



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~~:

The management letter related to the audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), financial statements as of and for the years then ended September 30, 2010 and 2009 (AUD/FM-11-28), is enclosed. This management letter, prepared by Clarke Leiper, PLLC (Clarke Leiper), an independent external auditor, discusses issues that were identified during the audit of the financial statements. These weaknesses, although of concern, did not rise to the level necessary to be included in the report on the financial statement audit. Clarke Leiper has included USIBWC's response to the draft management letter as Appendix B to the final report.

The Office of Inspector General will not track the recommendations made in the management letter through its formal compliance process. However, the financial statement auditors will evaluate compliance during future audits of the financial statements.

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

Sincerely,

Harold W. Geisel  
Deputy Inspector General

Enclosure: As stated.

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

Management Letter Related to the  
Audit of the International Boundary  
and Water Commission,  
United States and Mexico, U.S. Section,  
2010 and 2009 Financial Statements

AUD/FM-11-28, May 2011

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DORA M. CLARKE  
LESLIE A. LEIPER

March 31, 2011

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

We (Clarke Leiper, PLLC) have audited 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, and have issued our report thereon dated March 31, 2011.<sup>1</sup> In planning and performing our audit of USIBWC's financial statements, we considered USIBWC's internal control over financial reporting and compliance to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control related to financial reporting and compliance. We have not considered internal control since the date of our report.

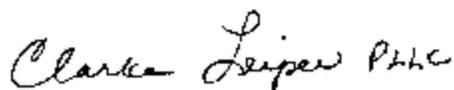
During our audit, we noted one matter involving internal control over financial reporting and compliance that we considered to be a significant deficiency under the standards established by the American Institute of Certified Public Accountants. We reported this deficiency in the report referenced.

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 the knowledge we gained during the audit of USIBWC to provide comments and suggestions that we hope will be useful.

Although not considered to be significant deficiencies, we noted certain matters involving internal control and other operational matters that are presented in Appendix A for your consideration. These observations are intended to improve USIBWC's internal control or result in other operating efficiencies.

This letter is intended solely for the information and use of USIBWC officials and the Office of Inspector General and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Clarke Leiper, PLLC

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<sup>1</sup> *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, May 2011).*

Management Letter Related to the  
International Boundary and Water Commission,  
United States and Mexico, U.S. Section,  
2010 and 2009 Financial Statements

**Observations and Conclusions**

1. Property, Plant, and Equipment

The International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), has taken steps to improve internal controls related to property and equipment. However, personal property is developed from a source other than the general ledger. During our reconciliation of the personal asset detail report to the consolidated trial balance, we identified the following:

- Nine leased vehicles that were erroneously recorded as purchased vehicles because the incorrect acquisition code was used.
- One item that was processed for disposal but was not disposed of because of an error in the accounting system.
- One item that was a duplicate of an item that was disposed of.
- Three items that had negative current year depreciation.

In addition, as noted during previous year audits, the Property Officer has access to recordkeeping and conducts the physical inventories of assets. USIBWC officials stated that hiring an individual to perform one of these functions would not be cost effective.

*We recommend that USIBWC perform more frequent reconciliations of property so that errors are identified and corrections can be made before the preparation of the financial statements.*

*We recommend that USIBWC establish separation of duties for recordkeeping and physical inventories as personnel are available.*

2. Accounts Receivable

During our testing, we identified several instances in which accounts receivable were not recorded in the proper period.

*We recommend that USIBWC ensure that accounts receivable transactions are recorded in the proper period.*

3. Undelivered Orders

We noted that USIBWC did not have adequate control over undelivered orders (UDO). Management performed an assessment of open UDOs but failed to deobligate items it identified as unnecessary. USIBWC does not have specific procedures that detail the UDO

review procedures; rather, it follows requirements for the reviews contained in Department of the Treasury and Government Accountability Office guidance.

*We recommend that USIBWC create agency-specific procedures for reviewing undelivered orders. The procedures should include the steps to be taken by management to ensure that the unneeded obligations identified during the reviews are promptly deobligated.*

#### 4. Payroll Compliance

We identified the following discrepancies during our testing of payroll compliance:

- Pay Rate Verification – The actual pay rate for three of 51 employees did not match the pay rate in the official personnel folders.
- Premium Pay – The actual premium pay rates for three of five employees did not match the premium pay rates.
- Retirement – The employee withholdings for 11 of 51 employees and the agency contributions for nine of 51 employees did not match the auditor’s calculations.
- Health Benefits – The employee withholdings for two of 51 employees and the agency contributions for one of 51 employees did not match the auditor’s calculations.

