



United States Department of State  
and the Broadcasting Board of Governors

*Office of Inspector General*

JUN 10 2010

The Honorable Edward Drusina, U.S. Commissioner  
International Boundary and Water Commission  
United States and Mexico, U.S. Section  
4171 North Mesa Street, Suite C-100  
El Paso, TX 79902-1441

Dear Commissioner Drusina:

An independent certified public accounting firm, Leonard G. Birnbaum and Company, LLP (LGB), was engaged to audit the financial statements of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), as of September 30, 2009 and 2008, and for the years then ended, to provide a report on internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations and to report any reportable noncompliance with laws and regulations it tested. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards; Office of Management and Budget audit guidance; and the *Financial Audit Manual*, issued by the Government Accountability Office and the President's Council on Integrity and Efficiency.

In its audit of USIBWC, LGB found

- the financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- there were no material weaknesses<sup>1</sup> in internal control; and
- there were no reportable noncompliance with laws and regulations tested.

LGB is responsible for the enclosed report, *Independent Auditor's Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section's 2009 and 2008 Financial Statements* (AUD/FM-10-05), dated April 12, 2010, and the conclusions expressed in the report.

Although LGB is the principal auditor of USIBWC's financial statements, OIG reviews the external auditor's work to ensure it is sufficient and acceptable. Sometimes OIG might

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<sup>1</sup> A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

disagree with the conclusions or judgments of the external auditor, and if the disagreement cannot be resolved, OIG must determine the most appropriate way to report the disagreement.

OIG does not agree with the conclusions reached by LGB on USIBWC's accounting treatment of estimated costs to comply with court orders to bring a wastewater treatment plant into compliance with environmental requirements. USIBWC has chosen to report this estimate as an environmental liability on its 2009 and 2008 consolidated balance sheets (\$61,477,839 and \$87,692,466, respectively). Because of its choice to record this estimate as a liability, USIBWC has also posted a negative expense, totaling \$26,214,627, on its FY 2009 statement of net cost to reflect the amount it spent in FY 2009 on the project. Certain notes, which are an integral part of the statements, also reflect USIBWC's decision to record the amounts as an environmental liability.

The Statement of Federal Financial Accounting Standards No. 5, "Accounting for Liabilities of the Federal Government," states that a liability for federal accounting purposes is "a probable future outflow or other sacrifice of resources as a result of past transactions or events." OIG noted no past event related to the court order cited by USIBWC. There was no environmental damage that required correction. Instead, the court order pertained to future events, specifically, preventing future environmental damage through construction of assets or operating a water treatment facility.

USIBWC's financial information is included in the Department of State's (Department) annual financial statements. The Department submitted a technical inquiry to the Federal Accounting Standards Advisory Board (FASAB) on this matter. FASAB establishes generally accepted accounting principles (GAAP) for Federal reporting entities. FASAB provided advice on the inquiry, indicating that a liability did not exist because the remedy in the court case addressed future events and transactions rather than past events or transactions. Accordingly, the Department restated its FY 2008 financial statements to remove USIBWC's environmental liability and did not report any amounts related to this issue in its FY 2009 financial statements.

Based on this information, OIG concludes that USIBWC has materially departed from GAAP. Because of the dollar magnitude of the transactions, OIG believes that LGB should have indicated that USIBWC's FY 2009 and 2008 financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and cost of operations. OIG also concludes that LGB should have included internal control deficiencies related to reporting environmental liabilities in its report on internal control.

USIBWC's comments are included in Appendix A to the enclosed report. OIG appreciates the cooperation extended to it and USIBWC managers and staff during the audit.

If you or members of your staff have any questions, please contact me or Evelyn R. Klemstine, Assistant Inspector General for Audits, at (703) 284-2604 or by e-mail at klemstinee@state.gov. You may also contact Gayle Voshell, Director of Financial Management Audits, at (703) 284-2681 or by e-mail at voshellg@state.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "H. Geisel". The signature is fluid and cursive, with a large initial "H" and a long, sweeping underline.

Harold W. Geisel  
Deputy Inspector General

Enclosures: As stated.

cc: RM/DCFO – Christopher H. Flaggs  
WHA/MEX – Stewart D. Tuttle  
Leonard G. Birnbaum and Company, LLP – Leslie A. Leiper

**Independent Auditor's Report**

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

**September 30, 2009 and 2008**

**AUD/FM-10-05, June 2010**

Leonard G. Birnbaum and Company, LLP  
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources (annual financial statements) as of, and for the years ended, September 30, 2009 and 2008. We have considered internal control over financial reporting in place as of September 30, 2009, and for the year then ended, and we tested compliance with selected laws and regulations.

