

**Management Letter Related to the
Audit of the Financial Statements for the
International Boundary and Water Commission,
United States and Mexico, U.S. Section**

September 30, 2006 and 2005

AUD/FM-07-42, June 2007

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April 2, 2007

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

Under generally accepted auditing standards, 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 financial statements of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC) as of and for the year ended, September 30, 2006, 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. 06-03, *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, promulgated by the American Institute of Certified Public Accountants. Our consideration of internal control 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 internal controls to prevent or detect all errors and irregularities.

USIBWC's management is responsible for establishing and maintaining internal control. 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 control 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 in accordance with the comprehensive basis of accounting described in OMB Circular A-136, *Financial Reporting Requirements*.

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 internal control was not to provide assurances thereon, matters came to our attention that we want to report to you. These matters are discussed in Attachment 1. Attachments 2 and 3 include the status of recommendations from the 2005 and 2004 Management Letters. These matters do not affect our report, dated April 2, 2007, on the USIBWC's 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.

Comments by USIBWC management on this report are presented as Attachment 4.

Very truly yours,



Leonard G. Birnbaum and Company, LLP

Attachment: As stated.

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

Observations and Recommendations

1. Internal Audit and Evaluation

USIBWC has continually failed to implement an effective internal control and evaluation function as reported in prior years' management letters. The audits performed should be conducted to identify weaknesses within the agency in order to improve the controls that encompass the agency as a whole. Furthermore, the weaknesses identified should promptly be addressed and followed up during the subsequent year to assess the effectiveness of the remedy put into place in order to correct those findings. LGB found the following.

- The internal auditor performs various operating and support functions that conflict with USIBWC's internal policies.
- The internal auditor did not perform the majority of the audits included in the FY 2006 audit plan. Only one of the seven planned audits was performed (these six audits have been included in the audit plan for FY 2007). Three of the four planned follow-up audits were completed (the follow-up audit that was not performed was not included in the FY 2007 audit plan). Instead, the internal auditor spent much of the year performing follow-up work on a report issued by the Office of Inspector General (*U.S. Section of the International Boundary and Water Commission*, ISP-05-26, Mar. 2005) and one surprise cash count. Although the internal auditor did perform more follow-up audits than in past years, audits of the imprest funds do not do enough to improve USIBWC's internal controls.
- USIBWC did not prepare a semiannual report of all audit findings and recommendations that had been completed as of June 30 and September 30, 2006, as required by OMB Circular A-50, *Audit Follow-up*.

We recommend that USIBWC:

- *establish and implement 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, and government auditing standards;*
- *ensure that all audits are performed in a timely manner; and*
- *ensure that all required semiannual reports are prepared in compliance with OMB Circular A-50.*

2. Property and Equipment

Although USIBWC has taken some steps to improve internal controls related to property and equipment, we continued to find issues. For instance, accountability for property located at field offices has been a long-standing issue. In prior years, USIBWC did not perform physical inventories of capitalized property at all of its field offices, which was corrected in FY 2005. However, the inventory identified that numerous pieces of equipment either lacked or had incorrect fixed asset identification numbers. These issues were not addressed in a timely manner.

During FY 2004, we recommended that formal procedures be developed for the inventory of computer equipment. USIBWC has not completed this initiative, largely because of uncertainty about whether the Information Management Division or General Services should be accountable for computer assets.

We also found inconsistencies in how General Services and the Information Management Division were using the Fixed Asset Receiving Report. General Services has the person responsible for the asset sign the report whereas the Information Management Division signs the receiving report for all computer equipment, regardless of who the equipment is assigned to. In addition, we found that the field offices were not providing receiving reports in a timely or complete manner. We found that only 32 percent of the sample items tested were submitted within one month of the receipt of equipment.

The property officer is not provided with needed data related to equipment purchase for reconciling the inventory records. Accounting information regarding equipment purchases should be reconciled with inventory receipts regularly to improve the accuracy and reliability of asset data.

We also found that USIBWC was not recording the disposal of assets in a timely manner. We noted that three items recorded as disposed of during FY 2006 were actually disposed of in prior years.

During our testing of construction-in-progress accounts, we discovered that incorrect budget object codes were assigned to three construction projects. The incorrect object codes resulted in the costs associated with the incomplete construction projects being included within actual property accounts, rather than recorded in construction-in-progress.

We recommend that USIBWC:

- *ensure that complete and comprehensive physical inventories of all accountable personal property are performed and that exceptions identified during the inventory process are corrected in a timely manner;*
- *assign accountability for computer equipment and develop formal procedures for its annual physical inventory;*
- *establish a procedure to obtain a receipt from the employee who will be responsible and accountable for property items;*
- *hold the field offices accountable for the timely and accurate submission of receiving reports;*
- *have Financial Services provide monthly accounting information to General Services regarding equipment purchases in order to reconcile inventory records;*
- *ensure that the cost of property and related accumulated depreciation are removed from the general ledger in a timely manner following asset disposal; and*
- *ensure that construction projects are assigned appropriate budget object codes so that costs for incomplete projects are properly recorded within construction-in-progress accounts.*

3. Unbilled Accounts Receivable

In prior years, USIBWC did not have formal procedures for determining and reporting unbilled receivables. The basis of accruing unbilled amounts at year-end consisted of the Financial Services Division asking the Engineering Department for an estimate of the amounts owed for various projects.

