

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

**Independent Auditor's Report**

**September 30, 2006 and 2005**

**AUD/FM-07-43, June 2007**

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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 (Financial Statements) as of and for the years then ended, September 30, 2006 and 2005. We have examined internal control over financial reporting in place as of September 30, 2006, and for the years then ended, and we have examined compliance with applicable laws and regulations.

In our opinion, USIBWC's 2006 and 2005 Financial Statements are presented fairly in all material respects in conformity with accounting principles generally accepted in the United States of America.

We found:

- no matters involving internal control that we consider to be a reportable condition as defined below; and
- no instances of noncompliance with the provisions of applicable laws and regulations tested that we consider to be material as defined below.

Each of these conclusions is discussed in more detail on the following pages. This report also discusses the scope of the work.

### FINANCIAL STATEMENTS

In our opinion, USIBWC's 2006 and 2005 Financial Statements, including the notes thereto, present fairly, in all material respects, USIBWC's financial position as of September 30, 2006 and 2005, 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.

## 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 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 06-03, *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 of the U.S. Department of State has identified as being significant and for which compliance can be objectively measured and evaluated; and
- 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. We noted no internal control issues that would be considered a reportable condition.

However, we noted certain internal control issues that we have reported to USIBWC's management in a separate letter dated April 2, 2007.

### 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 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 financial statement amounts and certain other laws and regulations specified in OMB Bulletin 06-03. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to USIBWC. The objective of our audit of the 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.

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 above did not disclose instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Bulletin 06-03.

We noted certain instances of noncompliance that we have reported to USIBWC's management in a separate letter dated April 2, 2007.

### RESPONSIBILITIES AND METHODOLOGY

USIBWC management has the responsibility for:

- preparing the 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 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 Financial Statements are free of material misrepresentation and presented fairly in accordance with 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 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 and related disclosures;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the 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 Statements;
- obtained written representations from management; and
- performed other procedures as we considered necessary under the circumstances.

Our audit was 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 06-03. We believe that our audit provides a reasonable basis for our opinion.

The Management's Discussion and Analysis and Required Supplementary Information and Additional Supplementary Financial and Management Information are not required parts of the Financial Statements but are supplementary information required by OMB Circular A-136, *Financial Reporting Requirements*, and the Federal Accounting Standards Advisory Board. We have applied certain 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 opinion on it.

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 USIBWC. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Comments by USIBWC management on this report are presented as an appendix.



Leonard G. Birnbaum & Company, LLP

Alexandria, Virginia  
April 2, 2007



INTERNATIONAL BOUNDARY AND WATER COMMISSION  
UNITED STATES AND MEXICO

May 24, 2007

Gayle Voshell  
Director, Financial Management Division  
U.S. Department of State  
Office of Inspector General  
Washington, DC 20520-6817

Dear Ms. Voshell:

This letter is in response to the draft Independent Auditor's Report on the International Boundary and Water Commission, United States and Mexico, United States Section's financial statements as of and for the years ended September 30, 2006 and 2005 and related draft Management Letter.

Attached are the USIBWC's written responses. As reflected in the responses, we are committed to correcting all deficiencies noted in the audit. If you have any questions or require further information, please call Tony Chavez at 915.832.4111 or me at 915.832-4108.

Sincerely,

A handwritten signature in cursive script that reads "Fred W. Graf".

Fred W. Graf  
Compliance Programs Officer

Enclosure: As stated.

cc Carlos Marin, United States Commissioner  
Diana Ferli, Chief Administrative Officer

**Agency Response to the  
Management Letter Related to the Audit of the Financial Statement for the  
International Boundary and Water Commission United States and Mexico,  
U.S. Section September 30, 2006 and 2005**

Regarding observations and recommendations of the subject management letter, the following are responses from the United States Section, International Boundary and Water Commission (USIBWC):

1. Internal Audit and Evaluation

The Audit Report stated that the Internal Auditor performs various operating and support functions that conflicts with USIBWC internal policies, but failed to identify the particular operating and/or support functions being performed by the Internal Auditor. Since the last Audit Report, the USIBWC has made significant strides to address similar observations and offer the following facts to demonstrate its commitment to resolve the observations made in the aforementioned report.

