



**United States Department of State  
and the Broadcasting Board of Governors**

***Office of Inspector General***

JUN 17 2008

Mr. Carlos Marin, U.S. Commissioner  
International Boundary and Water Commission  
United States and Mexico, U.S. Section  
4171 North Mesa St., Suite C-310  
El Paso, TX 79902-1422

Dear Mr. Marin:

The management letter related to the audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section's (USIBWC) financial statements as of and for the years then ended September 30, 2007 and 2006 (AUD/FM-08-25), is enclosed. The management letter, prepared by Leonard G. Birnbaum and Company, LLP (LGB), an independent external auditor, discusses internal control weaknesses and instances of noncompliance that were identified during the audit of the financial statements and makes recommendations in each case. These weaknesses, although of concern, did not rise to the level necessary to be reported in the opinion to the financial statements. LGB included USIBWC's comments to the draft management letter in their entirety as Attachment 4.

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 call me at (202) 663-0372 or have your staff call Gayle L. Voshell, Director of the Financial Management Division, at (703) 284-2681.

Sincerely,

A handwritten signature in cursive script that reads "Mark W. Duda".

Mark W. Duda  
Assistant Inspector General for Audits

Enclosure: As stated.

cc: RM/DCFO – (b) (6)  
WHA/MEX – (b) (6)  
Leonard G. Birnbaum and Company, LLP – [REDACTED]

**Management Letter Related to the  
Audit of the International Boundary and Water Commission,  
United States and Mexico, U.S. Section,  
2007 and 2006 Financial Statements**

**AUD/FM-08-25, June 2008**

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WASHINGTON, D.C.  
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REDWOOD CITY, CALIFORNIA

March 11, 2008

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 20, 2007 and 2006, and have issued our report thereon dated March 11, 2008. 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 material weaknesses or significant deficiencies, we noted certain matters involving internal control and other operational matters that are presented in Attachment 1 of this letter for your consideration. These observations are intended to improve internal control or result in other operating efficiencies.

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

Comments by USIBWC management on this report are presented as Attachment 4.

  
Leonard G. Birnbaum and Company, LLP

Attachments: As stated.

Management Letter Related to the Audit of the  
International Boundary and Water Commission,  
United States and Mexico, U.S. Section,  
2007 and 2006 Financial Statements

Observations and Recommendations

1. Internal Audit and Evaluation

The International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), has continually failed to implement an effective internal control and evaluation function, as reported in prior years' management letters. The internal audits performed should be conducted to identify weaknesses within the agency in order to improve the controls that encompass the agency as a whole. Furthermore, the weaknesses identified should be addressed promptly and followed up during the subsequent year to assess the effectiveness of the remedy put into place in order to correct those findings. We found the following:

- The internal auditor failed to follow and adhere to the prescribed annual audit plan. Only three of the seven planned audits were performed. This was due in part to a request from USIBWC's Commissioner for a concentrated effort on an audit on internal controls.
- Sufficient documentation was not readily available to verify that USIBWC had prepared a semiannual report of all audit findings and recommendations that had been completed as of June 30 and September 30, 2007, as required by OMB Circular A-50, *Audit Followup*.

*We recommend that USIBWC:*

- *establish and implement an effective and comprehensive internal audit function that meets the requirements set by its 1996 Internal Evaluations Manual and standards established by the Institute of Internal Auditors,*
- *ensure that all audits are performed in a timely manner, and*
- *ensure that all required semiannual reports are prepared in compliance with OMB Circular A-50.*

2. Property and Equipment

Although USIBWC has taken some steps to improve internal controls 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

the Headquarters property personnel. Rather, custodial property officers located at the field offices provided certified listings. Also, certified inventories submitted by the field offices were not in the format prescribed by the Property Directive.

We found that the field offices were not providing receiving reports in a timely or complete manner. We found that almost 50 percent of the sample items tested either were submitted over 30 days late or had not been submitted at all.

The property officer is not provided with needed data related to equipment purchases for reconciling the inventory records. Accounting information regarding equipment purchases should be reconciled with inventory receipts regularly to improve the accuracy and reliability of asset data. During FY 2006, we recommended that Financial and Property Divisions collaborate on a monthly basis to provide updated property information as part of a reconciliation control. During FY 2007, this procedure had not been implemented.