Employees have the ability to make changes to their payroll withholdings electronically via “Employee Express.” The Office of Personnel Management (OPM) has guidelines for filing documents in personnel folders, including documentation of benefit enrollments processed electronically. USIBWC is subject to OPM personnel recordkeeping authority.

*We recommend that USIBWC develop an agency-specific policy for changes made by employees to their benefits via Employee Express. This policy should include requirements for employees to notify USIBWC of any enrollments processed electronically and to provide OPM-approved documentation. These documents should be properly filed and maintained in the personnel folders.*

#### 5. Earned Revenue

Four of 12 earned revenue transactions sampled were recorded in the incorrect period.

*We recommend that USIBWC ensure that earned revenue transactions are recorded in the proper period.*

#### 6. Unexpended Appropriations

The method USIBWC uses to determine the correct unexpended appropriations balance is not based on the amount listed in the general ledger. Although the process for determining the appropriate balance was effective, USIBWC does not have documented standard operating procedures for these accounts.

*We recommend that USIBWC develop account-specific standard operating procedures relating to unexpended appropriations.*

#### 7. Journal Vouchers

We identified two weaknesses in the controls over journal vouchers and journal voucher processing. USIBWC does not have standard operating procedures for processing journal vouchers. Additionally, journal vouchers are prepared and approved by the same individuals.

*We recommend that USIBWC prepare written procedures for processing journal vouchers that will provide for separation of duties.*

#### 8. Environmental Liabilities

Although USIBWC has some directives in place that deal with environmental liabilities, the directives do not specifically address procedures to recognize, estimate, and record environmental liability amounts. In addition, Directive Volume III, Chapter 503 – “Pollution Prevention Plan,” is outdated.

*We recommend that USIBWC review Directive Volume III, Chapter 503 – “Pollution Prevention Plan,” and consider revising it to reflect current and emerging issues and trends. Additionally, USIBWC should create agency-specific standard operating procedures for recognizing, estimating, and recording environmental liabilities.*

### **Management Response and Auditor Reply**

USIBWC management did not concur with two observations included in the Draft Report that related to Accounts Payable (original observation 3) and Commission Authorization Laws (original observation 6). In both cases, we identified transactions that were processed without proper approval. USIBWC’s response stated that “required signatures exist on more than one document for each transaction,” and USIBWC provided us with additional documentation containing proper approvals for the questioned transactions. In addition, USIBWC’s response indicated that it has implemented new policies to ensure that the appropriate approvals “have been obtained prior to processing any payment for disbursement.” Based on these actions, we removed the two observations from this report.

**Prior Year Management Letter Comments**

During the audit of USIBWC's 2009 financial statements, we identified matters that we reported in a management letter.<sup>2</sup> The observations identified during the 2009 audit remain open. The status of the 2009 findings is presented in Table 1.

**Table 1. Status of Observations From the FY 2009 Management Letter**

Observation Number	FY 2009 Observation	Status	FY 2010 Comment
1. Property, Plant, and Equipment	<p>Although USIBWC has taken steps to improve internal controls related to property and equipment, we continued to find deficiencies. Accountability for property located at field offices has been a longstanding concern. The physical inventory reports provided by USIBWC's Property Officer identified several findings relating to the accountability over personal property. During our testing, we noted one item that could not be traced to the listing of assets. We also noted that 5 of 19 items tested had minor differences in the valuation. In an effort to correct these deficiencies, the Property Officer has provided a number of recommendations to each field office that need to be implemented.</p> <p>USIBWC recently transferred data to a new system. During reconciliation, USIBWC found more than \$4 million in differences.</p> <p>We noted that the Property Officer has access to recordkeeping and conducts the physical inventories of assets. There should be a separation of duties between accounting for assets and custodial or operating responsibilities.</p>	<p>Open</p> <p>Closed</p> <p>Open</p>	<p>See observation 1.</p>
2. Undelivered Orders	<p>We noted that USIBWC did not have adequate control over undelivered orders (UDO). Management performed an assessment of open UDOs but failed to deobligate those items it identified as unnecessary. USIBWC does not have specific procedures that detail the UDO review procedures; rather, it follows requirements for the reviews contained in Department of the Treasury and Government Accountability Office guidance.</p>	<p>Open</p>	<p>See observation 3.</p>

<sup>2</sup> *Management Letter Related to the Audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2009 and 2008 Financial Statements* (AUD/FM-10-20, June 2010).

