

**Independent Auditor's Report**  
**International Boundary and Water Commission,**  
**United States and Mexico,**  
**U.S. Section,**  
**Financial Statements**

**September 30, 2011 and 2010**

**AUD/FM-12-37, June 2012**

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INDEPENDENT AUDITOR'S REPORT

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

We (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, 2011 and 2010. We have considered internal control over financial reporting and compliance in place as of September 30, 2011, and for the year then ended, and we tested compliance with selected laws and regulations.

As detailed in Note 18, during FY 2011, USIBWC became aware of a material misstatement in its 2010 financial statements related to a significant, multiyear improvement project constructed by another entity on behalf of USIBWC. As a result, USIBWC has restated 2010 balances and activity, specifically, fixed assets, accumulated depreciation, depreciation expense, cumulative results of operations, and donated capital. Accordingly, our report on USIBWC's 2010 financial statements, dated March 31, 2011, should not be relied upon.

In our audits of USIBWC's 2011 and restated 2010 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, 2011 and 2010, 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.

As detailed in Note 18, during FY 2011, USIBWC became aware of a material misstatement in its 2010 financial statements related to a significant, multiyear improvement project constructed by another entity on behalf of USIBWC. As a result, USIBWC has restated 2010 balances and activity, specifically, fixed assets, accumulated depreciation, depreciation expense, cumulative results of operations, and donated capital.

### INTERNAL CONTROL

In planning and performing our audits of USIBWC's financial statements as of, and for the years ended, September 30, 2011 and 2010, 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.

However, we identified three deficiencies in USIBWC's internal control that we consider to be significant deficiencies. 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.

- The Department of State provides accounting services to USIBWC. Defects in the construction of posting models within the Department of State's financial accounting system have resulted in erroneous data being included in reports issued to USIBWC, particularly in the area of budgetary accounts. Our audit found that to produce an auditable Statement of Budgetary Resources, USIBWC had to record numerous significant manual adjustments to budgetary accounts in order to correct balances. During FY 2011, USIBWC recorded almost \$117 million in journal voucher adjustments related to budgetary accounts. Many of these journal vouchers had handwritten notations indicating that the adjustment was being done to "correct balances in budgetary accounts."

Because the system is not sufficient for recording budgetary information, USIBWC must correct balances through numerous journal vouchers. However, the journal vouchers do not include sufficient information to describe the transaction, and USIBWC does not maintain adequate documentation to support the purpose of the voucher. USIBWC is working with the Department of State to correct the deficiencies in the posting logic.

The deficiency related to financial reporting was cited in our audit of USIBWC's 2010 financial statements.

- During the audit, we learned that USIBWC had not recognized and reported a significant, multiyear improvement project constructed by another entity on behalf of USIBWC totaling more than \$220 million. USIBWC did not have a routine physical inventory process that would ensure that all real property was identified and reported for financial-reporting purposes. USIBWC management was also unsure of the proper accounting treatment for improvements made by another organization to IBWC real property.
- We found that the contract accrual amounts reported by USIBWC were significantly misstated. Specifically, the Salaries and Expenses appropriation accrual was misstated by \$987,501, and the Construction appropriation accrual was misstated by \$13,076,204.

The methodology used by USIBWC to estimate contract accruals for financial statement reporting purposes was not valid. USIBWC based its methodology on conditions that existed in prior years, when it was receiving and expending funds from the American Recovery and Reinvestment Act. By the end of FY 2011, the majority of these funds had been expended and no additional funds were received. However, USIBWC did not revise its estimation methodology to reflect current conditions.

In addition, organizations are required to accumulate sufficient, relevant, and reliable data to support estimates. USIBWC did not have sufficient data to support the underlying assumptions used for the contract accrual estimation methodology, such as why it estimated current year obligations rather than using actual data. USIBWC also did not validate its assumptions using historical data. Validating assumptions would help to ensure that the estimation methodology provided reliable results. USIBWC should have formal procedures to validate the completeness and accuracy of the underlying data used to prepare the accrual estimate.

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 and required supplementary 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, as amended. 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 on this report are presented as an appendix. The written response by USIBWC management has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion on these comments.



Clarke Leiper, PLLC

Alexandria, Virginia  
May 4, 2012

INTERNATIONAL BOUNDARY AND WATER COMMISSION  
UNITED STATES AND MEXICO

June 1, 2012



OFFICE OF THE COMMISSIONER  
UNITED STATES SECTION

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

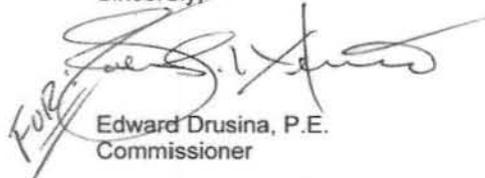
Subject: Draft report AUD/FM-12-XX, May 2012 by Clarke Leiper, PLLC

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, 2011 and 2010.

We note that improvements have already been made to our internal policies and procedures in response to the recommendations provided in the report, and specific responses to each recommendation are provided.

Sincerely,

  
Edward Drusina, P.E.  
Commissioner

Attachment as Stated  
cc: D. Forti, C. Parker

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Please accept this letter as our response to your request for comments on the Draft Independent Auditor's Report of the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2011 and 2010 Financial Statements.

