, Jeanette Franzel at (202) 512-9471 or by e-mail at franzelj@gao.gov, or Jackson Hufnagle at (202) 512-9470 or by e-mail at hufnaglej@gao.gov if you or your staffs have any questions about this letter and the enclosures.

A handwritten signature in black ink, reading "Jeffrey C. Steinhoff". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

Jeffrey C. Steinhoff
Managing Director
Financial Management and Assurance

Enclosures

Federal Entities Not Required to Have IGs

(Dollars in millions)			
No.	Federal entity	FY 2000 actuals	
		Budget authority	FTEs ^a
1	Export-Import Bank ^b	\$3,556	404
2	Farm Credit System Financial Assistance Corporation	282	^d
3	Overseas Private Investment Corporation ^c	273	192
4	Institute of Museum and Library Services	190	39
5	Presidio Trust	103	365
6	Federal Retirement Thrift Investment Board	102	94
7	Farm Credit System Insurance Corporation	83	10
8	National Transportation Safety Board	82	421
9	Neighborhood Reinvestment Corporation	75	268
10	Armed Forces Retirement Home	70	753
11	National Gallery of Art – Smithsonian	67	768
12	Trade and Development Agency	53	38
13	American Battle Monuments Commission	41	364
14	Federal Mediation and Conciliation Service	39	285
15	Offices of Independent Counsel	34	^d
16	John F. Kennedy Center for the Performing Arts - Smithsonian	34	46
17	U.S. Holocaust Memorial Council	33	251
18	Merit Systems Protection Board	29	226
19	Selective Service System	24	156
20	Delta Regional Authority	20	^d
21	Defense Nuclear Facilities Safety Board	17	94
22	African Development Foundation	15	24
23	U.S. Institute of Peace	13	63
24	Woodrow Wilson International Center for Scholars - Smithsonian	12	41
25	Court of Appeals for Veterans Claims	11	79
26	National Mediation Board	10	45
27	Office of Special Counsel	10	91
28	Commission on Civil Rights	9	75
29	Office of Government Ethics	9	80
30	Chemical Safety and Hazard Investigation Board	8	26
31	Commission of Fine Arts	8	7
32	Inter-American Foundation	8	51
33	Occupational Safety and Health Review Commission	8	63
34	Office of Navajo and Hopi Indian Relocation	8	66
35	State Justice Institute	7	^d
36	Federal Mine Safety and Health Review Commission	6	43
37	National Capital Planning Commission	6	51
38	Architectural and Transportation Barriers Compliance Board	5	30
39	Barry Goldwater Scholarship and Excellence in Education Foundation	4	2
40	Harry S. Truman Scholarship Foundation	4	4
41	Morris K. Udall Scholarship and Excellence in National Environmental Policy Foundation	4	17
42	Advisory Council on Historic Preservation	3	36

Enclosure I

(Dollars in millions)			
No.	Federal entity	FY 2000 actuals	
		Budget authority	FTEs ^a
43	Committee for Purchase from People Who Are Blind or Severely Disabled	3	20
44	James Madison Memorial Fellowship Foundation	3	6
45	Japan-U.S. Friendship Commission	3	4
46	Nuclear Waste Technical Review Board	3	14
47	America's Education Goals Panel (National Education Goals Panel)	2	9
48	Federal Financial Institutions Examination Council Appraisal Subcommittee	2	7
49	Institute of American Indian and Alaska Native Culture and Arts Development	2	^d
50	National Council on Disability	2	11
51	Christopher Columbus Fellowship Foundation	1	1
52	Marine Mammal Commission	1	10
53	National Commission on Libraries and Information Science	1	7
54	Commission for the Preservation of America's Heritage Abroad	0.5	^d
55	Postal Rate Commission	Not identified in the budget	
Totals		\$5,398.5	5,757

^aIncludes both direct and reimbursable full-time equivalents.

^bExport-Import Bank's gross budget authority of \$3.556 billion includes \$811 million in appropriations for administration and loan subsidies, \$1.663 billion in appropriations for re-estimates of loan subsidies, and \$1.082 billion in spending authority from offsetting collections.

^cThe Overseas Private Investment Corporation is subject to reviews, investigations, and inspections by the Agency for International Development's IG (22 U.S.C. 2199(e)).

^dFTEs are not reported.

Sources: Fiscal Year 2002 Budget of the United States Government and Public Law 95-452, as amended.

