

**Management Letter Related to the
International Boundary and Water Commission
United States and Mexico
U.S. Section**

Independent Auditor's Report

September 30, 2004 and 2003

AUD/FM-05-37, August 2005

Leonard G. Birnbaum and Company, LLP
Certified Public Accountants
6285 Franconia Road
Alexandria, Virginia 22310
(703) 922-7622

LEONARD G. BIRNBAUM AND COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

WASHINGTON OFFICE
6285 FRANCONIA ROAD
ALEXANDRIA, VA 22310-2510

(703) 922-7622
FAX: (703) 922-8256

LESLIE A. LEIPER
LEONARD G. BIRNBAUM
DAVID SAKOFS
CAROL A. SCHNEIDER
DORA M. CLARKE

WASHINGTON, D.C.
SUMMIT, NEW JERSEY
REDWOOD CITY, CALIFORNIA

March 4, 2005

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

Under auditing standards generally accepted in the United States of America, auditors are encouraged to report on significant deficiencies in the design or the operation of the internal control structure that, in the auditor's judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. In addition, auditors are encouraged to report, in a separate management letter, less material issues.

In performing an audit of the International Boundary and Water Commission, United States and Mexico, United States 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 (Principal Financial Statements) as of, and for the years ended, September 30, 2004 and 2003, we considered USIBWC's internal control in determining the nature, timing, and extent of the audit tests applied in connection with our audit. Additionally, in accordance with Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as amended, for those significant internal control policies and procedures that were properly designed and placed in operation, we performed sufficient tests to justify a low assessed level of control risk consistent with Statement on Auditing Standards No. 55, *Consideration of Internal Control in a Financial Statement Audit*, issued by the American Institute of Certified Public Accountants. Our consideration of the internal controls did not entail a detailed study and evaluation of any of its elements and was not made for the purpose of making detailed recommendations or evaluating the adequacy of the internal controls to prevent or detect all errors and irregularities.

USIBWC's management is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures.

The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements.

Because of inherent limitations in any internal controls, errors or irregularities may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that it may become inadequate because of changes in conditions or deterioration in its operating effectiveness.

Although the purpose of our consideration of the internal controls was not to provide assurances thereon, matters came to our attention that we want to report to you. These matters, discussed in the attachment, do not affect our report, dated March 4, 2005, on USIBWC's Principal Financial Statements referred to above.

This report is intended solely for the use of USIBWC's management. 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 Attachment 2.

A handwritten signature in cursive script, appearing to read "Leonard G. Birnbaum", with a stylized flourish at the end.

Leonard G. Birnbaum and Company, LLP

Attachments: As stated.

International Boundary and Water Commission
United States and Mexico
United States Section
Audit of the Principal Financial Statements
September 30, 2004

Observations and Recommendations

1. Internal Audit Function

USIBWC does not have an effective internal audit function. As reported in prior years' management letters, USIBWC management has failed to implement controls to ensure appropriate follow-up procedures for all audit findings in order to improve the internal evaluation and compliance process.

The USIBWC Internal Review Officer is at present part of the Legal Office. He performs certain operational and programmatic review functions identified in an annual audit plan, or requested by management, and issues reports on the results of cash counts, reviews, or audits. However, the Internal Review Officer also provides support to the Legal Office, including responding to Freedom of Information Act and Privacy Act requests, and serves as the alternate Designated Ethics Officer and Combined Federal Campaign coordinator. In FY 2003, the Internal Review Officer also functioned as USIBWC's Claims Administrator. In this role, he would "investigate claims against the agency and negotiate with the claimants regarding damages."

The various duties assigned to the Internal Review Officer and his assignment to the Legal Office are in conflict with USIBWC's 1996 Directive, which states in its Appendix (501-A, Internal Evaluations Manual) that the Chief, Internal Evaluations will report directly to the Commissioner and that the internal evaluations element will not be assigned operating functions, which are otherwise provided for in the duties and responsibilities of other operating personnel.

According to USIBWC, it is currently recruiting for a Chief Executive Officer, who will oversee internal control administration. USIBWC indicated that this action will eliminate any potential conflicts of interest and ensure independence in performance of the audit function. In addition, USIBWC indicated that the internal control and internal audit functions will be administered separately, with the Internal Auditor reporting directly to the Commissioner.

We also found that the audits/evaluations performed by the Internal Review Officer did not adequately evaluate the effectiveness of controls throughout USIBWC. Of the nine reports issued by the Internal Review Officer during FY 2004:

- Six were for petty cash counts;
- One dealt with Treasury accounts;
- One covered memorandums of agreement/understanding; and
- One was a follow-up review of the Credit Card Program at the Nogales field office.

