

**Management Letter Related to the
Audit of the International Boundary and Water Commission,
United States and Mexico, U.S. Section,
2011 and 2010 Financial Statements**

AUD/FM-12-38, June 2012

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May 4, 2012

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, 2011 and 2010, and have issued our report thereon dated May 4, 2012.¹ 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 certain matters involving internal control over financial reporting and compliance that we considered to be significant deficiencies under the standards established by the American Institute of Certified Public Accountants. We reported those significant deficiencies 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.

Comments by USIBWC management on this report are presented as Appendix B.

Very truly yours,



Clarke Leiper, PLLC

¹ *Independent Auditor's Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2011 and 2010 Financial Statements (AUD/FM-12-37, June 2012).*

Management Letter Related to the Audit of the
International Boundary and Water Commission,
United States and Mexico, U.S. Section,
2011 and 2010 Financial Statements

Observations and Conclusions

1. Property, Plant, and Equipment

During our (Clarke Leiper, PLLC) testing, we found that USIBWC had transferred \$98 million from the construction in progress (CIP) account to the real property account but was unable to fully provide supporting documentation for \$1.7 million of the amount transferred. In addition, we identified approximately \$1.6 million included as CIP that should have been transferred to the real property account. For one fully funded CIP project, USIBWC was unable to determine what portion of costs pertained to Government-owned assets. We also learned that USIBWC was unable to verify the existence or ownership of several items of real property with a total net book value of \$1.2 million.

USIBWC did not have a sufficient process to ensure that transfers of property from CIP to the real property account were recorded in a timely and accurate manner. In addition, we found that transferred costs were not complete, as only costs that were supported by documentation on hand at the time were transferred. USIBWC management also stated that it did not have support for some of the older CIP amounts because it only maintained documentation only for a period of 6 years and 5 months. In addition, USIBWC did not have a routine physical inventory process that would ensure that all real property had been identified and reported for financial reporting purposes.

We recommend that USIBWC:

- *Perform routine reconciliations of both real property and personal property to ensure that all property is identified and reported.*
- *Develop a process to ensure that transfers of property from the construction in progress account to the real property account are recorded in a timely and accurate manner.*
- *Maintain sufficient supporting documentation for ongoing construction projects.*

2. Unliquidated Obligations

As of September 30, 2011, USIBWC had an unliquidated obligations (ULO) balance of \$99 million. We selected 114 ULOs for interim testing. Our testing identified 31 exceptions, resulting in an estimated overstatement of \$4.1 million for ULOs. Specifically, we found the following:

- 28 obligations were deobligated or identified to be deobligated subsequent to our request for supporting documentation because they were no longer needed.

- 3 obligations were old and no explanation or documentation was provided to support their validity.

USIBWC had developed and implemented standard operating procedures for the review of ULOs. These procedures called for periodic reviews of both current and prior year ULOs. We noted that USIBWC had performed a third quarter review of ULOs but had not properly executed the review to ensure that invalid ULOs were identified in a timely manner.

We recommend that USIBWC:

- *Properly execute its review of unliquidated obligation balances to identify and deobligate balances that no longer represent a continuing need.*
- *Implement records retention processes to ensure that obligation documentation is obtained and maintained in a manner that enables ready access.*

3. Payroll Compliance

Our tests of USIBWC compliance with payroll-related laws and regulations identified several exceptions. Specifically, based on a sample of 53 employees, we found the following:

- Federal Employees Health Benefits
 - Employee withholdings for two employees did not match the required withholdings based on the employees' health benefit selections.
 - Agency contributions for two employees did not match the required contributions.
- Federal Employees Group Life Insurance
 - Employee withholdings for four employees did not match the required withholdings.
 - Agency contributions for three employees did not match our recalculations.
- Pay rate verification – The actual pay rate for five employees did not match the pay rate in the official personnel folders.
- Retirement
 - Employee withholdings for 12 employees did not match our recalculations.
 - Agency contributions for 12 employees did not match our recalculations.
- Thrift Savings Plan
 - Employee withholdings for 11 employees did not match our recalculations.
 - Agency contributions for 11 employees did not match our recalculations.