## **Audit Report**

### **Significant Deficiency #1**

The Department of State provides accounting services to USIBWC. Defects in the construction of posting models within the Department of State's financial accounting system have resulted in erroneous data being included in reports issued to USIBWC, particularly in the area of budgetary accounts. Our audit found that to produce an auditable Statement of Budgetary Resources, USIBWC had to record numerous significant manual adjustments to budgetary accounts in order to correct balances. During FY 2011, USIBWC recorded almost \$117 million in journal voucher adjustments related to budgetary accounts. Many of these journal vouchers had handwritten notations indicating that the adjustment was being done to "correct balances in budgetary accounts."

Because the system is not sufficient for recording budgetary information, USIBWC must correct balances through numerous journal vouchers. However, the journal vouchers do not include sufficient information to describe the transaction, and USIBWC does not maintain adequate documentation to support the purpose of the voucher. USIBWC is working with the Department of State to correct the deficiencies in the posting logic.

### **Management's Response**

Management concurs with the finding and recommendation. The USIBWC also concurs with Clark Leiper's recommendation to continue to work closely with Department of State representatives to ensure any other future issues related to the Global Financial Management System are reported and corrected in a timely manner. The Department of State representatives responded to the GFMS issues reported and have corrected programming issues related to erroneous reporting of the USIBWC's budgetary accounts.

### **Significant Deficiency #2**

During the audit, we learned that USIBWC had not recognized and reported a significant, multiyear improvement project constructed by another entity on behalf of USIBWC totaling more than \$220 million. USIBWC did not have a routine physical inventory process that would ensure that all real property was identified and reported for financial-reporting purposes. USIBWC management was also unsure of the proper accounting treatment for improvements made by another organization to USIBWC real property.

### **Management's Response**

Management concurs with the finding and recommendation. The USIBWC plans to improve internal processes by conducting annual reviews of USIBWC's real property inventory in accordance with Executive Order 13327 of February 4, 2004, and will include:

1. On May 22<sup>nd</sup>, 2012 the Boundary and Realty (B&R) Division sent a memo to all Area Operations Managers along with the most recent guidelines from the Federal Real Property Council requesting that they review their real property inventory within their jurisdiction. Area Operation Managers (AOMs) will have until August 31<sup>st</sup> to submit their reports.
2. Once reports are received, USIBWC Boundary and Realty will consolidate all reports.
3. Upon consolidation, B&R will then send the final report to Department of State by the first week of October. This will allow time for USIBWC to respond to any and all inquiries and meet the November 15th deadline.

Boundary and Realty will check with the Federal Real Property Council (established by the Executive Order) for the most recent guidelines for reporting the real property inventory. Data such as real property use, percentage of utilization, annual operating costs, disposal, and determination of excess will be reported and any changes to the report would be outlined within those guidelines.

Currently, the B&R Division has begun implementing this procedure and has mailed out memos to all AOMs.

### **Significant Deficiency #3**

We found that the contract accrual amounts reported by USIBWC were significantly misstated. Specifically, the Salaries and Expenses appropriation accrual was misstated by \$987,501, and the Construction appropriation accrual was misstated by \$13,076,204. The methodology used by USIBWC to estimate contract accruals for financial statement reporting purposes was not valid. USIBWC based its methodology on conditions that existed in prior years, when it was receiving and expending funds from the American Recovery and Reinvestment Act. By the end of FY 2011, the majority of these funds had been expended and no additional funds were received. However, USIBWC did not revise its estimation methodology to reflect current conditions.

In addition, organizations are required to accumulate sufficient, relevant, and reliable data to support estimates. USIBWC did not have sufficient data to support the underlying assumptions used for the contract accrual estimation methodology, such as why it estimated current year obligations rather than using actual data. USIBWC also

did not validate its assumptions using historical data. Validating assumptions would help to ensure that the estimation methodology provided reliable results. USIBWC should have formal procedures to validate the completeness and accuracy of the underlying data used to prepare the accrual estimate.

#### **Management's Response**

Management concurs with the finding and recommendation. The USIBWC also concurs with Clark Leiper's recommendation to document and fully implement a contract accrual process. Consistent with Statement of Federal Financial Accounting Standards No.1, the USIBWC will recognize all liabilities for unpaid amounts of goods upon acceptance of title of goods. For amounts where invoices are not available, the USIBWC will use amounts of unpaid vouchers as of 30 September to estimate contract accruals. Adjustments will be made after year-end closeout as necessary, and post revised amounts to the financial statements. All supporting documentation will be maintained. The contract accrual process will be incorporated into the Accounts Payable SOP.

Thank you again for the opportunity to respond to this draft report and please advise us of any follow-up questions, comments, or concerns about this response letter.

You may reach Diana Forti, Chief Administrative Officer at 915-832-4123 or Christopher Parker, Internal Audit Program Manager at 915-832-4794 or via email at [Diana.Forti@USIBWC.gov](mailto:Diana.Forti@USIBWC.gov) or [Christopher.Parker@USIBWC.gov](mailto:Christopher.Parker@USIBWC.gov).