During FY 2006, formal procedures were developed. However, there still appeared to be a lack of adequate communication. The Financial Services Division continued to rely on Engineering's estimates. In addition, the Engineering Department had not maintained adequate documentation regarding the methodology of how the estimate was determined.

We recommend that USIBWC ensure that the Financial Services Division and the Engineering Department better communicate regarding year-end receivable accruals. In addition, the Financial Services Division should ensure that adequate documentation is maintained to support the amounts reported within the financial statements.

4. Contract Accruals

USIBWC was not recording year-end accruals in the proper periods. We noted several payables that pertained to FY 2007 that were accrued as of year-end FY 2006.

We recommend that USIBWC improve its recording of year-end accounts payable accrual by thoroughly reviewing invoices to ensure that they are recorded within the proper period.

5. Payroll Tax Withholding

The state tax withholding amounts for three employees were incorrect. The differences were minor, and the National Finance Center was informed of the differences.

We recommend that USIBWC better coordinate with its payroll provider and ensure that withholdings are accurately calculated and recorded.

6. Sick Leave

The sick leave carryover hours for two employees did not agree to the reported amounts used for compilation of the financial statements.

We recommend that leave balances be monitored more closely to ensure that accurate balances are reported.

7. Life Insurance Contributions

We noted three exceptions related to the employee withholding and government contribution amounts pertaining to the Federal Employees' Group Life Insurance.

We recommend that USIBWC establish procedures to periodically review and ensure that withholding amounts are properly being recorded.

8. 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.

9. Government Performance and Results Act

The Government Performance and Results Act states that the annual performance plan "...provide a basis for comparing actual program results with the established performance goals; and describe the means to be used to verify and validate measured values." Currently, USIBWC uses estimates rather than actual results and does not provide a means to verify and validate reported performance in a measurable way.

We recommend that USIBWC develop a methodology that will enable it to verify actual performance in a measurable way.

10. 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. Additionally, the financial system is no longer certified as meeting core federal financial system requirements.

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

11. Management's Discussion and Analysis

We noted that the Management's Discussion and Analysis (MD&A) included in USIBWC's financial statements did not fully comply with OMB Circular A-136, *Financial Reporting Requirements*, or Statement of Federal Financial Accounting Standards (SFFAS) No. 15 and Statement of Federal Financial Accounting Concepts (SFFAC) No. 3, both entitled *Management's Discussion & Analysis*.

Examples of noncompliance include the following.

- USIBWC needs to provide additional details when reporting on performance outcomes, especially for instances in which targets were not met, and provide an analysis of the reasons why those goals were not met.
- Trend reporting was not included within the MD&A. Management should analyze and compare data and look for trends to help management evaluate and determine the effectiveness and efficiency of IBWC operations in meeting its prescribed goals and objectives.
- In addition to the auditor findings, management should include its own internal assessments and known problems with regard to its systems, controls, and compliance. These internal assessments and known problems should consist of those findings from the internal auditor and other operational and support deficiencies that may not be material or included within the financial statement audit.
- A separate Deferred Maintenance Report was appended to the MD&A. However, Deferred Maintenance is not part of the MD&A. Management should incorporate highlights from the results reported within the Deferred Maintenance Report into the Management's Discussion and Analysis.

We recommend that USIBWC prepare its MD&A in compliance with government standards.

12. Deferred Maintenance

USIBWC has made a reasonable attempt in complying with OMB and SFFAS requirements for reporting deferred maintenance. However, not all requirements have been met.

We recommend that:

- *USIBWC address paragraph 84 of SFFAS No. 6 regarding the definition of stratified critical and noncritical amounts;*
- *USIBWC comply with government standards related to deferred maintenance and report data more consistently;*
- *USIBWC incorporate information contained in the deferred maintenance within the other Required Supplementary Information component - MD&A. The report was inconsistent with regard to format and data presented; and*
- *USIBWC ensure that the narrative that supports the schedule of deferred maintenance costs is consistent with the format and data provided.*