We also found that USIBWC was not recording the disposal of assets in a timely manner. We noted that two items recorded as disposed of during FY 2007 were actually disposed of in prior years. Additionally, 20 vehicles acquired in prior years were not capitalized until FY 2007.

During our testing in the financial phase, we also noted that two charges for construction related to FY 2006 had been recorded in FY 2007. In addition, seven assets did not have depreciation recorded because acquisition dates had not been entered into the system or were recorded erroneously because of the elimination of betterments within the accounting system.

*We recommend that USIBWC:*

- *ensure that complete and comprehensive physical inventories of all accountable personal property are performed and that exceptions identified during the inventory process are corrected in a timely manner;*
- *ensure that the field offices are accountable for the timely and accurate submission of receiving reports;*
- *have Financial Services provide monthly accounting information to General Services regarding equipment purchases in order to reconcile inventory records;*
- *ensure that the cost of property and related accumulated depreciation are removed from the general ledger in a timely manner following asset disposal; and*

- *ensure that the cost of property, acquisition dates, and related accumulated depreciation are recorded in the general ledger in a timely manner following asset acquisition.*

3. Contract Accruals

USIBWC was not recording year-end contract accruals in the proper periods. We noted several payables that pertained to FY 2006 that were recorded in FY 2007.

*We recommend that USIBWC examine its recording of year-end accounts payable accrual by thoroughly reviewing invoices to ensure that they are recorded within the proper period.*

4. Premium Pay

The premium pay amounts for two employees were incorrect. The differences were minor, and the National Finance Center was informed of the differences.

*We recommend that USIBWC implement procedures to coordinate with its payroll provider and ensure that premium pay is accurately calculated and recorded.*

5. Annual Leave

The annual leave carryover hours for two employees did not agree with the reported amounts used for compilation of the financial statements.

*We recommend that leave balances be monitored more closely to ensure that accurate balances are reported.*

6. CSR Withholding

We noted two exceptions related to employee withholding pertaining to Civil Service Retirement.

*We recommend that USIBWC implement procedures to periodically review and ensure that withholding amounts are properly recorded.*

7. Statement of Assurance

The Management Control Statement of Assurance Over Financial Reporting is restricted in scope to two areas as opposed to overall financial reporting. In addition, the Management Control Statement of Assurance continues to reference the Department of State.

*We recommend that USIBWC modify its annual Statement of Assurance to comply with OMB Circular A-123, "Management's Responsibility for Internal Control."*

8. Government Performance and Results Act

The Government Performance and Results Act states that the annual performance plan “shall...provide a basis for comparing actual program results with the established performance goals” and “shall describe the means to be used to verify and validate measured values.” Currently, USIBWC is still using estimates rather than actual results and does not provide a means to verify and validate reported performance in a measurable way.

*We recommend that USIBWC develop a methodology that will enable it to verify actual performance in a measurable way.*

9. Management’s Discussion and Analysis

We noted that the Management’s Discussion and Analysis (MD&A) included in USIBWC’s financial statements did not fully comply with OMB Circular A-136, *Financial Reporting Requirements*, or Statement of Federal Financial Accounting Standards (SFFAS) No. 15 and Statement of Federal Financial Accounting Concepts (SFFAC) No. 3, both entitled *Management’s Discussion & Analysis*.

Examples of noncompliance include the following:

- USIBWC needs to include an explanation for the procedures it has designed and followed to provide reasonable assurance that reported performance information is relevant and reliable.
- USIBWC needs to provide additional details when reporting on performance outcomes, especially for instances in which targets were not met, and provide an analysis of the reasons why those goals were not met.
- Trend reporting was not included within the MD&A. Management should analyze and compare data and look for trends to help management evaluate and determine the effectiveness and efficiency of USIBWC operations in meeting its prescribed goals and objectives.
- USIBWC needs to include the auditor findings. Additionally, management should provide corresponding corrective actions to be taken in order to remedy the reported findings.
- The MD&A needs to include a discussion of current demands, risks, uncertainties, events, conditions, and trends that goes beyond a mere description of existing conditions. Management should address the possible future effect of those factors that may include demographic characteristics, claims, contingencies, deferred maintenance, commitments, or major unfunded liabilities.

- Management should incorporate highlights from the results reported within the Deferred Maintenance Report into the MD&A.
- Management needs to include a Financial Management Performance Metrics of payment information compared with the Department of State and Government-wide results.