In addition, we tested the premium pay rates for eight employees and found that the actual rates for seven of the eight employees did not match our recalculations.

Employees have the ability to make changes to their payroll withholdings electronically via the Federal Web site Employee Express. USIBWC did not have procedures for reconciling the information on Employee Express to the information in the official

personnel folders. Additionally, some information, specifically updates to pay rates, was not properly filed in the official personnel folders after changes had been made.

We recommend that USIBWC institute an effective control program over payroll to ensure that all employee official personnel folders contain accurate, up-to-date information, including the changes made by employees via Employee Express.

4. Earned Revenue

Federal accounting standards require organizations to recognize revenue when goods or services are provided. We found that USIBWC did not always recognize revenue in a timely manner. Specifically, during interim testing, we identified six of the 48 items tested that were recorded entirely or partially in the improper period. During year-end testing, we found that two of the 10 items tested were recorded in the improper period. USIBWC did not have a sufficient process in place to ensure that all revenue transactions were recorded in the proper period or accrued at year end.

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

5. Environmental Liabilities

We found that USIBWC did not have standard operating policies and procedures for recognizing, estimating, and recording environmental liabilities. Although USIBWC had some directives in place related to environmental liabilities, these directives did not specifically address procedures to recognize, estimate, and record environmental liabilities. Additionally, some of the directives were outdated.

Environmental liabilities may not occur in the normal course of business for the Federal Government. USIBWC management had not developed and maintained appropriate policies and procedures for recognizing, estimating, and recording environmental liabilities because situations causing environmental liabilities were uncommon.

We recommend that USIBWC:

- *Create agency-specific standard operating procedures for recognizing, estimating, and recording environmental liabilities.*
- *Update environmental liability directives to reflect current issues and trends.*

6. Federal Employees' Compensation Act

The Federal Employees' Compensation Act (FECA) provides Federal employees injured in the performance of duty with workers' compensation benefits. The Department of Labor calculates each agency's portion of the Government's FECA liability quarterly, which is required to be included in the agency's financial statements. During our audit, we found that USIBWC had not recorded the FECA liability for the first two quarters of FY 2011.

USIBWC did not have a sufficient process in place to ensure that the FECA liability was recorded in an accurate and timely manner. USIBWC also did not sufficiently monitor the interim financial data to ensure the data were complete.

We recommend that USIBWC improve its financial reporting process to ensure that liabilities are recorded accurately and in a timely manner.

7. Deferred Maintenance

The auditor identified seven items, totaling \$1.3 million, that USIBWC had incorrectly reported as deferred maintenance. USIBWC staff did not have a clear understanding of the deferred maintenance accounting standards, and USIBWC's internal policies did not sufficiently implement Federal accounting requirements for deferred maintenance.

We recommend that USIBWC revise its internal policies and procedures related to deferred maintenance to ensure that accounting standards are implemented sufficiently.

8. Prompt Payment

During our testing of nonpersonnel expenses, we identified untimely payments and incorrect calculations of interest. Out of a sample of 58 expenditures, we identified six invoices (10 percent) that were not paid within 30 days as required. In addition, we found that USIBWC had not paid interest on four of these untimely payments because, according to USIBWC officials, USIBWC was operating under a continuing resolution and there was insufficient funding to pay the invoices.

We found that USIBWC did not have sufficient controls in place to ensure that payments were made in a timely manner. USIBWC was also unaware that the Prompt Payment Act applied to payments made while under a continuing resolution.

We recommend that USIBWC improve its vendor payment process to ensure that payments are made in a timely manner and that interest is provided to vendors when payments are not made in a timely manner.

9. Segregation of Duties

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud, for instance, separating the responsibilities for authorizing, processing recording, and reviewing transactions. No one individual should control all key aspects of a transaction or event. However, we found that the same USIBWC employee entered and approved transactions in USIBWC's accounting system for 21 of 45 earned revenue transactions tested and 12 of 45 journal vouchers tested.

We were also unable to identify which employees entered and approved transactions for 29 of 45 accounts payable transactions tested and 12 of 45 accounts receivable transactions tested.