In July 2006, the responsibility of handling claims filed against the Commission under the Federal Torts Claims Acts were overtaken by the Office of the Legal Advisor, and in August 2006 the responsibility of handling requests for information under the Freedom of Information Act was also overtaken by the Office of the Legal Advisor. Additionally, in November 2006, the task of coordinating the Commission's Combined Federal Campaign efforts were reassigned outside of the office of the Internal Auditor. We note that the Internal Auditor continues to maintain the duty of Ethics Officer, but only at his request and with the understanding the duty does not consume a substantive amount of time.

The Audit Report also stated that the Internal Auditor failed to perform the majority of the audits identified in his FY 2006 Audit Plan, one out of seven. The Commission is pleased to report that of the remaining audits, two were completed on February 28, 2007 and March 9, 2007, Payroll Area and Review of Accounts 20X6133 and 20X1807, respectively. Moreover, audits of Realty, Government Performance and Results Act (GPRA) and WAPA Accounts are scheduled to be completed this Fiscal Year. The Internal Auditor has decided not to audit the Petroleum Management Program (A-05-01) and thus has removed that program from his Audit Plan.

The Commission is diligently seeking to implement the recommendations cited in the Audit Report and as demonstrated above, is striving to continually improve its Internal Audit Program. The Internal Audit Program currently is under the day-to-day administrative oversight of the newly established Compliance Programs

Officer (CPO) position. The CPO, who reports directly to the United States Commissioner, is responsible for ensuring the Internal Audit Program makes progress in achieving its internal evaluation and audit mission. At the same time, the Internal Auditor maintains direct access to the Commissioner regarding such issues as sensitive discussions and audit findings.

## 2. Property and Equipment

The Chief Administrative Officer (CAO) of the USIBWC issued guidance on October 11, 2005 regarding the implementation of sub-hand receipts for all accountable property. Every employee was issued a sub-hand receipt containing a listing of all property under his/her control, for their review and update, along with an original signature accepting responsibility for all property listed on the sub-hand receipt. Each employee is required to conduct a comprehensive inventory of all government property on an annual basis. Employees will be held directly accountable for all property, and for identifying and reporting missing items, requesting approval from the agency's Property Officer for the transfer of items to another employee or office.

On March 31, 2006, a directive was issued to all of the employees, titled Personal Property Management, Volume 2, and Chapter 601. On page 12 of this directive, it states that for each item of personal property received, the employee will enter all identifying information into the currently approved database application and print out a computer-generated form titled, Receiving Report (IBWC-140). The Custodial Property Officer will sign the report, or the person designated to act in his/her behalf during absence, and submit to the Property Officer within five working days of receipt. The Receiving Report can be mailed, faxed, or scanned and emailed to the Property Officer as an attachment. USIBWC field offices may retain the original on file if they send a faxed or scanned copy; otherwise, the original is to be mailed to the Property Officer, and a copy retained on file at the field office. The USIBWC Internal Auditor currently is carrying out a comprehensive audit of personal property accountability, which is to be completed before the end of fiscal year 2007.

Internal controls policy was implemented on June 25, 2006. The CAO/Budget Officer requested that each cost center manager conduct a comprehensive and honest assessment of the internal controls in place for their respective functional areas.

The Information Management Division (IMD) has assigned accountability for all IT equipment to each specific employee at the USIBWC. IMD, in conjunction with the General Services Division (GSD), is required to conduct annual inventories and update all sub-hand receipts accordingly. Information Technology Policy and Procedures, Volume 2, Chapter 105 dated 11/30/2006. Page 9 of this directive, "Maintaining a Hardware Inventory", explains in detail what each employee is required to do. All hardware will be identified with an agency

inventory number, issued to employees for business use, and tracked throughout its useful life. Each inventory item will be assigned to a specific user in a database maintained by IMD. Supervisors will be responsible for all shared items located in their division. Upon user departure, IMD inventories IT items and identified to be either returned to IMD or reassigned to the immediate supervisor. Each employee is required to sign the user acknowledgement and agreeing to abide by them.

