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**International Boundary and  
Water Commission  
United States and Mexico  
U.S. Section**

**Independent Auditor's Report**

**September 30, 2004 and 2003**

**AUD/FM-05-36, August 2005**

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**Independent Auditor's Report**

To the United States Commissioner, International Boundary and Water Commission, United States and Mexico, United States Section:

We have audited the International Boundary and Water Commission, United States and Mexico, U.S. Section's (USIBWC) Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and Consolidated Statement of Financing (hereinafter referred to as "Principal Financial Statements") as of, and for the years ended, September 30, 2004 and 2003. We have examined internal control over financial reporting in place as of September 30, 2004, and we have examined compliance with laws and regulations.

In our opinion, USIBWC's FY 2004 and FY 2003 Principal Financial Statements are presented fairly in all material respects.

We found:

- no material weaknesses in the internal control over financial reporting, and
- no material instances of noncompliance with selected provisions of applicable laws and regulations.

Each of these conclusions is discussed in more detail below. This report also discusses the scope of our work.

**Principal Financial Statements**

In our opinion, USIBWC's FY 2004 and FY 2003 Principal Financial Statements, including the notes thereto, present fairly, in all material respects, USIBWC's financial position as of September 30, 2004 and 2003, and the net cost of operations, the changes in net position, the use of budgetary resources, and the use of financing resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

USIBWC implemented revised financial statement reporting requirements effective for FY 2003. The details of these changes are presented in Note 1 to the Principal Financial Statements.

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**Internal Control**

We considered USIBWC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Principal Financial Statements. We limited our internal control testing to those controls necessary to achieve the objectives described in the Office of Management and Budget's (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the following objectives are met.

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets.
- Funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements and other laws and regulations that OMB, USIBWC management, or the Inspector General has identified as being significant and for which compliance can be objectively measured and evaluated.
- Data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

Our consideration of internal control would not necessarily disclose all matters of internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect USIBWC's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts, which would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit did not disclose any material weaknesses as described above.

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We noted certain other internal control issues that we have reported to USIBWC's management in a separate letter dated March 4, 2005.

### **Compliance With Laws and Regulations**

USIBWC's management is responsible for complying with laws and regulations applicable to USIBWC. As part of obtaining reasonable assurance about whether the Principal Financial Statements are free of material misstatement, we performed tests of USIBWC's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of Principal Financial Statement amounts and certain other laws and regulations specified in OMB Bulletin 01-02. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to the USIBWC.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions in statutes and regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or that sensitivity warrants disclosure thereof.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph did not disclose instances of noncompliance with the laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin 01-02.

The objective of our audit of the Principal Financial Statements, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We noted certain other instances of noncompliance that we have reported to USIBWC's management in a separate letter dated March 4, 2005.

### **Responsibilities and Methodology**

USIBWC management has the responsibility for:

- preparing the Principal Financial Statements, required supplementary information, and other accompanying information in conformity with accounting principles generally accepted in the United States of America;
- establishing and maintaining effective internal control; and
- complying with applicable laws and regulations.

Our responsibility is to express an opinion on the Principal Financial Statements based on our audit. Auditing standards generally accepted in the United States of America require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Financial Statements are free of material misrepresentation and presented fairly in accordance with

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accounting principles generally accepted in the United States of America. We considered USIBWC's internal control for the purpose of expressing an opinion on the Principal Financial Statements, and not to provide an opinion on internal control. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the financial statements.

In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the Principal Financial Statements;
- obtained an understanding of the internal controls over financial reporting by obtaining an understanding of USIBWC's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls;
- obtained an understanding of internal control over performance measures included in Management's Discussion and Analysis, including obtaining an understanding of the design of internal controls relating to the existence and completeness assertions, and determined whether they had been placed in operation;
- tested compliance with selected provisions of laws and regulations that may have a direct and material effect on the financial statement;
- obtained written representation from management; and
- performed other procedures as we considered necessary in the circumstances.

Our audits were conducted in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin 01-02. We believe that our audit provides a reasonable basis for our opinion.

The Management's Discussion and Analysis, Required Supplementary Information, and Additional Supplementary Financial and Management Information are not required parts of the Principal Financial Statements but are supplementary information required by OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, and the Federal Accounting Standards Advisory Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no comment on it.

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This report is intended for the information of the Inspector General of the U.S. Department of State and the U.S. Commissioner and management of the USIBWC. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

USIBWC agreed with the findings in this report and its comments on the draft are included in their entirety as Appendix A.

A handwritten signature in cursive script, appearing to read "Leonard G. Birnbaum".

Leonard G. Birnbaum & Company, LLP

Alexandria, Virginia  
March 4, 2005



INTERNATIONAL BOUNDARY AND WATER COMMISSION  
UNITED STATES AND MEXICO

OFFICE OF THE COMMISSIONER  
UNITED STATES SECTION

MEMORANDUM

FOR INFORMATION

July 20, 2005

TO : OIG - Ms. Gayle Voshell  
Director of Financial Management Division

FROM : Richard A. Porras, Esq.   
Deputy Commissioner

SUBJECT: Responses to Draft Audit Report on the International Boundary and  
Water Commission's, U.S. Section Financial Statements

This is in response to your request for comments on the draft audit report entitled the United States International Boundary and Water Commission's Financial Statement audit for Fiscal Years 2003 and 2004. In relation to internal controls the auditor's tests assessed that the internal controls were adequate to assess a low level of control risk. Although, there were no reportable material weaknesses, there were conditions that need to be addressed.

The following conditions were reported by the auditors and concurred to by USIBWC's management: improvement of the internal evaluation and compliance process, proper inventory and accounting in agency records of property and equipment, compliance with Government Purchase card procedures for the Nogales field office, addressing of information technology concerns identified by the National Institute of Standards and Technology, modification of the USIBWC annual Statement of Assurance to comply with OMB Circular A-123, compliance with the Government Performance and Results Act, compliance with Statement of Federal Financial Accounting Standards, (SFFAS 3 & 15 Management Discussion and Analysis), institution of controls to assure the accuracy of Prompt Payment Act System information, development and implementation of suspense account procedures, compliance with government standards for deferred maintenance information, proper documentation and verification of EPA project advances to the USIBWC, consistent preparation of time sheets, and maintaining a list of primary and alternate supervisors for certification of time sheets, development and implementation of procedures for reviewing the accuracy of account receivable billings, timely reporting and accrual of contract information, timely submission of financial reports to the U.S. Department of Treasury and the addressing of a lack of a financial software package to assist in the preparation of financial statements.

The USIBWC has completed action or is taking the necessary steps to correct the noted deficiencies. If you have further questions please contact the Compliance Officer, Mr. Tony R. Chavez, at 915-832-4111.

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