*We recommend that USIBWC prepare its MD&A in compliance with relevant standards.*

10. Deferred Maintenance

USIBWC has made a reasonable attempt to comply with OMB and Statements of Federal Financial Accounting Standards (SFFAS) requirements for reporting deferred maintenance. However, not all requirements have been met.

*We recommend that USIBWC:*

- *address paragraph 84 of SFFAS No. 6 regarding the definition of stratified critical and noncritical amounts.*
- *comply with government standards related to deferred maintenance and report data more consistently.*
- *incorporate information contained within the deferred maintenance within the other Required Supplementary Information component - MD&A, since the report was inconsistent with regard to format and data presented.*
- *ensure that the narrative that supports the schedule of deferred maintenance costs is consistent with the format and data provided.*

## Follow-up on Observations From the FY 2006 Management Letter

Observation Number	FY 2006 Observation	FY 2007 Status	FY 2007 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>Various operational and support functions performed by the Internal Auditor conflict with USIBWC's Internal Evaluations Directive.</p> <p>A semiannual report of all audit findings and recommendations that had been completed as of June 30 and September 30, 2006, as required by OMB Circular A-50, <i>Audit Followup</i>, was not prepared.</p>	<p>Open</p> <p>Closed</p> <p>Open</p>	<p>See observation #1.*</p> <p>See observation #1.</p>
2. Property and Equipment	<p>The annual inventory identified that numerous pieces of equipment either lacked or had incorrect fixed asset identification numbers.</p> <p>No formal procedures exist related to the physical inventory of computer equipment.</p> <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>Open</p> <p>Open</p> <p>Open</p>	<p>See observation #2.</p> <p>See observation #2.</p> <p>See observation #2.</p>
3. Unbilled Accounts Receivable	<p>There was a lack of adequate communication between the Financial Services Division and the Engineering Department.</p> <p>There was a lack of adequate documentation regarding the methodology of how the estimate was determined.</p>	<p>Closed</p> <p>Closed</p>	
4. Contract Accruals	<p>USIBWC was not recording year-end accruals in the proper periods.</p>	<p>Open</p>	<p>See observation #3.</p>
5. Payroll Tax Withholding	<p>The state tax withholding amounts for three employees were incorrect.</p>	<p>Closed</p>	

\* The observations are in Attachment 1.

Observation Number	FY 2006 Observation	FY 2007 Status	FY 2007 Comment
6. Sick Leave	The sick leave carryover hours for two employees did not agree with the reported amounts used for compilation of the financial statements.	Closed	However, there are issues with annual leave. See observation #5.
7. Life Insurance Contributions	We noted three exceptions related to the employee withholding and government contribution amounts pertaining to the Federal Employees' Group Life Insurance.	Closed	
8. Statement of Assurance	USIBWC's Statement of Assurance did not contain the required statement on whether the agency's financial management systems conform to government-wide requirements.	Closed	However, we are reporting related issues. See observation #7.
9. 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.	Open	See observation #8.
10. Financial Reporting Package	USIBWC does not have an automated general ledger system specifically designed for its agency but instead uses the services of the Department of the Interior's National Business Center. As a result, USIBWC prepares its financial statements, trial balance, and general ledger details manually.	Closed	
11. MD&A	<p>We noted the following instances of noncompliance with OMB Circular A-136, SFFAS No. 15, and SFFAC No. 3:</p> <ul style="list-style-type: none"> <li data-bbox="398 1266 958 1423">• USIBWC needs to provide additional details when reporting on performance outcomes, especially for instances in which targets were not met, and provide an analysis of the reasons why those goals were not met.</li> <li data-bbox="398 1453 958 1669">• Trend reporting was not included within the MD&amp;A. Management should analyze and compare data and look for trends to help management evaluate and determine the effectiveness and efficiency of USIBWC operations in meeting USIBWC's prescribed goals and objectives.</li> <li data-bbox="398 1699 958 1880">• In addition to the auditor findings, management should include its own internal assessments and known problems with regard to its systems, controls, and compliance. These internal assessments and known problems should consist of those findings from the</li> </ul>	<p>Open</p> <p>Open</p> <p>Open</p>	<p>See observation #9.</p> <p>See observation #9.</p> <p>See observation #9.</p>