**Comparison of Budget Authority of the Export-Import Bank and
Federal Agencies With IGs Appointed by the President**

(Dollars in millions)		
No.	Departments/agencies	FY 2000 budget authority
1	Social Security Administration	\$ 444,407
2	Department of Health and Human Services	392,449
3	Department of the Treasury	392,273
4	Department of the Treasury, IG for Tax Administration	Included above
5	Department of Defense (Military & Civilian)	327,615
6	Department of Agriculture	75,750
7	Department of Transportation	54,743
8	Office of Personnel Management	50,468
9	Department of Veterans Affairs	45,505
10	Department of Education	32,240
11	Department of Labor	30,736
12	Department of Housing and Urban Development	24,324
13	Department of Justice	18,679
14	General Services Administration	16,188
15	Department of Energy	15,324
16	National Aeronautics and Space Administration	13,602
17	Department of Commerce	8,751
18	Department of the Interior	8,394
19	Department of State	8,276
20	Environmental Protection Agency	7,328
21	Tennessee Valley Authority ^a	6,558
22	Federal Deposit Insurance Corporation	6,144
23	Railroad Retirement Board	5,001
	Export-Import Bank ^b	3,556
24	Federal Emergency Management Agency	3,331
25	Agency for International Development	2,751
26	Small Business Administration	900
27	Corporation for National and Community Service	676
28	Nuclear Regulatory Commission	471
29	Central Intelligence Agency	n/a ^c
	Total	\$1,996,440

^aTVA's IG will be appointed by the President and confirmed by the Senate under Public Law 106-422, dated November 1, 2000.

^bExport-Import Bank's total budget authority of \$3.556 billion includes \$811 million in appropriations for administration and loan subsidies, \$1.663 billion in appropriations for re-estimates of loan subsidies, and \$1.082 billion in spending authority from offsetting collections.

^cBudget information not available.

Sources: Fiscal Year 2002 Budget of the United States Government – Appendix and Public Law 95-452, as amended.

Comparison of Budget Authority of the Export-Import Bank and Designated Federal Entities That Have IGs Appointed by the Agency Head

(Dollars in millions)

No.	Federal entity	Fiscal year 2000 budget authority	Fiscal year 2000 actual FTEs ^a
1	United States Postal Service	\$68,293	848,353
2	Federal Communications Commission	4,696	1,925
3	National Science Foundation	4,086	1,200
	Export-Import Bank ^b	3,556	404
4	National Railroad Passenger Corporation ^c	2,771	^d
5	Pension Benefit Guaranty Corporation	2,510	724
6	Government Printing Office	892	3,139
7	National Credit Union Administration	823	991
8	Smithsonian Institution	546	4,973
9	Securities and Exchange Commission	378	2,841
10	National Archives and Records Administration	341	2,469
11	Corporation for Public Broadcasting	316	^d
12	Legal Services Corporation	305	^d
13	Equal Employment Opportunity Commission	284	2,852
14	Peace Corps	248	1,042
15	National Labor Relations Board	205	1,876
16	Federal Reserve Board	200	^d
17	Federal Trade Commission	126	989
18	National Endowment for the Humanities	118	174
19	National Endowment for the Arts	102	154
20	Appalachian Regional Commission	66	10
21	Commodity Futures Trading Commission	63	556
22	Consumer Product Safety Commission	52	468
23	United States International Trade Commission	44	357
24	Federal Election Commission	38	343
25	Farm Credit Administration	36	287
26	Federal Labor Relations Authority	24	212
27	Federal Housing Finance Board	19	108
28	Federal Maritime Commission	15	128
	Totals	\$91,153	876,575

^aIncludes both direct and reimbursable FTEs.

^bExport-Import Bank's total budget authority of \$3.556 billion includes \$811 million in appropriations for administration and loan subsidies, \$1.663 billion in appropriations for re-estimates of loan subsidies, and \$1.082 billion in spending authority from offsetting collections.

^cBudget authority amount for the National Railroad Passenger Corporation is an estimate.

^dFTEs are not reported.

Sources: Fiscal Year 2002 Budget of the United States Government – Appendix and Public Law 95-452, as amended.

**IG Oversight of Federal Agencies That Provide
Direct Loans and Loan Guarantees**

Federal agencies	Direct loans	Loan guarantees	IG
Department of Agriculture	X	X	X
Department of Commerce	X	X	X
Department of Defense	X	X	X
Department of Education	X	X	X
Department of Health and Human Services		X	X
Department of Housing and Urban Development		X	X
Department of the Interior	X	X	X
Department of State	X		X
Department of Transportation	X	X	X
Department of the Treasury	X		X
Department of Veterans Affairs	X	X	X
Agency for International Development		X	X
Overseas Private Investment Corporation	X	X	X ^a
Small Business Administration	X	X	X
Export-Import Bank of the United States	X	X	
Federal Emergency Management Agency	X		X
Presidio Trust		X	

^aThe Overseas Private Investment Corporation is subject to reviews, investigations, and inspections by the Agency for International Development's IG (22 U.S.C. 2199(e)).

Sources: Fiscal Year 2002 Budget of the United States Government - Federal Credit Supplement and Public Law 95-452, as amended.

Comments From the Export-Import Bank of the United States



JOHN E. ROBSON
CHAIRMAN AND PRESIDENT

EXPORT-IMPORT BANK
OF THE UNITED STATES

August 21, 2001

Mr. Jeffrey C. Steinhoff
Managing Director
Financial Management and Assurance
U. S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Steinhoff:

Re: Draft GAO report, "Export-Import Bank: Views on Inspector General Oversight"

Thank you for the opportunity to comment on the draft GAO report concerning the need for an inspector general at the Export-Import Bank of the U.S. ("Ex-Im Bank" or the "Bank"). Ex-Im Bank strongly supports the use of internal and external controls to ensure that the Bank is accountable to the public. At the same time, as your draft report recognizes, an oversight function should be cost effective and on a scale appropriate to the magnitude and risk of an agency's programs.