USIBWC officials stated that staff had been given permissions in the accounting system to both enter and approve transactions for various transaction types because USIBWC had limited staff available to perform these functions. In addition, USIBWC was unable to provide documentation showing who had entered and approved transactions with “KW” and “KE” document types because available system reports did not provide that information.

We recommend that USIBWC:

- *Institute effective internal controls to ensure the appropriate segregation of duties by changing permissions to prevent employees from having access to both entry and approval functions. If USIBWC is unable to segregate duties appropriately, it should implement additional controls to compensate for the lack of segregation of duties.*
- *Identify the reason that accounting system reports do not provide information on who entered and approved transactions with document types “KW” and “KE” and take corrective action to remedy this situation.*

10. Information Technology Security

USIBWC’s information technology (IT) internal control structure, both for general support systems and financial reporting applications, was not adequate. The Office of Inspector General (OIG) performed the annual evaluation of USIBWC information security program compliance with Federal laws, regulations, and standards, as required by the Federal Information Security Management Act of 2002. Some of the concerns OIG identified that related to USIBWC’s general support systems could impact the financial reporting applications as well, including weaknesses related to security training, personnel security, and physical and environmental protection.

In addition, the Department provides accounting services to USIBWC. An independent certified public accounting firm audited the Department’s 2011 and 2010 financial statements. Some of the concerns identified during this audit that related to the Department’s IT internal control structure could impact USIBWC, including weaknesses related to security management and assurance of systems and applications.

We recommend that USIBWC:

- *Implement the recommendations included in the Office of Inspector General’s Federal Information Security Management Act report for FY 2011.*
- *Evaluate the findings relating to the Department of State’s information technology internal control structure and implement compensating controls if needed.*

Prior Year Management Letter Comments

During the audit of USIBWC's 2010 financial statements, we identified matters that we reported in a management letter.² The observations identified during the 2010 audit remain open. The statuses of the 2010 findings are presented in Table 1.

Table 1. Status of Observations From the FY 2010 Management Letter

Observation Number	FY 2010 Observation	Status	FY 2011 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 accountability over personal property. During our testing, we noted nine lease vehicles that were erroneously recorded as purchased vehicles because the incorrect acquisition code was used. One item that was processed for disposal was not disposed of because of an error in the accounting system. One item was a duplicate of an item that was disposed of. Three items had negative current year depreciation.</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>	Closed	
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>	Open	See observation 2.

² *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).*

Observation Number	FY 2010 Observation	Status	FY 2011 Comment
3. Payroll Compliance	<p>We noted the following discrepancies during our testing of payroll compliance:</p> <ul style="list-style-type: none"> • Premium Pay – Actual premium pay for three of five employees did not match the premium pay rates. • Retirement – Withholdings for 11 of 51 employees did not match the auditor's calculations. Contributions for nine of 51 employees did not match the auditor's calculations. • Pay Rate Verification – The actual pay rate for three of 51 employees did not match the pay rate in the official personnel folders. • Health Benefits – Withholdings for two of 51 employees and the agency contributions for one of 51 employees did not match the auditor's calculations. <p>Employees have the ability to make changes to their payroll withholdings electronically via the Federal Web site 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 3.
4. Earned Revenue	<p>During our audit work, we noted that four of 12 earned revenue transactions sampled were recorded in the incorrect period.</p>	Open	See observation 4.
5. Unexpended Appropriations	<p>USIBWC does not have documented standard operating procedures for unexpended appropriations accounts.</p>	Closed	
6. Journal Vouchers	<p>USIBWC does not have documented standard operating procedures for processing journal vouchers.</p> <p>Journal vouchers are prepared and approved by the same individuals.</p>	Closed	

Observation Number	FY 2010 Observation	Status	FY 2011 Comment
7. Environmental Liabilities	USIBWC does not have agency-specific standard operating procedures for recognizing, estimating, and recording environmental liabilities.	Open	See observation 5.
8 Accounts Receivable	During our testing, we identified instances in which accounts receivable were recorded in the wrong period.	Closed (based on immateriality)	

INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO

June 1, 2012



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 Management Letter 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 management letter with regards to 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

For:

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

Please accept this letter as our response to your request for comments on the draft Management Letter with regards to 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.