### 3. Unbilled Accounts Receivable

The Financial Service Division will ensure that the year-end accrual information provided by the Engineering Department is reviewed and adequately supported with sufficient documentation that illustrates the basis for the accruals. Accounts receivable will be subject to audit by the agency's Internal Auditor.

### 4. Contract Accruals

The Financial Service Division will ensure that only current year invoices are included in the year-end contract accruals. Contract accruals will be subject to audit by the agency's Internal Auditor.

### 5. Payroll Tax Withholding

The Financial Services Division will notify the National Finance Center of all discrepancies noted in the calculation of state tax withholding amounts. Payroll tax withholding will be subject to audit by the agency's Internal Auditor.

### 6. Sick Leave

The Financial Services Division will monitor the sick leave carryover balances for employees and notify the National Finance Center of any discrepancies noted in the balances carried over to the new calendar year. Sick leave carryover balances will be subject to audit by the agency's Internal Auditor.

### 7. Life Insurance Contributions

The Financial Service Division will periodically review the employee withholdings and government contributions for Group Life Insurance to ensure that the amounts are recorded properly. The National Finance Center will be notified of any discrepancies noted in the review. The proper recording of amounts will be subject to audit by the agency's Internal Auditor.

### 8. Statement of Assurance

The Financial Services Division will ensure that the agency's annual Statement of Assurance includes a statement as to whether its financial management system

conforms to government wide standards. This commitment will be subject to audit by the agency's Internal Auditor.

#### 9. Government Performance and Results Act

As recommended, the USIBWC developed a methodology to improve validation and documentation of the agency's actual performance in a measurable manner whenever possible and substantiate the program's effectiveness as required by the Performance Assessment and Ratings Tool (PART). The USIBWC Compliance Programs Office developed and implemented a monthly reporting process. Work units are required to submit monthly reports of mission activities that clearly describe work performed, its location, and quantifiable results using actual figures. The report also includes a section to note any work plan deviations. The monthly report is subdivided into four sections; each representing actual performance against a strategic goal. The report was structured in this fashion to facilitate correlation among performance results, budgeting, and strategic planning. A completed sample report and guidance was provided to work units. Work units are required to submit reports no later than the 5th workday of the following month.

#### 10. Financial Reporting Package

In September 2006, the USIBWC signed an agreement with Department of State for the Global Financial Management System (GFMS), to upgrade the current financial system at USIBWC. The new system will meet federal financial system requirements and will allow USIBWC to automatically generate its financial statements, trial balance, and general ledger. The new system is expected to be operational by mid-October 2007.

#### 11. Management's Discussion and Analysis

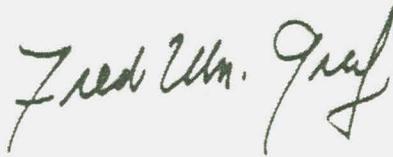
The USIBWC concurs with the recommendation and will prepare its Management Discussion and Analysis (MD&A) in compliance with government standards. The USIBWC will not include the Deferred Maintenance Report as part of the MD&A, and it will provide results of internal audits and/or any known problems with systems, controls, and compliance. The agency will also seek to improve its reporting on performance outcomes and perform trend analyses in future years.

12. Deferred Maintenance

The USIBWC concurs with the recommendation and will prepare its Deferred Maintenance Report in accordance with government standards. USIBWC will submit data more consistently and provide a stratification of critical and non-critical amounts. In addition, the agency will ensure that the supporting narrative is consistent with the deferred maintenance data and is properly formatted.

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Respectfully submitted for the United States Commissioner:

A handwritten signature in cursive script that reads "Fred W. Graf". The signature is written in dark ink and is positioned above the typed name.

Fred W. Graf Compliance  
Programs Officer USIBWC