As detailed in Note 14, during FY 2009, USIBWC became aware of a material misstatement in its FY 2008 financial statements related to the amount it recorded for environmental liabilities. As a result, USIBWC has restated its FY 2008 balances and activity. Accordingly, our report on USIBWC's 2008 financial statements, dated February 20, 2009, should not be relied upon.

In our audits of USIBWC's 2009 and restated 2008 financial statements, we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting and compliance with laws and regulations; and
- no instances of reportable noncompliance with laws and regulations we tested.

Each of these conclusions is discussed in more detail on the following pages. This report also discusses the audit objectives and scope and methodology.

## OPINION ON THE ANNUAL FINANCIAL STATEMENTS

In our opinion, USIBWC's annual financial statements, including the notes thereto, present fairly, in all material respects, USIBWC's financial position as of September 30, 2009, and the net cost of operations, the changes in net position, and the use of budgetary resources for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As detailed in Note 14, during FY 2009, USIBWC became aware of a material misstatement in its FY 2008 financial statements related to the amount it recorded for environmental liabilities. As a result, USIBWC has restated its FY 2008 balances and activity. In our opinion, USIBWC's restated annual financial statements, including the notes thereto, present fairly, in all material respects, USIBWC's financial position as of September 30, 2008, and the net cost of operations, the changes in net position, and the use of budgetary resources for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### INTERNAL CONTROL

In planning and performing our audits of USIBWC's financial statements as of, and for the years ended, September 30, 2009 and 2008, in accordance with auditing standards generally accepted in the United States of America, we considered USIBWC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the annual financial statements but not for the purpose of expressing an opinion on the effectiveness of USIBWC's internal control. Accordingly, we do not express an opinion on the effectiveness of USIBWC's internal control or on management's assertion on internal control.

We limited our consideration of internal control to those controls necessary to achieve the objectives described in Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*. We did not consider 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 purpose of internal control is to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Compliance with laws and regulations: Transactions, including those related to obligations and costs, are executed in accordance with (1) laws governing the use of budget authority; (2) other laws and regulations that could have a direct and material effect on the financial statements; and (3) any other laws, regulations, and governmentwide policies identified by OMB, USIBWC management, or the Office of

Inspector General as being significant for which compliance can be objectively measured and evaluated.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

However, we identified the following deficiency in internal control that we consider to be a significant deficiency. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

The Department of State (the Department) provides accounting services to USIBWC. The Department's financial statement auditors reported a significant deficiency that has an impact on USIBWC. The Department's information technology (IT) internal control structure, both for the general support systems and critical financial reporting applications, did not facilitate a comprehensive risk analysis, effective monitoring of design and performance, and an ability to identify and respond to changing risk profiles. Both the National Institute of Standards and Technology (NIST) and the Government Accountability Office provide control objectives and evaluation techniques. The Department's IT control structure exhibited design and operation weaknesses that, when combined, are considered to be a significant deficiency. These weaknesses are as summarized.

- The Department could not provide documentation and analysis of automated controls in nine critical financial applications. These automated controls related to data entry validation, management approvals, segregation of duties, and edit controls. Without this information, the Department could not support that data processing objectives regarding data completion, accuracy, and validity were achieved.
- The Department did not map existing IT security policies and procedures to the NIST 800-53 (*Recommended Security Controls for Federal Information Systems*) control families. Without this mapping, the Department could not determine whether existing internal control structures, policies, and procedures effectively and adequately mitigated vulnerabilities and were comprehensive.
- The Department could not provide data regarding numerous controls in multiple applications demonstrating the implementation of effective IT control policies and

procedures. Without documentation, the Department could not demonstrate that it had complied with management's control requirements.

- The Department did not define user roles, responsibilities associated with each role, and/or procedures to assign roles for five key financial applications. The Department also did not compare existing application privileges with users' job responsibilities for two key financial applications. The Department could not demonstrate management's approvals of users' roles in five financial applications. User requests were improperly completed and approved in five applications. Without a comprehensive analysis of roles, the Department could not assess whether transactions were processed in accordance with instructions and whether adequate segregation of duties was maintained.
- The Department did not maintain adequate segregation of duties in three financial applications. Approximately 50 users had the ability to affect changes to system databases without leaving an audit trail or could perform incompatible functions. Proper access and audit trails help ensure the accuracy, validity, and integrity of data and transactions.
- The Department did not revise system security plans for multiple financial applications. System security plans did not reflect current password practices in three other applications. Accurate and updated system security plans support system certification and internal control effectiveness.
- The Department could not demonstrate that it had a formal, well-documented oversight process to ensure that all systems users successfully completed annual security awareness training. Security awareness training helps support data integrity and validity.