FY 2011 Management Letter Observations and Conclusions

1. Property, Plant, and Equipment

During our (Clarke Leiper, PLLC) testing, we found that USIBWC had transferred \$98 million from the construction in progress (CIP) account to the real property account but was unable to fully provide supporting documentation for \$1.7 million of the amount transferred. In addition, we identified approximately \$1.6 million included as CIP that should have been transferred to the real property account. For one fully funded CIP project, USIBWC was unable to determine what portion of costs pertained to Government-owned assets. We also learned that USIBWC was unable to verify the existence or ownership of several items of real property with a total net book value of \$1.2 million.

USIBWC did not have a sufficient process to ensure that transfers of property from CIP to the real property account were recorded in a timely and accurate manner. In addition, we found that transferred costs were not complete, as only costs that were supported by documentation on hand at the time were transferred. USIBWC management also stated that it did not have support for some of the older CIP amounts because it only maintained documentation only for a period of 6 years and 5 months. In addition, USIBWC did not have a routine physical inventory process that would ensure that all real property had been identified and reported for financial reporting purposes.

We recommend that USIBWC:

- *Perform routine reconciliations of both real property and personal property to ensure that all property is identified and reported.*
- *Develop a process to ensure that transfers of property from the construction in progress account to the real property account are recorded in a timely and accurate manner.*
- *Maintain sufficient supporting documentation for ongoing construction projects.*

Management's Response

Management concurs with the finding and recommendation. The USIBWC has 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.

In response to personal property issues - since 3rd Quarter FY 2010 USIBWC has performed quarterly reconciliations of all capitalized personal property and submitted these for review by auditors if requested.

2. Unliquidated Obligations

As of September 30, 2011, USIBWC had an unliquidated obligation (ULO) balance of \$99 million. We selected 114 ULOs for interim testing. Our testing identified 31 exceptions, resulting in an estimated overstatement of \$4.1 million for ULOs. Specifically, we found the following:

- 28 obligations were deobligated or identified to be deobligated subsequent to our request for supporting documentation because they were no longer needed.
- 3 obligations were old and no explanation or documentation was provided to support their validity.

USIBWC had developed and implemented standard operating procedures for the review of ULOs. These procedures called for periodic reviews of both current and prior year ULOs. We noted that USIBWC had performed a third quarter review of ULOs but had not properly executed the review to ensure that invalid ULOs were identified in a timely manner.

We recommend that USIBWC:

- *Properly execute its review of unliquidated obligation balances to identify and de-obligate balances that no longer represent a continuing need.*
- *Implement records retention processes to ensure that obligation documentation is obtained and maintained in a manner that enables ready access.*

Management's Response

Management concurs with the finding and recommendation. Consistent with Federal law 31 U.S.C. 1501 and GAO's Principles of Federal Appropriations Law, the USIBWC only records obligations to meet legitimate or bona fide needs and when supported by documentary evidence. The USIBWC will be developing policies and procedures to document existing procedures, and to ensure that invalid ULOs are identified in a more timely manner. More aggressive steps to review ULOs have been implemented during this fiscal year, recognizing the importance of reviewing ULOs and of ensuring that only valid ULOs remain obligated. All unliquidated obligations are currently under review. Deobligation of balances that are no longer valid will be deobligated once all documentation is obtained, and assurances and certifications are received from the proponent offices. In addition, the policies and procedures will address a records retention process to ensure documentation is obtained and maintained in a manner that enables ready access.

3. Payroll Compliance

Our tests of USIBWC compliance with payroll-related laws and regulations identified several exceptions. Specifically, based on a sample of 53 employees, we found the following:

- Federal Employees Health Benefits
 - Employee withholdings for two employees did not match the required withholdings based on the employees' health benefit selections.
 - Agency contributions for two employees did not match the required contributions.
- Federal Employees Group Life Insurance
 - Employee withholdings for four employees did not match the required withholdings.
 - Agency contributions for three employees did not match our recalculations.
- Pay rate verification – The actual pay rate for five employees did not match the pay rate in the official personnel folders.
- Retirement
 - Employee withholdings for 12 employees did not match our recalculations.
 - Agency contributions for 12 employees did not match our recalculations.
- Thrift Savings Plan
 - Employee withholdings for 11 employees did not match our recalculations.
 - Agency contributions for 11 employees did not match our recalculations.