Follow-up on Observations From the FY 2005 Management Letter

2005 Observation Number	FY 2005 Observation	FY 2006 Status	FY 2006 Comment
1. Internal Audit Function	<p>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.</p> <p>Various operational and support functions performed by the Internal Auditor conflict with USIBWC's Internal Evaluations Directive.</p>	<p>Open</p> <p>Open</p>	<p>See observation #1</p> <p>See observation #1</p>
2. Property and Equipment	<p>The annual inventory identified that numerous pieces of equipment either lacked or had incorrect fixed asset identification numbers</p> <p>A comprehensive annual inventory of noncapitalized accountable personal property was not conducted.</p> <p>No formal procedures exist related to the physical inventory of computer equipment.</p> <p>Field offices do not submit receiving reports to headquarters in a timely manner.</p> <p>The disposal of assets was not recorded in a timely or complete manner</p>	<p>Open</p> <p>Closed</p> <p>Open</p> <p>Open</p> <p>Open</p>	<p>See observation #2</p>
3. Timesheet Completion	<p>USIBWC staff did not always complete timesheets in compliance with USIBWC's <i>Timekeepers Operation Procedures Manual</i>, primarily related to premium time.</p>	<p>Closed</p>	
4. Part-time Work Schedules	<p>One part-time employee consistently exceeded the part-time work schedule.</p>	<p>Closed</p>	
5. Leave Calculations	<p>There were exceptions related to leave accruals for two part-time employees that USIBWC was unable to explain.</p>	<p>Closed</p>	<p>However, issues with sick leave calculations. See observation #6</p>
6. Unbilled Accounts Receivable	<p>USIBWC does not have formal procedures for determining and reporting unbilled receivables.</p>	<p>Closed</p>	

2005 Observation Number	FY 2005 Observation	FY 2006 Status	FY 2006 Comment
7. Information Systems Security	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 to be corrected. Three of the nine weaknesses remain uncorrected.	Closed	
8. Statement of Assurance	USIBWC's Statement of Assurance did not contain the required statement on whether the agency's financial management systems conform to government-wide requirements.	Open	See observation #8
9. Suspense Accounts	USIBWC does not have written procedures for reviewing and clearing its suspense account as part of preparing its financial statements.	Closed	
10. Contract Accruals	USIBWC does not have formal written procedures regarding the compilation and reporting of contract accruals at year-end. During the past several years, inconsistent methods have been used in accruing the year-end amounts owed.	Closed	
11. Commission Authorization Laws	USIBWC did not prepare an annual report on all representation and entertainment expenditures incurred during the fiscal year as required by 22 U.S.C. 277d	Closed	
12. 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.	Open	USIBWC is in the process of implementing a new accounting system. See observation #10

2005 Observation Number	FY 2005 Observation	FY 2006 Status	FY 2006 Comment
13. MD&A	<p>We noted the following instances of noncompliance with OMB Circular A-136, SFFAS No. 15, and SFFAC No. 3.</p> <ul style="list-style-type: none"> • Management failed to discuss key financial-related measures that illustrate financial trends and assesses 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. • Management's reporting of performance results was not accurate. Results were conveyed as objectives rather than outcomes of performing specified plans. 	<p>Open</p> <p>Closed</p> <p>Closed</p>	<p>See observation #11</p>
14. Undelivered Orders	<p>A review of undelivered order balances was not conducted at year-end.</p>	<p>Closed</p>	
15. Deferred Maintenance	<p>USIBWC could not provide supporting financial and narrative documentation pertaining to one project within the Deferred Maintenance Report.</p>	<p>Open</p>	<p>See observation #12</p>

Follow-up on Open Observations From the FY 2004 Management Letter

2004 Observation Number	FY 2004 Observation	FY 2006 Status	FY 2006 Comment
1. Internal Audit Function	<p>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.</p> <p>Various operational and support functions performed by the Internal Auditor conflict with USIBWC's Internal Evaluations Directive.</p>	<p>Open</p> <p>Open</p>	<p>See observation #1</p> <p>See observation #1</p>
2. Property and Equipment	<p>Field offices do not submit receiving reports to headquarters in a timely manner.</p> <p>No formal procedures exist related to the physical inventory of computer equipment.</p>	<p>Open</p> <p>Open</p>	<p>See observation #2</p> <p>See observation #2</p>
4. Information Systems Security	<p>During FY 2003, NIST conducted an independent review of USIBWC's information systems and discovered nine weaknesses. The FY 2004 audit found that only four of the nine weaknesses were addressed.</p>	<p>Closed</p>	
5. Statement of Assurance	<p>USIBWC's Statement of Assurance did not contain the required statement on whether the agency's financial management systems conform to government-wide requirements.</p>	<p>Open</p>	<p>See observation #8</p>
6. MD&A	<p>USIBWC did not fully comply with the requirements.</p> <ul style="list-style-type: none"> • 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. 	<p>Partially Corrected</p>	<p>See observation #11</p>

2004 Observation Number	FY 2004 Observation	FY 2006 Status	FY 2006 Comment
7. Suspense Accounts	USIBWC did not have written procedures for reviewing and clearing its suspense account as part of preparing its financial statements.	Closed	
8. 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. 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.	Closed	
9. Timesheet Completion	USIBWC staff did not always complete timesheets in compliance with its procedures, primarily related to premium time.	Closed	
10. Accounts Receivable	USIBWC does not have written procedures for reviewing the accuracy of billings and estimates for unbilled accounts receivable.	Closed	
11. Contract Accruals	USIBWC did not accurately report the amount of contract accruals. The FY 2003 balance was reported as an estimate for the FY 2004 balance.	Closed	
12. Financial Reporting Package	USIBWC does not have an automated general ledger system specifically designed for its agency. Financial statements cannot be generated automatically through its interface with the Department of the Interior. Therefore, trial balance, financial statements, and general ledger details have to be produced manually.	Open	See observation #10



INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES SECTION

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 Forti, 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.

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