We noted certain other internal control issues that we have reported to USIBWC's management in a separate letter dated April 12, 2010.

#### COMPLIANCE WITH LAWS AND REGULATIONS

USIBWC 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 07-04, as amended, that we deemed applicable to USIBWC's annual financial statements. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to USIBWC. Noncompliance may occur and not be detected by these tests. This testing may not be sufficient for other purposes. The objective of our audit of the annual 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 the 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 07-04.

We noted certain instances of noncompliance that we have reported to USIBWC management in a separate letter dated April 12, 2010.

### CONSISTENCY OF OTHER INFORMATION

USIBWC's Management's Discussion and Analysis, Required Supplementary Information, and other accompanying information contain a wide range of information, some of which is not directly related to the financial statements. We do not express an opinion on this information. We have applied certain limited procedures, which consisted principally of comparing the information for consistency with the financial statements and making inquiries of management regarding the methods of measurement and presentation of the supplementary information. On the basis of this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance.

### RESPONSIBILITIES AND METHODOLOGY

USIBWC management has the responsibility for

- preparing the annual financial statements, required supplementary information, and other accompanying information in conformity with accounting principles generally accepted in the United States of America;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether USIBWC's financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles and whether USIBWC management maintained effective internal control. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the financial statements and for performing limited procedures with respect to certain other information appearing in the annual financial statements.

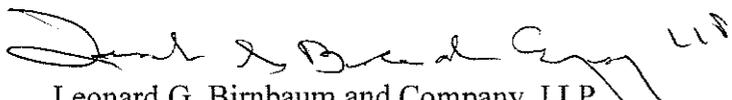
In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts in the annual financial statements and related disclosures;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the annual financial statements;
- obtained an understanding of the entity and its operations, including its internal controls related to financial reporting and compliance with laws and regulations;
- tested relevant internal controls over financial reporting and compliance and evaluated the design and operating effectiveness of internal control;
- considered the design of the process for evaluating and reporting in internal control and financial management systems under the Federal Managers' Financial Integrity Act;
- tested compliance with provisions of selected laws and regulations that may have a direct and material effect on the annual financial statements;
- obtained written representations from management; and
- performed other procedures as we considered necessary under the circumstances.

We performed our work in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the *Government Auditing Standards*, and the provisions of OMB Bulletin 07-04. We believe that our audit provides a reasonable basis for our opinions.

This report is intended solely for the information and use of USIBWC management, the Inspector General of the U.S. Department of State and Broadcasting Board of Governors, OMB, the Government Accountability Office, the Department of the Treasury, and Congress and is not intended to be and should not be used by anyone other than those specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Comments by USIBWC management in this report are presented in Appendix A.

  
Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia  
April 12, 2010



OFFICE OF THE COMMISSIONER  
UNITED STATES SECTION

INTERNATIONAL BOUNDARY AND WATER COMMISSION  
UNITED STATES AND MEXICO

May 24, 2010

United States Department of State  
Harold W. Geisel  
Deputy Inspector General  
Office of Inspector General  
Washington, D. C. 20520

Dear Mr. Geisel:

Subject: Draft Independent Auditor's Report on the financial statements of the International  
Boundary and Water Commission, United States and Mexico, U. S. Section (USIBWC)

Thank you for the opportunity to provide a response to the comments on the Draft Independent Auditor's Report on the financial statements of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), as of, and for the years ending September 30, 2009 and 2008.

As you are aware, the treatment of the estimated costs of responding to court orders to bring wastewater treatment facilities into compliance with environmental standards has been a subject of extensive discussion between representatives of USIBWC, our external auditors and the Office of Inspector General for several years during which alternate treatments were recommended. We recognize that, as such, this is a matter of professional judgment on which individuals can differ. We observe that the subject will become a non-issue in 2010 upon completion of construction of the treatment facility in question.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward Drusina". The signature is fluid and cursive, with a large initial "E".

Edward Drusina, P.E.  
Commissioner

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