Observation Number	FY 2006 Observation	FY 2007 Status	FY 2007 Comment
	<p>internal auditor and other operational and support deficiencies that may not be material or included within the financial statement audit.</p> <ul style="list-style-type: none"> <li>• A separate Deferred Maintenance Report was appended to the MD&amp;A. However, Deferred Maintenance is not part of the MD&amp;A. Management should incorporate highlights from the results reported within the Deferred Maintenance Report into the MD&amp;A.</li> </ul>	Open	See observation #9.
12. Deferred Maintenance	<p>We noted the following instances of noncompliance with OMB and SFFAS requirements. For instance, USIBWC did not:</p> <ul style="list-style-type: none"> <li>• address paragraph 84 of SFFAS No. 6 regarding the definition of stratified critical and noncritical amounts.</li> <li>• comply with government standards related to deferred maintenance and report data more consistently.</li> <li>• incorporate information contained within the deferred maintenance within the other Required Supplementary Information component - MD&amp;A. Thus the report was inconsistent with regard to format and data presented.</li> <li>• ensure that the narrative that supports the schedule of deferred maintenance costs is consistent with the format and data provided.</li> </ul>	<p>Open</p> <p>Open</p> <p>Open</p> <p>Open</p>	<p>See observation #10.</p> <p>See observation #10.</p> <p>See observation #10.</p> <p>See observation #10.</p>

## Follow-up on Open Observations From the FY 2005 Management Letter

Observation Number	FY 2005 Observation	FY 2007 Status	FY 2007 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>Various operational and support functions performed by the Internal Auditor conflict with USIBWC's Internal Evaluations Directive.</p>	<p>Open</p> <p>Closed</p>	<p>See observation # 1.*</p>
2. Property and Equipment	<p>The annual inventory identified that numerous pieces of equipment either lacked or had incorrect fixed asset identification numbers.</p> <p>No formal procedures exist related to the physical inventory of computer equipment.</p> <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>Closed</p> <p>Closed</p> <p>Open</p> <p>Open</p>	<p>See observation #2.</p> <p>See observation #2.</p>
8. Statement of Assurance	<p>USIBWC's Statement of Assurance did not contain the required statement on whether the agency's financial management systems conform to government-wide requirements.</p>	<p>Closed</p>	<p>However, we are reporting related issues. See observation #7.</p>
12. Financial Reporting Package	<p>USIBWC does not have an automated general ledger system specifically designed for its agency but instead uses the services of the Department of the Interior's National Business Center. As a result, USIBWC prepares its financial statements, trial balance, and general ledger details manually.</p>	<p>Closed</p>	
13. MD&A	<p>We noted the following instance of noncompliance with OMB Circular A-136, SFFAS No. 15, and SFFAC No. 3:</p> <ul style="list-style-type: none"> <li>• Management failed to discuss key financial-related measures that illustrate financial trends and assess financial operations.</li> </ul>	<p>Open</p>	<p>See observation #9.</p>

\* The observations are in Attachment 1.

Observation Number	FY 2005 Observation	FY 2007 Status	FY 2007 Comment
15. Deferred Maintenance	USIBWC could not provide supporting financial and narrative documentation pertaining to one project within the Deferred Maintenance Report.	Closed	However, there were issues with the consistency of the data provided to compile the report. See observation #10



OFFICE OF THE COMMISSIONER  
UNITED STATES SECTION

INTERNATIONAL BOUNDARY AND WATER COMMISSION  
UNITED STATES AND MEXICO

May 19, 2008

U.S. Department of State  
Office of Inspector General  
Washington, D.C. 20522-0308

RE: Response to Independent Auditor's Report

Dear Mr. Duda:

Enclosed is the International Boundary and Water Commission's response to the report provided from Leonard G. Birnbaum and Company, LLP. Thank you for providing us the opportunity to review and respond to each of the reports.

If you have any questions, please contact Diana Forti at (915)8324123.

Sincerely,

A handwritten signature in black ink, appearing to read "Carlos Marih".