Observation Number	FY 2009 Observation	Status	FY 2010 Comment
3. Payroll Compliance	<p>We noted the following discrepancies during our testing of payroll compliance:</p> <ul style="list-style-type: none"> <li>• Premium Pay – Actual premium pay for two of six employees did not match the auditor's calculations.</li> <li>• Retirement- Withholdings for six of 50 employees did not match the auditor's calculations. Contributions for five of 50 employees did not match the auditor's calculations.</li> <li>• Thrift Savings Plan (TSP) – Two of 50 employees did not have agency contributions for the TSP as required.</li> <li>• Health Benefits – Two of 50 employees had both withholdings and contributions that did not match the auditor's calculations.</li> </ul> <p>Employees have the ability to make changes to their payroll withholdings electronically via "Employee Express." The Office of Personnel Management (OPM) has guidelines for filing documents in personnel folders, including documentation of benefit enrollments processed electronically. USIBWC is subject to OPM personnel recordkeeping authority.</p>	Open	See observation 4.
4. Earned Revenue	<p>During audit work, we noted that six of 43 items of earned revenue tested had discrepancies. Four of the discrepancies were attributable to revenue not being recorded in the proper period. USIBWC could not support that it had approved one item. In addition, we were unable to reconcile two items with the accounts receivable amount.</p>	Open	See observation 5.



INTERNATIONAL BOUNDARY AND WATER COMMISSION  
UNITED STATES AND MEXICO

OFFICE OF THE COMMISSIONER  
UNITED STATES SECTION

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

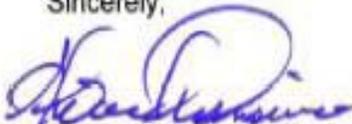
Subject: Draft report AUD/FM-11-XX, April 2011 by Clarke Leiper, PLLC

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

Please accept this letter as our response to the your request for comments on the Draft Management Letter Related to the Audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2010 and 2009 Financial Statements.

### Observations and Conclusions

#### 1. Property, Plant and Equipment

The International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), has taken steps to improve internal controls related to property and equipment. However, personal property is developed from a source other than the general ledger. During our reconciliation of the personal asset detail report to the consolidated trial balance, we identified the following:

- Nine leased vehicles that were erroneously recorded as purchased vehicles because the incorrect acquisition code was used.
- One item that was processed for disposal but was not disposed of because of an error in the accounting system.
- One item that was a duplicate of an item that was disposed of.
- Three items that had negative current year depreciation.

In addition, as noted during previous year audits, the Property Officer has access to recordkeeping and conducts the physical inventories of assets. USIBWC officials stated that hiring an individual to perform one of these functions would not be cost effective.

*We recommend that USIBWC perform more frequent reconciliations of property so that errors are identified and corrections can be made before the preparation of the financial statements.*

*We recommend that USIBWC establish separation of duties for recordkeeping and physical inventories as personnel are available.*

#### **Agency Response:**

USIBWC partially concurs with the observation. The USIBWC has made significant progress in correcting erroneous entries in the Integrated Logistics Management System (ILMS), which required the assistance of Department of State systems experts. In addition, the USIBWC has implemented more frequent reconciliations of property

between ILMS and GFMS, now being accomplished on a quarterly basis, to respond and correct any errors that may be encountered during the reconciliation.

In compliance with the separation of duties requirement, the Property Officer conducts inventories of personal property at all field office locations, prepares an inventory report of findings and observations for the field managers, detailing specific items requiring corrective action by the field personnel. Required corrections identified in the report are accomplished solely by the designated employee from the respective field office. No changes to the ILMS system are made by the Property Officer. This process ensures the required separation of duties.

Previously, the Property Officer conducted inventories of property at the HQ and made required corrections to the system. This was the process in absence of another available employee in that specific area. Since August of 2010, the USIBWC hired a supply technician who is charged with the responsibility of conducting inventories at the HQ. The Property Officer will process transactions as required, based on documented results of the Supply Technician's inventory. These new procedures and responsibilities will be incorporated into the existing Property Management Directive.

## 2. Accounts Receivable

During our testing, we noted several instances in which accounts receivable were not recorded in the proper period.