In addition, we tested the premium pay rates for eight employees and found that the actual rates for seven of the eight employees did not match our recalculations.

Employees have the ability to make changes to their payroll withholdings electronically via the Federal Web site Employee Express. USIBWC did not have procedures for reconciling the information on Employee Express to the information in the official personnel folders. Additionally, some information, specifically updates to pay rates, was not properly filed in the official personnel folders after changes had been made.

We recommend that USIBWC institute an effective control program over payroll to ensure that all employee official personnel folders contain accurate, up-to-date information, including the changes made by employees via Employee Express.

Management's Response

Management concurs with the finding and recommendation. The USIBWC also concurs with Clark-Leiper's recommendation to institute effective controls over payroll to ensure all employee official personnel files contain accurate, up-to-date information, including changes made by employees via "Employee Express."

The USIBWC currently does not have an automated personnel system to reconcile changes to benefits made by employees against personnel files housed in the Human Resources Office. Funding constraints had precluded this agency from migrating to an automated system. However, the USIBWC has initiated steps to automate our existing manual process, which will respond to these findings. An agreement with OPM was secured in FY 2011 to scan all hard copy files and convert to electronic format – eOPFs which will then interface with the personnel system. The web-based system will provide our employees with access to their Official Personnel Folders (OPF) in an electronic format. This solution is the Office of Personnel Management's (OPM) Enterprise

Human Resources Information (EHRI) initiative, the electronic Official Personnel Folder (eOPF). The eOPFs will be linked to the NBC Federal Personnel and Payroll System, which will enable USIBWC employees to make changes to their personal information via Employee Express, providing updated information to the agency automatically. The implementation of these two systems upon successful completion, will respond to Standards for Internal Control in the Federal Government and The Guide to Personnel Recordkeeping, ensuring that all personnel records adequately document human resource operations and that transactions are completely and accurately recorded. The eOPF conversion is expected to be completed by this summer, and the implementation of the personnel system is planned for July 2012.

4. Earned Revenue

Federal accounting standards require organizations to recognize revenue when goods or services are provided. We found that USIBWC did not always recognize revenue in a timely manner. Specifically, during interim testing, we identified six of the 48 items tested that were recorded entirely or partially in the improper period. During year-end testing, we found that two of the 10 items tested were recorded in the improper period. USIBWC did not have a sufficient process in place to ensure that all revenue transactions were recorded in the proper period or accrued at year end.

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

Management's Response

Management concurs with the finding and recommendation. The USIBWC acknowledges the importance of recording obligations and costs in compliance with applicable law; also of ensuring that funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and that revenues and expenditures applicable to the USIBWC operations are properly recorded and accounted to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over assets.

The USIBWC also acknowledges that changes to processes in place are necessary to ensure that all receivables, irrelevant of amount, be recorded timely and in the proper period. The items identified during testing involved accounts receivables for the full year which were recorded timely. However, estimates were not in place for those anticipated receivables in the proper period, as required under Federal Financial Accounting Standard No. 7, which requires that exchange revenue transactions be recognized when goods or services are provided. The corrective measure will be to record all anticipated exchange revenue based on monthly estimates, since actual are received a month later at which time adjustments to estimates will be made. This process will be incorporated in the Finance and Accounting Standard Operating Procedures for Accounts Receivables.

5. Environmental Liabilities

We found that USIBWC did not have standard operating policies and procedures for recognizing, estimating, and recording environmental liabilities. Although USIBWC had some directives in place related to environmental liabilities, these directives did not specifically address procedures to recognize, estimate, and record environmental liabilities. Additionally, some of the directives were outdated.

Environmental liabilities may not occur in the normal course of business for the Federal Government. USIBWC management had not developed and maintained appropriate policies and procedures for recognizing, estimating, and recording environmental liabilities because situations causing environmental liabilities were uncommon.