Carlos Marih  
Commissioner

Enclosure: As stated

cc:

WHA/MEX – Ms. Mary M. Brandt

Leonard G. Birnbaum and Company, LLP – Mr. Leslie A. Leiper

Enclosure: IBWC Response

May 19, 2008

1. Internal Audit and Evaluation

USIBWC has continually failed to implement an effective internal control and evaluation function, as reported in prior years' management letters. The audits performed should be conducted to identify weaknesses within the agency in order to improve the controls that encompass the agency as a whole. Furthermore, the weaknesses identified should promptly be addressed and followed up during the subsequent year to assess the effectiveness of the remedy put into place in order to correct those findings. LGB found that:

- The internal auditor failed to follow and adhere to the prescribed annual audit plan. Only three of the seven planned audits were performed. This was due in part to a request from the USIBWC's commissioner for a concentrated effort on an audit on Internal Controls.
- Sufficient documentation was not readily available to verify that USIBWC prepared a semiannual report of all audit findings and recommendations that had been completed as of June 30 and September 30, 2007, as required by OMB Circular A-50, Audit Follow-up.

We recommend that USIBWC:

- *Establish and implement an effective and comprehensive internal audit function that meets the requirements set by its 1996 Internal Evaluations Manual and standards established by the Institute of Internal Auditors;*
- *Ensure that all audits are performed in a timely manner; and*
- *Ensure that all required semiannual reports are prepared in compliance with OMB Circular A-50.*

Response:

The USIBWC has taken the substantive steps to improving its internal audit function. The Internal Audit Program (IAP) was assigned to the Compliance Programs Office (CPO) in January 2007. The Internal Auditor maintains a direct reporting relationship with the United States Commissioner regarding significant audit issues. However, the position receives day-to-day supervision by the Compliance Officer, who has extensive training and experience in program analysis, strategic planning, and human capital management.

The Commissioner and Compliance Officer established as a long term agency goal the development of a Model Internal Audit Program based on best practices of the U.S. Government Accountability Office (GAO) and in strict adherence with Generally Accepted Government Auditing Standards (GAGAS), American Institute of Certified Public Accountants (AICPA) standards, Institute of Internal Auditors (IIA) standards, and OMB Circular A-50. The first major step toward achievement of a model program was the development of reporting

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May 19, 2008

requirements and stringent performance appraisal standards for the Internal Auditor position, which holds the individual strictly accountable for results.

A major audit assigned to the Internal Auditor in 2007 was a comprehensive evaluation of the USIBWC Internal Control Program, including compliance with U.S. Office of Management and Budget (OMB) Circular No. A-123, subject: Management Accountability and Control. The Compliance Officer reviewed the Internal Auditor's draft report (A-07-05) at the request of the Commissioner. The Compliance Officer provided a detailed assessment to both the Commissioner and Internal Auditor, concluding that the audit failed to meet its stated purpose and auditing standards. [REDACTED]

The agency recruited for a new Internal Auditor, with an emphasis on expertise in the conduct of both performance and financial auditing. The individual selected for the position is highly qualified and reported for duty on May 12, 2008. He is a certified public accountant (CPA) and served for over ten years as a senior agent with the Internal Revenue Service. In consultation with the Compliance Officer, the individual will follow up on pending audit issues, develop an annual audit plan for FY2009, and issue a semiannual report in compliance with OMB Circular A-50.

2. Property and Equipment

Although USIBWC has taken some steps to improve internal controls 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 the Headquarters property personnel. Rather, custodial property officers located at the field offices provided certified listings. Also, certified inventories submitted by the field offices were not in the format prescribed by the Property Directive.

We found that the field offices were not providing receiving reports in a timely or complete manner. We found that nearly 50 percent of the sample items tested either were submitted over 30 days late or had not been submitted at all.

The property officer is not provided with needed data related to equipment purchases for reconciling the inventory records. Accounting information regarding equipment purchases should be reconciled with inventory receipts regularly to improve the accuracy and reliability of asset data. During FY 2006, we recommended that Financial and Property Divisions collaborate on a monthly basis to provide updated property information as part of a reconciliation control. During FY 2007, this procedure had not been implemented.

We also found that USIBWC was not recording the disposal of assets in a timely manner. We noted that two items recorded as disposed of during FY 2007 were actually

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disposed of in prior years. Additionally, 20 vehicles acquired in prior years were not capitalized until FY 2007.

During our testing in the financial phase, we also noted that two charges for construction related to FY 2006 had been recorded in 2007. In addition, seven assets did not have depreciation recorded because acquisition dates had not been entered into the system or were recorded erroneously due to the elimination of betterments within the accounting system.