In addition, the Internal Review Officer did not prepare comprehensive semiannual reports for the Commissioner on the status of all unresolved audit reports over six months, as required by OMB Circular A-50, *Audit Follow-up*. Also, the Internal Review Officer was not conducting follow-up audits in a timely manner. For instance, three follow-up audits scheduled for FY 2004 were moved to FY 2005 because of other priorities.

We recommend that USIBWC:

- establish an effective and comprehensive internal audit function that meets the requirements set by its 1996 Internal Evaluations Manual, standards established by the Institute of Internal Auditors for the practice of internal audit, and government auditing standards; and
- ensure that follow-up audits are performed in a timely manner.

2. Property and Equipment

Accountability for property located at field offices has been a long-standing issue. USIBWC did not perform physical inventories at the field offices during FY 2002 and failed to input required information into the property system, which resulted in misstatements of the property and depreciation accounts. In FY 2003, USIBWC improved controls over entering information into the property system and began performing physical inventories at all field offices.

However, during our audit of the FY 2004 financial statements, we found that USIBWC's control over property had lessened. For instance, during FY 2004, USIBWC failed to perform physical inventories of property at the Falcon Dam and Mercedes field offices.

We also noted that the controls in place to track computer equipment were not adequate to ensure proper accountability and to safeguard assets. We found that there was no formal process in place to perform a physical inventory of computer equipment.

USIBWC maintains a database of computer equipment by location and employee. According to USIBWC's Property Officer, physical inventories of computer equipment are taken during each visit to the field offices, and spot checks of headquarters' equipment are done as part of the annual internal control review. We found no formal documentation related to these physical inventories.

Although we noted improvement in the timeliness of submitting receiving reports to headquarters, we found inconsistencies in the information included in these reports. We identified instances when the dates shown for property receipt differed with that reported on property schedules. In addition, several receiving reports, which were not dated when received by headquarters, were processed weeks after the receipt of property.

We noted that depreciation was not recorded for several pieces of equipment acquired during FY 2004 because USIBWC failed to enter depreciation information into the system. This resulted in accumulated depreciation being understated by approximately \$10,000. We also noted that depreciation expense for the month of September 2004 had not been posted to the general ledger prior to year-end closing. This resulted in accumulated depreciation being understated by approximately \$70,000.

We recommend that USIBWC:

- ensure that physical inventories of capitalized personal property are regularly conducted at all field offices;
- develop and implement formal procedures for physical inventories of computer equipment, including requirements for documentation; and
- develop appropriate controls to ensure that accurate information related to the acquisition of property and equipment (including depreciation) is recorded in a timely manner.

3. Government Purchase Card – Nogales Field Office

The Nogales field office did not submit purchase logs as required by Government Commercial Purchase Card provisions. An internal audit performed in FY 2004 also identified this concern. In addition, the internal audit found that the Nogales field office had inappropriately authorized some payments.

We recommend that USIBWC ensure that the Nogales field office complies with Government Commercial Purchase Card provisions.

4. Information Systems Security/EDP System

During FY 2003, the National Institute of Standards and Technology (NIST) conducted an independent review of USIBWC's information systems. This review identified nine weaknesses. We found that USIBWC was in the process of addressing only four of these findings; no action had been taken on the remaining five findings.

We recommend that USIBWC address all the findings identified in the NIST review.

5. Statement of Assurance

OMB Circular No. A-123, *Management Accountability and Control*, requires an annual statement on whether an agency's financial management systems conform with government-wide requirements. Our audit found that USIBWC's Statement of Assurance did not include this required statement.

We recommend that USIBWC modify its annual Statement of Assurance to comply with OMB Circular No. A-123.

6. Government Performance and Results Act

During our audit of USIBWC's 2003 financial statements, we concluded that USIBWC had partially complied with the Government Performance and Results Act. USIBWC had developed a strategic plan, but had not complied with the requirement for submitting an annual performance plan and performance report.

During this audit, we found that management had identified its strategic goals and objectives, but it had not transitioned from these objectives to an annual performance plan that identifies specific targeted accomplishments to be achieved during the coming year in support of each objective. As a result, USIBWC management is unable to determine its progress in achieving these objectives. USIBWC's Office of Strategic Planning has been working on developing a performance plan for several years.

We recommend that USIBWC complete the development and implementation of its performance plan.

