

**Management Letter Related to the
Audit of the International Boundary and Water Commission,
United States and Mexico, U.S. Section,
2008 and 2007 Financial Statements**

AUD/FM-09-18, May 2009

Leonard G. Birnbaum and Company, LLP
Certified Public Accountants
6265 Franconia Road
Alexandria, Virginia 22310

LEONARD G. BIRNBAUM AND COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

WASHINGTON OFFICE
6285 FRANCONIA ROAD
ALEXANDRIA, VA 22310-2510

(703) 922-7622

FAX: (703) 922-8256

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

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

February 20, 2009

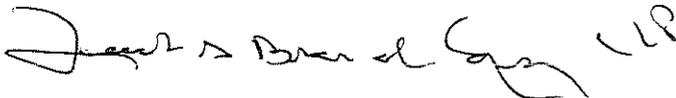
To the United States Commissioner,
International Boundary and Water Commission,
United States and Mexico, United States Section:

We have audited the financial statements of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), for the years ended September 30, 2008 and 2007, and have issued our report thereon dated February 20, 2009. In planning and performing our audit of USIBWC's financial statements, we considered USIBWC's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. We have not considered internal control since the date of our report.

Our audit procedures were designed primarily to enable us to form an opinion on the financial statements and therefore may not identify all weaknesses in internal control that may exist. However, we would like to take this opportunity to use our knowledge of USIBWC gained during the audit to provide comments and suggestions that we hope will be useful to you. Although not considered to be significant deficiencies, we noted certain matters involving internal control and other operational matters that are presented in the attachment to this letter for your consideration. These observations are intended to improve USIBWC's internal control or result in other operating efficiencies.

USIBWC concurred with the items included in the management letter but did not provide a formal response.

Very truly yours,



Leonard G. Birnbaum and Company, LLP

Attachment: As stated.

Management Letter Related to the
International Boundary and Water Commission,
United States and Mexico, U.S. Section,
2008 and 2007 Financial Statements

Observations and Conclusions

1. Property, Plant, and Equipment

Although USIBWC has taken some steps to improve internal control related to property and equipment, we continued to find deficiencies. For instance, accountability for property located at field offices has been a longstanding concern. On-site physical inventories were not conducted at the field offices by headquarters property personnel. The physical inventories conducted by the field offices continue to identify discrepancies. In addition, a physical inventory was not performed for headquarters noncapitalized items because of building renovations. We also identified inventory discrepancies during our testing.

USIBWC was in the process of transferring data to a new inventory system. During a reconciliation, USIBWC found discrepancies between data in the new system and the property records. USIBWC is working with the service provider to correct these discrepancies. Because of this ongoing issue, USIBWC was unable to provide us with information we needed to test this line item. While we were able to perform alternate procedures to test this line item, it is essential for USIBWC to address this issue and ensure that accurate property data is available for the audit of the FY 2009 financial statements.

Additionally, we identified numerous discrepancies during depreciation and accumulated depreciation testing. Amounts recorded in the asset detail did not match what should have been recorded per our calculation. USIBWC indicated that the automated depreciation process was not fully implemented.

We recommend that USIBWC

- *ensure that complete and comprehensive physical inventories of all accountable personal property are performed on a regular basis and that exceptions identified during the inventory process are corrected in a timely manner,*
- *complete its efforts to correct data in its new inventory system, and*
- *ensure the automated depreciation process is fully implemented.*

2. Internal Audit Function

USIBWC's internal audit policies and procedures, USIBWC Directive, Volume 1, Chapter 501, "Internal Evaluations," are outdated. The policies were last updated on

January 9, 1996. The internal audit function has changed since that time. Changes to professional requirements should be considered during any update to these policies and procedures.

We recommend that USIBWC review and revise the internal audit policies and procedures to reflect current operations and changes to professional requirements.

3. Accounts Payable

We identified several items that had been paid but were still inappropriately recorded as accounts payable. Additionally, we found that a number of travel transactions were incorrectly posted in the general ledger.

We recommend that USIBWC

- *take the appropriate steps to clear accounts payable when a disbursement is made and*
- *work with the Department of State to ensure travel transactions are accurately posted to the general ledger accounts.*

4. Other Liabilities

We found that USIBWC did not have a process to include accurate information for FECA Liability, FECA Actuarial Liability, Annual Leave Liability, and Advances on the quarterly financial statements.

We recommend that USIBWC accurately report balances for other liabilities within the quarterly trial balances and financial statements and not just at year end.

5. Management's Discussion and Analysis

USIBWC did not prepare a Management's Discussion and Analysis for inclusion with its 2008 financial statements.

We recommend that USIBWC prepare its Management's Discussion and Analysis in compliance with relevant standards for inclusion with the 2009 financial statements.

6. Deferred Maintenance

USIBWC's reported Deferred Maintenance is not the result of a consistently applied interpretation of Statement of Federal Financial Accounting Standards (SFFAS) No. 6, Accounting for Property, Plant, and Equipment.

We recommend that USIBWC develop a clear, easily applied definition of deferred maintenance that comports to the principles articulated in SFFAS No. 6.

Table 1: Follow-up of Observations From the FY 2007 Management Letter

Observation Number	FY 2007 Observation	FY 2008 Status	FY 2008 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>A semiannual report of all audit findings and recommendations that had been completed as of June 30 and September 30, 2007, as required by Office of Management and Budget (OMB) Circular A-50, <i>Audit Followup</i>, was not prepared.</p>	<p>Closed</p> <p>Closed</p>	<p>We identified significant improvement related to the internal audit function in 2008.</p>
2. Property and Equipment	<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>The property officer is not provided with needed data related to equipment purchase for reconciling the inventory records.</p>	<p>Closed</p> <p>Closed</p> <p>Closed</p>	<p>While we did not identify these specific issues during our work, control over property and equipment remains a concern. See observation 1.</p>
3. Contract Accruals	<p>USIBWC was not recording year-end accruals in the proper periods.</p>	<p>Closed</p>	<p>USIBWC began using an estimation methodology for this line item, which addressed our concerns.</p>
4. Premium Pay	<p>The premium pay amount for two employees was incorrect.</p>	<p>Closed</p>	<p>LGB did not find this issue during its audit.</p>
5. Annual Leave	<p>The annual leave carryover for two employees did not agree with reported amounts.</p>	<p>Closed</p>	<p>LGB did not find this issue during its audit.</p>

Observation Number	FY 2007 Observation	FY 2008 Status	FY 2008 Comment
6. CSR Withholding	We noted two exceptions related to employee withholding pertaining to Civil Service Retirement.	Closed	LGB did not find this issue during its audit.
7. Statement of Assurance	The Statement of Assurance did not comply with OMB Circular A-123.	Closed	LGB reviewed and resolved this issue with USIBWC management.
8. Government Performance and Results Act	Currently, USIBWC uses estimates rather than actual results and does not provide a means to verify and validate reported performance in a measurable way.	Further review not considered necessary	OMB audit requirements have been revised.
9. MD&A	We noted that Management's Discussion and Analysis did not fully comply with OMB Circular A-136, SFFAS No. 15, and SFFAC No. 3.	Open	See observation 5.
10. Deferred Maintenance	USIBWC had not complied with all Statements of Federal Financial Accounting Standards.	Open	See observation 6.