*We recommend that USIBWC:*

- *Ensure that complete and comprehensive physical inventories of all accountable personal property are performed and that exceptions identified during the inventory process are corrected in a timely manner;*
- *Hold the field offices accountable for the timely and accurate submission of receiving reports;*
- *Have Financial Services provide monthly accounting information to General Services regarding equipment purchases in order to reconcile inventory records;*
- *Ensure that the cost of property and related accumulated depreciation are removed from the general ledger in a timely manner following asset disposal; and*
- *Ensure that the cost of property, acquisition dates, and related accumulated depreciation are recorded in the general ledger in a timely manner following asset acquisition.*

**Response:**

During the audit we were asked to respond to why the property officer did not perform an annual physical inventory at each field office in accordance with the procedures outlined within our Personal Property Directive Vol. II, Chapter 601, Section 601.18(b), "Inventory of Capitalized Personal Property" under request R-43. The Agency directive, in paragraph 18(b)(1) specifies that, "The Property Officer, or his/her designee, will conduct an annual physical inventory at each project and or field office or all capitalized personal property owned by the U.S. Section." Through official correspondence to each of our field offices, management directed that local custodial property officers would be responsible for conducting and documenting a physical inventory. Explicit instructions and procedures were provided and appropriate forms were submitted to Headquarters to document and certify that a physical inventory was conducted. The forms were in compliance with the Personal Property Management Directive, Vol. II, Chapter 601, paragraph M601.18(a) which states that "The report shall list each item by fixed asset number, betterment number, description, make, model, serial number, location and its condition." Each report was signed by the custodial property officer and verified by the project manager of each field office.

The ongoing issue of field offices not providing receiving reports in a timely manner will be mitigated and resolved in the near future as the U.S. IBWC completes integration with the Department of State's Integrated Logistics

Enclosure: IBWC Response

May 19, 2008

Management System (ILMS). This automated system has controls in place that ensure that receiving reports and data pertaining to the property's received date are automatically entered into the system.

The ILMS system will also resolve the issue of the Property Officer not being provided with needed data related to equipment purchase for reconciling inventory records as all data will be made available to the property officer and others automatically as part of the new purchase request procedures.

3. Contract Accruals

USIBWC was not recording year-end contract accruals in the proper periods. We noted several payables that pertained to FY 2006 that were recorded in FY 2007.

*We recommend that USIBWC examine its recording of year-end accounts payable accrual by thoroughly reviewing invoices to ensure that they are recorded within the proper period.*

Response:

IBWC will review the vendor invoices that are received prior to year end closing and ensure that an accounts payable is established in the financial system for those invoices that should be recorded in that period. The corrective actions will be implemented with the FY 2008 year end closing.

4. Premium Pay

The premium pay amounts for two employees were incorrect. The differences were minor, and the National Finance Center was informed of the differences.

*We recommend that USIBWC implement procedures to coordinate with its payroll provider and ensure that withholdings are accurately calculated and recorded.*

Response:

IBWC will select a sample of premium pay each quarter and verify the accuracy of the premium pay calculations. The National Finance Center will be notified of any discrepancies in the calculations. NFC will also be notified of all audit findings that pertain to the calculations of premium pay. These corrective actions will be implemented during the 3<sup>rd</sup> Quarter of FY 2008.

5. Annual Leave

The annual leave carryover hours for two employees did not agree with the reported amounts used for compilation of the financial statements.

*We recommend that leave balances be monitored more closely to ensure that accurate balances are reported.*

Enclosure: IBWC Response

May 19, 2008

**Response:**

IBWC will select a sample of annual leave carryover balances at the end of the calendar year and verify the accuracy of the amounts. The National Finance Center will be notified of any discrepancies in the carryover balances. NFC will also be notified of all audit findings that pertain to the annual leave carryover balances. These corrective actions will be implemented during the 3<sup>rd</sup> Quarter of FY 2008.

6. **CSR Withholding**

We noted two exceptions related to employee withholding pertaining to Civil Service Retirement.

*We recommend that USIBWC establish procedures to periodically review and ensure that withholding amounts are being properly recorded.*

**Response:**

IBWC will select a sample of CSRS retirement deductions/contributions each quarter and verify the accuracy of the retirement calculations. The National Finance Center will be notified of any discrepancies in the calculations. NFC will also be notified of all audit findings that pertain to the calculations of CSRS/FERS retirement. These corrective actions will be implemented during the 3<sup>rd</sup> Quarter of FY 2008.