7. Management Discussion and Analysis

During our review of USIBWC's Management Discussion and Analysis (MD&A), we noted that it did not fully comply with OMB Bulletin No. 01-09, *Form and Content of*

Agency Financial Statements, Statement of Federal Financial Accounting Standards (SFFAS) #15 and Statement of Federal Financial Accounting Concepts (SFFAC) #3, both entitled *Management's Discussion & Analysis*.

Examples of noncompliance include the following:

- The overall format was inconsistent with the requirements.
- The MD&A did not contain a section that articulates the limitations of the principal financial statements.
- Management failed to discuss key financial-related measures that illuminate financial trends and assess financial operations.
- Management failed to convey its understanding of major changes in type or amount of assets, liabilities, costs, revenues, obligations, and outlays and the relevance of particular balances and amounts in the financial statements that pertain to financial management issues.

We recommend that USIBWC ensure that its MD&A complies with government standards.

8. Prompt Payment Act

In several instances, we noted that USIBWC staff entered a voucher's payment approval date instead of its receipt date in its Prompt Payment System. In order to ensure that payments are made within the required time frames, it is essential to have accurate information available.

We recommend that USIBWC develop appropriate controls to ensure voucher information is correctly entered in its Prompt Payment System.

9. Suspense Accounts

USIBWC does not have written procedures for reviewing and clearing its suspense account as part of preparing its financial statements.

We recommend that USIBWC develop and implement written procedures for reviewing and clearing its suspense account as part of preparing its financial statements.

10. Deferred Maintenance

USIBWC did not accurately report the dollar amount of maintenance needed to return its property, plant and equipment to an acceptable operating condition as required by SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, and SFFAS No. 8, *Supplementary Stewardship Reporting*, as amended by SFFAS No. 14, *Amendments to Deferred Maintenance Reporting*. Our review showed that the total amount of deferred maintenance had not changed since FY 2003, even though the narrative portion of the report had changed.

We recommend that USIBWC ensure that its deferred maintenance information complies with government standards.

11. Advances From the Environmental Protection Agency

USIBWC receives funds from the Environmental Protection Agency (EPA) for certain projects. We noted that USIBWC does not obtain any documentation or formal verification of its budget requests from EPA.

We recommend that USIBWC obtain appropriate documentation and formal verification of its budget requests from EPA.

12. Timesheet Completion

We noted that USIBWC staff did not always complete timesheets in compliance with USIBWC's *Timekeepers Operation Procedures Manual*, primarily related to premium time. For example, some timesheets reported Sunday hours in both the "Base Hours" column and "Sunday" columns, whereas others reported Sunday hours only in the "Sunday" column. In addition, some timesheets reported night differential hours in both the "Base Hours" column and the "Night Differential" columns, whereas others reported night differential hours only in the "Night Differential" column.

Although we noted no errors in the hours entered into the payroll system, we believe that a consistent approach to timecard preparation lessens the chance of input errors, especially if there is a change in personnel entering data into the payroll system.

We recommend that USIBWC implement controls to ensure that timesheets are prepared in accordance with its *Timekeepers Operation Procedures Manual*.

13. List of Primary and Alternate Supervisors

During the audit, we noted that USIBWC does not have a list of primary and alternate supervisors that indicates who is responsible for signing and certifying employee timesheets, including the name of the employee(s) for whose timesheets he or she is responsible for certifying. Such a list would strengthen internal controls over payroll.

We recommend that USIBWC consider developing and maintaining a list of primary and alternate timesheet certifiers that indicates the employee(s) whose timesheets he or she is responsible for certifying.

14. Accounts Receivable

During the audit, we noted that USIBWC did not have written procedures for reviewing the accuracy of billings and estimates for unbilled accounts receivable, and regularly assessing the collectibility of accounts receivable.

We recommend that USIBWC develop and implement written procedures for reviewing the accuracy of billings and estimates for unbilled accounts receivable and assessing the collectibility of accounts receivable quarterly. All offices responsible for negotiating and collecting reimbursable amounts should review and agree to these procedures before they are implemented.

15. Contract Accruals

USIBWC did not accurately report the amount of contract accruals to the Department of State for inclusion in the Department's FY 2004 financial statements. According to USIBWC officials, because of the accelerated deadlines for meeting year-end reporting requirements, they reported FY 2003 amounts instead of FY 2004 amounts. Although this would not have impacted the audit of the Department's financial statements (less than 1% of this account related to USIBWC), it is essential that USIBWC gather financial information in a timely manner and report accurate information to the Department for inclusion on its financial statements.