We recommend that USIBWC:

- *Create agency-specific standard operating procedures for recognizing, estimating, and recording environmental liabilities.*
- *Update environmental liability directives to reflect current issues and trends.*

Management's Response

Management concurs with the finding and recommendation. The USIBWC maintains control of environmental liabilities through established procedures and laws for its primary facilities (reservoirs, wastewater treatment, fuels, chemicals, etc). Control is achieved through compliance through assessment and reporting as per the law or regulation governing the process. In addition, the USIBWC is implementing an Environmental Management System (EMS) to address other USIBWC activities that are not permitted or tracked and are specific to each facility. A new directive has been drafted and along with the EMS plan, will provide controls to recognize and estimate environmental liabilities.

6. Federal Employees' Compensation Act

The Federal Employees' Compensation Act (FECA) provides Federal employees injured in the performance of duty with workers' compensation benefits. The Dept. of Labor calculates each agency's portion of the Government's FECA liability quarterly, which is required to be included in the agency's financial statements. During our audit, we found that USIBWC had not recorded the FECA liability for the first two quarters of FY 2011.

USIBWC did not have a sufficient process in place to ensure that the FECA liability was recorded in an accurate and timely manner. USIBWC also did not sufficiently monitor the interim financial data to ensure the data were complete.

We recommend that USIBWC improve its financial reporting process to ensure that liabilities are recorded accurately and in a timely manner.

Management's Response

Management concurs with the finding and recommendation. The USIBWC is cognizant of its financial reporting obligations and of the importance of recognizing liabilities when they are incurred in compliance A-136 Financial Reporting Requirements.

The USIBWC will record for the fiscal year, by quarter the Federal Employees' Compensation Act (FECA) liabilities estimate based on prior year's average where estimates and reports from the Department of Labor are not available. In addition, the USIBWC will record estimates for FECA liabilities for the upcoming FY upon notification from the Department of Labor. This process will be incorporated in the Finance and Accounting Standard Operating Procedures for Accounts Payables.

7. Deferred Maintenance

The auditor identified seven items, totaling \$1.3 million, that USIBWC had incorrectly reported as deferred maintenance. USIBWC staff did not have a clear understanding of the deferred maintenance accounting standards, and USIBWC's internal policies did not sufficiently implement Federal accounting requirements for deferred maintenance.

We recommend that USIBWC revise its internal policies and procedures related to deferred maintenance to ensure that accounting standards are implemented sufficiently.

Management's Response

Management concurs with the finding and recommendation. The USIBWC has made significant changes to improve its internal policies and procedures on deferred maintenance to ensure full compliance with Statement of Federal Financial Accounting Standards (SFFAS) No. 14, *Amendments to Deferred Maintenance Reporting*. However, the USIBWC acknowledges the need to more clearly identify assets for preventive maintenance requirements, and requirements which will expand and or modify the capacity or intent of the asset. Revisions will be made to the USIBWC's deferred maintenance policies and procedures consistent with the definitions provided under SFFAS No.14.

8. Prompt Payment

During our testing of nonpersonnel expenses, we identified untimely payments and incorrect calculations of interest. Out of a sample of 58 expenditures, we identified six invoices (10 percent) that were not paid within 30 days as required. In addition, we found that USIBWC had not paid interest on four of these untimely payments because, according to USIBWC officials, USIBWC was operating under a continuing resolution and there was insufficient funding to pay the invoices.

We found that USIBWC did not have sufficient controls in place to ensure that payments were made in a timely manner. USIBWC was also unaware that the Prompt Payment Act applied to payments made while under a continuing resolution.

We recommend that USIBWC improve its vendor payment process to ensure that payments are made in a timely manner and that interest is provided to vendors when payments are not made in a timely manner.

Management's Response

Management concurs with the finding and recommendation. The agency has implemented improvements to its internal control processes in FY 2012 to ensure that payments for vendor invoices that are late due to the lack of appropriations include interest in accordance with the policies and procedures of the Prompt Pay Act.