7. **Statement of Assurance**

The Management Control Statement of Assurance over Financial Reporting is restricted in scope to two areas as opposed to overall financial reporting. In addition, the Management Control Statement of Assurance continues to reference the Department of State.

*We recommend that USIBWC modify its annual Statement of Assurance to comply with OMB Circular A-123, "Management's Responsibility for Internal Control."*

**Response:**

The Management Control Statement of Assurance over Financial Reporting will be revised to include all areas of financial reporting and references to Department of State will be deleted. Corrective actions to bring IBWC's Management Statement of Assurance into compliance with OMB Circular A-123 will be implemented during the 3<sup>rd</sup> Quarter FY 2008.

Enclosure: IBWC Response  
May 19, 2008

8. **Government Performance and Results Act**

The Government Performance and Results Act states that the annual performance plan "shall...provide a basis for comparing actual program results with the established performance goals; and describe the means to be used to verify and validate measured values." Currently, USIBWC is still using estimates rather than actual results and does not provide a means to verify and validate reported performance in a measurable way. We recommend that USIBWC develop a methodology that will enable it to verify actual performance in a measurable way.

**Response:**

The IBWC has a methodology in place to document actual performance in a measurable manner (if possible) and substantiate the program's effectiveness as required by the PART. The Compliance Programs Office implemented a monthly reporting process requiring work units to submit monthly reports of mission activities. The reports must clearly describe the work performed, its location, and quantifiable results using actual figures, and not production rates. Nonetheless, we will reevaluate our methodology and consider possible strategies to improve the documentation process in which we measure, report, verify, and validate performance.

9. **Management's Discussion and Analysis**

We noted that the Management's Discussion and Analysis (MD&A) included in USIBWC's financial statements did not fully comply with OMB Circular A-136, Financial Reporting Requirements, or Statement of Federal Financial Accounting Standards (SFFAS) No. 15 and Statement of Federal Financial Accounting Concepts (SFFAC) No. 3, both entitled Management's Discussion & Analysis. Examples of noncompliance include the following:

- IBWC needs to include an explanation for the procedures it has designed and followed to provide reasonable assurance that reported performance information is relevant and reliable.
- IBWC needs to provide additional details when reporting on performance outcomes, especially for instances in which targets were not met, and provide an analysis of the reasons why those goals were not met.
- Trend reporting was not included within the MD&A. Management should analyze and compare data and look for trends to help management evaluate and determine the effectiveness and efficiency of IBWC operations in meeting its prescribed goals and objectives.
- IBWC needs to include the auditor findings. Additionally, management should provide corresponding corrective actions to be taken in order to remedy the reported findings.
- The MD&A needs to include a discussion of current demands, risks, uncertainties, events, conditions, and trends that goes beyond a mere description

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of existing conditions. Management should address the possible future effect of those factors that may include, but not necessarily be limited to, demographic characteristics, claims, contingencies, deferred maintenance, commitments, or major unfunded liabilities.

- Management should incorporate highlights from the results reported within the Deferred Maintenance Report into the Management's Discussion and Analysis.
- Management needs to include a Financial Management Performance Metrics of payment information compared with the Department of State and Government-wide results.

*We recommend that USIBWC prepare its MD&A in compliance with relevant standards.*

**Response:**

The USIBWC concurs with the recommendations and beginning addressing deficiencies in its MD&A to comply with government standards. In addition, the USIBWC will provide the results of internal audits and/or any known problems with systems, controls, and compliance. The agency will also seek to improve its reporting on performance outcomes and perform trend analyses in future years.

10. **Deferred Maintenance**

USIBWC has made a reasonable attempt to comply with OMB and SFFAS requirements for reporting deferred maintenance. However, not all requirements have been met. We recommend that USIBWC:

- Address paragraph 84 of SFFAS No. 6 regarding the definition of stratified critical and non-critical amounts.
- Comply with government standards related to deferred maintenance and report data more consistently.
- Incorporate information contained within the deferred maintenance within the other Required Supplementary Information component - MD&A, since the report was inconsistent with regard to format and data presented.
- Ensure that the narrative that supports the schedule of deferred maintenance costs is consistent with the format and data provided.

**Response:**

The USIBWC concurs with the recommendation and will prepare its Deferred Maintenance Report in accordance with government standards. USIBWC will submit data more consistently and provide a stratification of critical and non-critical amounts. In addition, the agency will ensure that the supporting narrative is consistent with the deferred maintenance data and is properly formatted.