We recommend that USIBWC gather financial information for contract accruals in a timely manner to meet year-end reporting deadlines and report accurate year-end balances.

16. Timely Submission of Financial Reports to Treasury

During the audit, we noted that USIBWC submitted its SF 133, *Report on Budget Execution*, to the U.S. Department of the Treasury one month after the due date of November 15, 2004.

We recommend that USIBWC submit its SF 133, *Report on Budget Execution*, to the U.S. Department of the Treasury by the required due date.

17. Financial Reporting Package

USIBWC does not have an automated general ledger system specifically designed for its agency, but instead uses the services of the Department of the Interior, National Business Center. As a result, USIBWC prepares its financial statements, trial balance, and general ledger details manually.

We recommend that USIBWC purchase a financial reporting package that interfaces with the Department of the Interior system and allows USIBWC to automatically generate its financial statements, trial balance, and general ledger details.

Table 1: Follow-up on Observations From the FY 2003 Management Letter

Observation Number	Observation	FY 2004 Status	FY 2004 Comment
1. Financial Reporting System – General Ledger	USIBWC did not maintain accurate account balances in its general ledger and prepared the agency’s financial statements from cuff records. Financial statements cannot be generated automatically through the Department of the Interior interface. Financial statements are prepared manually from Trial Balance and general ledger details.	Partially Corrected	General ledger errors were corrected, and the FY 2004 financial statements were prepared from it. However, there is no financial reporting package to automate process. (See observation #17 above.)
2. Internal Audit Function	The internal audit function was ineffective, as it failed to report or follow up on previously reported findings and failed to evaluate the adequacy and effectiveness of controls that encompass the entire organization.	Open	See observation #1 above.
3. Accounts Receivable and Allowance for Doubtful Accounts	USIBWC has not established an effective process to assess whether its accounts receivable are properly valued and collectable. It does not maintain an allowance for doubtful accounts.	Partially Corrected	USIBWC established an allowance for doubtful accounts and is assessing receivables to determine if they are collectable. However, written procedures need to be developed and implemented. (See observation #14 above.)

Observation Number	Observation	FY 2004 Status	FY 2004 Comment
4. Suspense Account	USIBWC did not record receipts in its suspense accounts with Treasury in its general ledger and lacked procedures to clear the suspense account as a part of preparing its financial statements.	Partially Corrected	<p>General ledger account balances for all transactions affecting the suspense account are maintained, and the balance of the suspense account was included in the financial statements.</p> <p>However, written procedures need to be developed and implemented. (See observation #9 above.)</p>
5. Compliance With Federal Accounting Principles and Requirements	The financial statements, MD&A, and performance reporting did not always comply with federal accounting and reporting requirements.	Partially Corrected	<p>Problems related to the general ledger from the prior year were corrected.</p> <p>However, USIBWC did not develop appropriate performance plans and the MD&A did not fully comply with federal accounting and reporting requirements. (See observations #6 and #7 above.)</p>
6. Compliance With OMB Circular A-50, Audit Follow-up	Comprehensive semiannual reports were not submitted to the agency head on the status of all unresolved audit reports over six months. Although a listing of unresolved audit findings was provided to USIBWC's top management, no comprehensive data on the recommendation were provided.	Open	See observation #1 above.

Table 2: Follow-up on Observations From the FY 2002 Management Letter

Observation Number	Observation	FY 2003 Status	FY 2003 Comment	FY 2004 Status	FY 2004 Comment
1. Internal Audit Function	USIBWC did not have an effective internal audit function. For instance, during the FY 2002 audit of purchase cards, the internal auditor did not follow up on a user that had been put on probation.	Open	See observation #2 in the FY 2003 Management Letter.	Open	See observation #1 above.
2. Compliance With OMB Circular A-50, Audit Follow-up	Semiannual reports were not submitted to the agency head on the status of all unresolved audit reports over six months, the reasons therefore, and a timetable for their resolution; the number of reports or recommendations resolved during the period; the amount of disallowed costs; and collections, offsets, write-offs, demands for payment, and other monetary benefits resulting from audits.	Partially corrected	A semiannual listing was provided to top management. However, a detailed report was not prepared.	Partially corrected	See observation #1 above.



OFFICE OF THE COMMISSIONER
UNITED STATES SECTION

INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO

MEMORANDUM

FOR INFORMATION
July 20, 2005

TO : OIG - Ms. Gayle Vosbell
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.