*We recommend that USIBWC ensure transactions are being posted to the general ledger in a timely and appropriate manner.*

### **Agency Response:**

The USIBWC concurs with the observation. The receivables identified as recorded in the wrong period were related to fuel and maintenance work for GSA leased vehicles. Reports are received from the field offices on the 10<sup>th</sup> day of the following month, i.e., March reports are received on the 10<sup>th</sup> of April. The existing process does not require field personnel to submit amounts and supporting documentation by the last day of each quarter, subsequently Finance has no way of knowing the receivable amounts prior to month end closing for each quarter(March). For example, the March receivable amounts are posted in April.

We will establish a monthly/quarterly/annual estimate in the accounting system for those receivables that are not recorded in the appropriate month. In addition, we will work on implementing a new process which requires all agency proponents to submit month-end

amounts or estimates before the end of the month, and or establish a cut-off to ensure all estimated amounts are properly recorded in the proper period.

Implementation of initial corrective actions will be accomplished by May 31, 2011.

### 3. Accounts Payable

During our testing, we noted a transaction of significant dollar amount that had been processed without the proper approving signatures.

*We recommend that USIBWC ensure transactions have obtained all required approvals before being processed for disbursement.*

#### **Agency Response:**

Non-concur. Existing process requires that all payments processed require appropriate signatures prior to scheduling of payment. However, appropriate signatures are obtained on different documents. We concur that not all signatures are on same document, but Certifying Officers did approve/Sign the form SF 1166 "Voucher and Schedule of Payments" for all payments certified for processing by the US Treasury. In the future, we will ensure that the Certifying Officers approve/sign both the form SF 1164 Miscellaneous Reimbursement Voucher or the form SF 1012 Travel Voucher, and the form SF 1166 Voucher and Schedule of Payments.

The FSD Supervisor will review & initial off that the appropriate signatures have been obtained prior to processing any payment for disbursement.

The policy has already been implemented during the month of April 2011.

### 4. Undelivered Orders

We noted that USIBWC did not have adequate control over undelivered orders (UDO). Management performed an assessment of open UDOs but failed to deobligate items it identified as unnecessary. USIBWC does not have specific procedures that detail the UDO review procedures; rather, it follows requirements for the reviews contained in Department of the Treasury and Government Accountability Office guidance.

*We recommend that USIBWC create agency-specific procedures for reviewing undelivered orders. The procedures should include steps for action to be taken by management on results of reviews to ensure the unneeded obligations are promptly deobligated.*

**Agency Response:**

The USIBWC concurs with the observation; obligations that were no longer needed were not de-obligated.

Budget and Finance will develop an SOP for the review open obligations to include who is responsible for taking appropriate action to clear those obligations that have been identified as candidates for de-obligation.

We will complete the SOP by May 31, 2011.

5. Payroll Compliance

We noted discrepancies during our testing of payroll compliance:

- Pay rate Verification – The pay rate determined by the auditor based on documented OPF pay scale did not match the actual pay for 3 out of 51 employees.
- Premium Pay - Premium pay rates did not match actual premium pay rates for 3 out of 5 employees.
- Retirement – Withholdings for 11 of 51 employees did not match the auditor's calculations. In addition, agency contributions for 9 of 51 employees did not match the auditor's calculations.
- Health Benefits – 2 of 51 employees selected for testing had employee withholdings and 1 out of 51 agency contributions that did not match the auditor's calculations.

Employees have the ability to make changes to their payroll withholdings electronically via "Employee Express." The Office of Personnel Management (OPM) has guidelines for filing documents in personnel folders, including documentation of benefit enrollments processed electronically. USIBWC is subject to OPM personnel recordkeeping authority.

*We recommend that USIBWC devise an agency-specific policy for changes made by employees to their benefits via Employee Express. Guidelines should include requirements for employees to notify the agency of any changes made and to provide OPM approved documentation of enrollments processed electronically. These documents should be properly filed and maintained in the personnel folders.*

**Agency Response:**

The USIBWC concurs with the observation. The Human Capital Office is currently using the EPIC personnel processing system, which does not facilitate the maintenance of the referenced files. However, the HCO has implemented a temporary work around solution, and has also received notification of funding approval for a more modern and automated HR processing system that will take place in 2012.

The HCO was able to recently print the benefit letters (FEHB and TSP) referenced by the auditors and include them in the personnel folders.

Once the USIBWC HCO becomes automated, this information will automatically be filed into the eOPF's.