While only briefly mentioned in the draft report, Ex-Im Bank already has a strong control structure in place to address accountability and prevent fraud, waste and abuse. These measures include:

- **Audit Committee** - Ex-Im Bank's Audit Committee is independent in that it is comprised of the non-officer members of the Bank's Board of Directors. The Committee exercises broad authority to oversee the Bank's internal and external audit functions and its administrative and financial controls.
- **External Auditors** - Ex-Im Bank retains an internationally recognized independent accounting firm, PriceWaterhouse Coopers (PWC), to serve as the Bank's independent, external auditor. In this capacity, PWC audits the Bank's annual financial statements. In conducting the audit, PWC reviews key management and internal controls and tests the Bank's compliance with certain laws and regulations. In addition, PWC performs much of the Bank's internal audit activities, conducting reviews and audits to supplement the activities performed during the annual audit.

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- Internal Auditors - The Bank has an internal audit division within the Office of the Chief Financial Officer that performs internal audit functions that supplement the audit activities of PWC.
- Assistant General Counsel for Administration/Designated Agency Ethics Official - As require by statute, the Bank has an Assistant General Counsel for Administration who provides advice on and oversight of issues relating to personnel matters and other administrative law matters. In addition, the General Counsel serves as the Bank's Designated Agency Ethics Official and the Assistant General Counsel for Administration is the Alternate Designated Agency Ethics Official.
- Referrals to DOJ - The Bank refers evidence of violations of law to the Department of Justice and the FBI, which investigate such matters.
- GAO/Congress - The Bank is subject to investigation by the GAO and oversight by Congress. Congress is notified of and has an opportunity to comment on all financings over \$100 million and all transactions involving nuclear items and exceptions to the Bank's statutory prohibition against financing defense items.
- Internal Control Review - I have stressed that one of my top priorities as the new Chairman is to carefully evaluate the adequacy of the Bank's internal controls and strengthen them where needed. The Audit Committee is conducting this review, working with PWC, the Office of the General Counsel and the Office of the Chief Financial Officer.
- Results - As a result of these and other measures (including the Bank's credit review and asset recovery process), the Bank continues to have an excellent repayment record, with losses running at 1.4% of disbursements over the Bank's 67-year history. In the last ten years, these losses have run at 3.4% of disbursements which reflect the impact of the Asian financial crisis and other international economic turmoil over this period. This repayment record compares favorably with those of commercial banks.

In evaluating the need for an inspector general in addition to the above controls, we specifically request that GAO reconsider the characterization in your report of Ex-Im Bank's budget authority. Ex-Im Bank's FY 2000 discretionary budget authority of \$811 million, representing its administrative and subsidy appropriations, is the figure that should be used for purposes of comparing Ex-Im Bank to other agencies. Of the \$3.556 billion figure cited in the draft report, approximately \$2.8 billion represents mandatory budget authority related to financing and liquidating account activities mandated under the Federal Credit Reform Act, rather than discretionary budget authority. Using the more appropriate \$811 million figure would significantly change the comparisons of the Bank with other agencies in the charts and in the last paragraph on page 2 of the draft report.

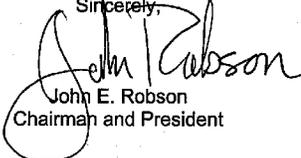
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In comparing Ex-Im Bank with other agencies, the closest comparison in terms of Ex-Im Bank's activities is the Overseas Private Investment Corporation (OPIC), which is considered Ex-Im Bank's "sister agency." The draft reports states in a footnote to the chart listing agencies that do not have IGs that OPIC "is subject to review, investigations, and inspections by the Agency for International Development's Inspector General." Ex-Im Bank believes that GAO should make this point in the body of the report after listing alternative IG structures on page 3. Furthermore, Ex-Im Bank believes Congress should consider the OPIC model and Ex-Im Bank's use of AID's IG if Congress determines the Bank should have IG oversight.

Ex-Im Bank has two additional comments on the draft report. First, we recommend that GAO add FTEs to the chart that lists agencies that have presidentially appointed IGs. Ex-Im Bank's 404 FTE level would put the Bank at or near the bottom of the 28 agencies on the chart. Finally, I should point out that the statement on page 3 that "loans above \$30 million must be approved by officials from OMB and the Treasury Department" should state that Ex-Im Bank seeks the advice of the National Advisory Council on International Monetary and Financial Policies for all credits over \$30 million.

Again, Ex-Im Bank has a strong system of controls in place which the Bank is committed to maintaining. While a statutorily-mandated IG may not be cost effective in terms of the small incremental oversight that would result, the Bank is committed to working with GAO and Congress.

Thank you again for the opportunity to comment on the draft report.

Sincerely,

John E. Robson
Chairman and President

cc: Jeanette M. Franzel
Acting Director