9. Segregation of Duties

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud, for instance, separating the responsibilities for authorizing, processing recording, and reviewing transactions. No one individual should control all key aspects of a transaction or event. However, we found that the same USIBWC employee entered and approved transactions in USIBWC's accounting system for 21 of 45 earned revenue transactions tested and 12 of 45 journal vouchers tested.

We were also unable to identify which employees entered and approved transactions for 29 of 45 accounts payable transactions tested and 12 of 45 accounts receivable transactions tested.

USIBWC officials stated that staff had been given permissions in the accounting system to both enter and approve transactions for various transaction types because USIBWC had limited staff available to perform these functions. In addition, USIBWC was unable to provide documentation showing who had entered and approved transactions with "KW" and "KE" document types because available system reports available did not provide that information.

We recommend that USIBWC:

- Institute effective internal controls to ensure the appropriate segregation of duties by changing permissions to prevent employees from having access to both entry and approval functions. If USIBWC is unable to segregate duties appropriately, it should implement additional controls to compensate for the lack of segregation of duties.*
- Identify the reason that accounting system reports do not provide information on*
- who entered and approved transactions with document types "KW" and "KE" and take corrective action to remedy this situation.*

Management's Response

Management concurs with the finding and recommendation. The USIBWC acknowledges the responsibility of dividing or segregating duties among different people

to reduce the risk of error or fraud, which also includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. During the implementation of the Department of State's Global Financial Management System (GFMS), the USIBWC relied on internal controls inherent to the system. The Finance & Accounting Division implemented compensating controls, which required the chief of this unit to review, initial and date all documents to ensure transactions were processed accurately, providing the required oversight and control over transactions processed by all individuals.

The USIBWC has since requested and implemented changes to user privileges for this unit, restricting access by individual to only pass 1 or pass 2 given that the initial users profiles lacked the necessary controls over segregation of duties. Only three of the five individuals in this unit are authorized or have access to perform pass 1 functions. The other two individuals are only authorized or have access to perform pass 2 transactions. The attached print screen "KD_1_18_12_1.tif" reflects this control, allowing only James Walker and Rick Livengood to approve / perform pass 2 transactions.

The Standards Operating Procedures for Accounts Payables and Accounts Receivables is being updated to reflect these changes. In regards to 'KE' and 'KW' transactions lacking user information, the USIBWC cannot determine the reason why the GFMS reports do not provide information on who entered transactions with documents 'KW' and 'KE'. The USIBWC will be contacting system programmers and proponents to pose the question. The USIBWC is, however able to identify who approved or performed pass 2 transactions. The attached GFMS print screen documents (KW8_11.tif and KE_1_18.tif) identify the individuals who approved/performed pass 2 transactions. The USIBWC does acknowledge that creator and approval information for KE and KW transactions is not part of the template within GFMS, thereby not identifying the individuals performing these two functions within the document. Based on the review of the options available within GFMS, it appears the information limitations are within the GFMS system.

10. Information Technology Security

USIBWC's information technology (IT) internal control structure, both for general support systems and financial reporting applications, was not adequate. The Office of Inspector General (OIG) performed the annual evaluation of USIBWC information security program compliance with Federal laws, regulations, and standards, as required by the Federal Information Security Management Act of 2002. Some of the concerns OIG identified that related to USIBWC's general support systems could impact the financing reporting applications as well, including weaknesses related to security training, personnel security, and physical and environmental protection.

In addition, the Department provides accounting services to USIBWC. An independent certified public accounting firm audited the Department's 2011 and 2010 financial statements. Some of the concerns identified during this audit that related to the Department's IT internal control structure could impact USIBWC, including weaknesses related to security management and assurance of systems and applications.

We recommend that USIBWC:

- *Implement the recommendations included in the Office of Inspector General's Federal Information Security Management Act report for FY 2011.*
- *Evaluate the findings relating to the Department of State's information technology internal control structure and implement compensating controls if needed.*

Management's Response

Management concurs with the finding and recommendation. The USIBWC acknowledges its responsibility for complying with the recommendations included in the Office of Inspector General's Federal Information Security Management Act report for FY 2011. The USIBWC provided OIG a response report on 4/23/2012 and copies of both reports are available upon request.

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.

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