

**Independent Auditor's Report**

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

**September 30, 2008 and 2007**

**AUD/FM-09-17, May 2009**

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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, 2008 and 2007. We have considered internal control over financial reporting in place as of September 30, 2008, and for the year then ended, and we tested compliance with selected laws and regulations.

In our opinion, USIBWC's 2008 and 2007 annual financial statements are presented fairly in all material respects. We found

- no material weakness in internal control over financial reporting and
- no 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 scope of our work.

### 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, 2008 and 2007, and the net cost of operations, the changes in net position, and the use of budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### INTERNAL CONTROL

In planning and performing our audit of USIBWC's financial statements as of, and for the years ended, September 30, 2008 and 2007, 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. 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 (FMFIA), 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:

- 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; and
- 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 Office of Inspector General has identified as being significant and for which compliance can be objectively measured and evaluated.

Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We noted no matters involving internal control or its operations that we considered to be material weaknesses as defined herein.

However, we noted certain other internal control issues that we have reported to USIBWC's management in a separate letter dated February 20, 2009.

## 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. 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 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's management in a separate letter dated February 20, 2009.

## 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 and maintaining effective internal control; and
- complying with applicable laws and regulations.

Our responsibility is to express an opinion on the annual 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 as to whether the financial statements are free of material misstatement 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 annual 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.

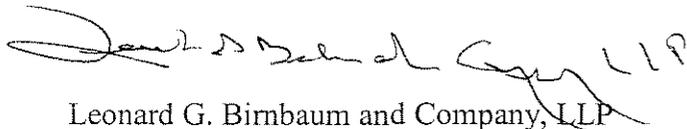
In order to fulfill these responsibilities, we took the following actions:

- We examined, on a test basis, evidence supporting the amounts on the annual financial statements and related disclosures.
- We assessed the accounting principles used and significant estimates made by management.
- We evaluated the overall presentation of the annual financial statements.
- With respect to USIBWC's internal control over financial reporting, we obtained an understanding of the design effectiveness of internal controls, determined whether they had been placed in operation, assessed control risk, and performed tests of controls.
- We tested compliance with selected provisions of laws and regulations that may have a direct and material effect on the annual financial statements.
- We obtained written representations from management.
- We 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 opinion.

The Required Supplementary Information is 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.

USIBWC concurred with this report but did not provide a formal response.



Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia  
February 20, 2009