



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

MAY 27 2011

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, Clarke Leiper, PLLC (Clarke Leiper), 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, 2010 and 2009, 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, Clarke Leiper found

- the financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- there were no material weaknesses¹ in internal control; and
- there were no reportable noncompliance with laws and regulations tested.

Clarke Leiper is responsible for the enclosed report, *Independent Auditor's Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2010 and 2009 Financial Statements* (AUD/FM-11-27), and the conclusions expressed in the report.

Although Clarke Leiper 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 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 Clarke Leiper on USIBWC's accounting treatment of estimated costs to comply with court orders to bring a wastewater treatment plant

¹ 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.

into compliance with environmental requirements. USIBWC has chosen to report this estimate as an environmental liability on its 2010 and 2009 consolidated balance sheets (\$4,409,148 and \$61,477,839, respectively). Because of its choice to record this estimate as a liability, USIBWC has also posted a negative expense, totaling \$57,068,691, on its FY 2010 statement of net cost to reflect the amount it spent in FY 2010 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.

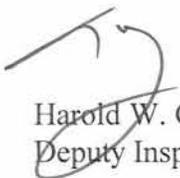
The Statement of Federal Financial Accounting Standards No. 5, "Accounting for Liabilities of the Federal Government," states that a liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events. OIG noted no past event 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. The Federal Accounting Standards Advisory Board (FASAB), which establishes generally accepted accounting principles (GAAP) for Federal reporting entities, provided advice on this topic on December 9, 2009. FASAB indicated that a liability did not exist because the remedy in the court case addressed future events and transactions rather than past events or transactions.

Based on this information, OIG concludes that USIBWC has materially departed from GAAP. Because of the dollar magnitude of the transactions, OIG believes that USIBWC's FY 2010 and 2009 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. Under these circumstances, auditing standards prescribe an adverse opinion.

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

If you have any questions, please contact Evelyn R. Klemstine, Assistant Inspector General for Audits, at (202) 663-0372 or Gayle Voshell, Director of the Financial Management Division, at (703) 284-2681 or by email at voshellg@state.gov.

Sincerely,



Harold W. Geisel
Deputy Inspector General

Enclosures: As stated.

cc: RM/DCFO – Christopher H. Flaggs
WHA/MEX – Russell L. Frisbie
Clarke Leiper, PLLC – Leslie A. Leiper

Independent Auditor's Report

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

September 30, 2010 and 2009

AUD/FM-11-27, May 2011

Clarke Leiper, PLLC
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DORA M. CLARKE
LESLIE A. LEIPER

INDEPENDENT AUDITOR'S REPORT

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

We (Clarke Leiper, PLLC) have audited the accompanying International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources (annual financial statements) as of, and for the years ended, September 30, 2010 and 2009. We have considered internal control over financial reporting and compliance in place as of September 30, 2010, and for the year then ended, and we tested compliance with selected laws and regulations.

In our audits of USIBWC's 2010 and 2009 financial statements, we found

- the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- 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, 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, 2010 and 2009, and its net cost of operations, changes in net position, and changes in 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 audits of USIBWC's financial statements as of, and for the years ended, September 30, 2010 and 2009, in accordance with auditing standards generally accepted in the United States of America, we considered USIBWC's internal control over financial reporting and compliance 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 over financial reporting and compliance. Accordingly, we do not express an opinion on the effectiveness of USIBWC's internal control or on management's assertion on internal control included in the Management's Discussion and Analysis section.

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*, as amended. 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 accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Compliance with laws and regulations: Transactions are executed in accordance with laws governing the use of budget authority, government-wide policies, laws identified by OMB in Appendix E of Bulletin 07-04, and other laws and regulations that could have a direct and material effect on the annual financial statements.

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 and compliance was not designed to identify all deficiencies in internal control that might be deficiencies, 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.

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. We consider the following deficiency in USIBWC's internal control to be a significant deficiency:

- USIBWC uses the Department of State's (Department) Global Financial Management System (GFMS) as a means to process accounting transactions and produce financial reports, including USIBWC's quarterly and annual financial statements. Defects in the construction of posting models within GFMS have resulted in erroneous data being included in reports issued to USIBWC, particularly in the area of budgetary accounts. This condition has necessitated manual override and correction by USIBWC staff. While USIBWC and Department representatives are working to resolve these problems, they remained unresolved at September 30, 2010.

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

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 annual 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 to be 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 provisions of selected laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Reportable 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 selected provisions of laws and regulations disclosed no reportable instances of noncompliance.

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 did not audit, and accordingly 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, accounting principles generally accepted in the United States of America, 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 expressing an opinion on the annual financial statements based on our audits. We are responsible for planning and performing an audit to obtain reasonable assurance about whether USIBWC's financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We are also responsible for determining whether USIBWC management maintained effective internal control over financial reporting and compliance. 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 audits 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 audits provide a reasonable basis for our opinions.

This report is intended solely for the information and use of USIBWC management, the Office of Inspector General, OMB, the Government Accountability Office, 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.

A handwritten signature in cursive script that reads "Clarke Leiper PLLC".

Clarke Leiper, PLLC

Alexandria, Virginia
March 31, 2011



OFFICE OF THE COMMISSIONER
UNITED STATES SECTION

INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO

May 3, 2011

United States Department of State
Broadcasting Board of Governors
Office of Inspector General
Attn: Mr. Harold Geisel, Deputy Inspector General
Room 8100, SA-3
2201 C Street, N.W.
Washington, DC 20520-0308

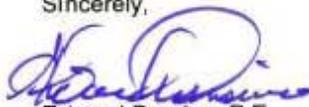
Subject: Draft report AUD/FM-11-XX, April 2011 by Clarke Leiper, PLLC

Dear Mr. Geisel:

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 ended September 30, 2010 and 2009.

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 2011, upon completion of construction of the treatment facility in question.

Sincerely,



Edward Drusina, P.E.
Commissioner

cc: Diana Forti, CAO
Christopher Parker, CPA

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