6. Commission Authorization Laws (22 USC 277)

During our testing of representation expenses, we noted that three of five transactions sampled did not have proper approval by a certifying official.

*We recommend that USIBWC ensure that all representation expenses are approved by an appropriate certifying official.*

**Agency Response:**

Non-concur. Existing procedures require that all required approvals are obtained prior to scheduling a payment. We concur however, that required signatures exist on more than one document for each transactions. For example, an SF 1164 form is used for representation expense reimbursements. This form is signed by the requesting and approving official, but is not signed by the Certifying Officer. The Certifying Officer completes and signs an SF 1166.

The Finance & Accounting office is now requiring that all Certifying Officials provide their reviews and approvals on the same form. In addition, the FSD Supervisor is now reviewing all payment requests and will initial off that the appropriate signatures have been obtained prior to processing any payment for disbursement. Accounting Techs are not authorized to schedule a payment unless the FSD Supervisor's initials and date are on the form.

The policy has already been implemented during the month of April 2011. These changes will be incorporated into the existing SOP on Accounts Payable.

## 7. Earned Revenue

During audit work, we noted that four out of 12 transactions sampled were recorded in the incorrect period.

*We recommend that USIBWC ensure that earned revenue transactions are recorded in the proper period.*

### **Agency Response:**

The USIBWC concurs with the observation. The earned revenue they identified as being recorded in the wrong period were the fuel and maintenance work that we perform on the GSA leased vehicles. We get the reports from the field offices on the 10<sup>th</sup> day of the following month, we receive the March reports on the 10<sup>th</sup> of April, and so we have no way of knowing the receivable amounts prior to month end closing for March. The March earned revenue amounts are posted in April.

We can establish a monthly/quarterly/annual estimate in the accounting system for those earned revenue that are not recorded in the appropriate month.

We will implement the corrective actions by May 31, 2011.

## 8. Unexpended Appropriations

Based on testing, the manner for determining the correct balance is not based on the amount listed in the general ledger. While the process for determining the appropriate balance was determined to be effective, there are no documented standard operating procedures for these accounts.

*We recommend that USIBWC develop account specific standard operating procedures relating to unexpended appropriations*

### **Agency Response:**

The USIBWC concurs with the observation; the general ledger did not reflect the correct amount for Unexpended Appropriations.

The USIBWC uses the Department's of State's Global Financial Management System (GFMS), and rely on the design and controls of the system to process all accounting transactions, extract financial reports, and preparing required financial statements. The USIBWC does not have control over the design or development of the system. The USIBWC is however, working with Management from the Department of State to

mitigate the discrepancies encountered between budget and accounting data and reporting.

In the interim, we will develop an SOP for reviewing the Unexpended Appropriations in the general ledger accounts. We will have the SOP completed by May 31, 2011. We have already implemented a monthly reconciliation of the Unexpended Appropriations.

#### 9. Journal Vouchers

We noted two areas of weakness in the controls over journal vouchers and journal voucher processing. USIBWC does not have standard operating procedures for the processing of Journal Vouchers. Additionally, journal vouchers are prepared and approved by the same individuals.

*We recommend that USIBWC prepare written procedures for the processing of journal voucher that will provide for separation of duties when preparing and approving journal vouchers.*

#### **Agency Response:**

The USIBWC concurs with the observation. We will write an SOP for the processing and approval of Journal Vouchers.

We will complete the SOP by May 31, 2011 and implement the policy upon completion of the SOP.

#### 10. Environmental Liabilities

Although USIBWC has some directives in place that deal with environmental liabilities, they do not specifically address procedures to recognize, estimate and record environmental liability amounts. In addition, Directive Volume III Chapter 503 – "Pollution Prevention Plan" is outdated.

*We recommend that USIBWC review Volume III Chapter 503 "Pollution Prevention Plan" and consider revising as to reflect current and emerging issues and trends. Additionally, USIBWC should create agency specific standard operating procedures for recognizing, estimating, and recording environmental liabilities.*

**Agency Response:**

The USIBWC concurs with the observation. We will review Volume III Chapter 503 "Pollution Prevention Plan" and will revise the Directive to reflect current and emerging issues and trends by September 30, 2011.

In addition, we concur with the finding that USIBWC should create agency specific standard operation procedures for recognizing, estimating, and recording environmental liabilities. We will also have the SOP's completed, as indicated in this observation, by September 30, 2011.