

MANAGEMENT LETTER
AUD-FM-13-11

To the Commissioner of the International Boundary and Water Commission, United States and Mexico, U.S. Section, and the Inspector General of the U.S. Department of State:

Kearney & Company, P.C. (referred to as “we” hereafter), has audited the consolidated financial statements of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), as of and for the year ended September 30, 2012, and has issued our report thereon dated December 11, 2012.¹ In planning and performing our audit of USIBWC’s consolidated financial statements, we considered USIBWC’s internal control over financial reporting and compliance in order to determine our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of USIBWC’s internal control related to financial reporting and compliance. We have not considered USIBWC’s internal control since the date of our report on the FY 2012 financial statements.

During our audit, we noted certain matters related to internal control over financial reporting and compliance that we considered to be significant deficiencies under standards established by the American Institute of Certified Public Accountants. A significant deficiency is a deficiency, or 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.

Our report on internal control described three matters related to internal control that we considered to be significant deficiencies: property and equipment, budgetary accounting, and information technology.

Our procedures were designed primarily to enable us to form an opinion on USIBWC’s consolidated financial statements and therefore may not have identified all internal control weaknesses that may exist. However, we would like to use the knowledge we gained during our audit of the financial statements to provide comments and suggestions that we hope can be useful to USIBWC.

Although not considered to be significant deficiencies, we noted certain other matters involving internal control and operations. These findings and recommendations, which are summarized in Appendix A, are intended to assist USIBWC in improving internal control or to result in

¹ *Independent Auditor’s Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2012 Financial Statements (AUD-FM-13-10, Dec. 2012).*



other operating efficiencies. These findings and recommendations have been discussed with appropriate USIBWC officials. Comments from USIBWC's management on this report are presented as Appendix B.

We appreciate the courteous and professional assistance provided by USIBWC personnel during our audit. We would be pleased to discuss these comments and recommendations with USIBWC.

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

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

March 25, 2013
Alexandria, Virginia

MANAGEMENT LETTER COMMENTS

I. Financial Reporting

Analysis and Review of Financial Data

Periodic reviews and comparative analyses of financial data are effective tools used by many organizations to identify abnormalities and potential misstatements in accounting records. Properly designed and executed analytical comparisons help management identify significant variances in account balances and unanticipated events. To ensure that the reviews are effective, the organization must follow up on and address the causes of significant variances, unexpected trends, or abnormalities that are identified. Routine financial reviews are especially useful for decentralized organizations with multiple field offices and locations.

Kearney & Company, P.C. (referred to as “we” hereafter), found that the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), had not performed standardized, comparative analyses of financial data and financial statements. For example, USIBWC did not perform an internal analysis of significant line item fluctuations in the interim financial statements. In addition, USIBWC did not perform an analysis of financial data at the cost center level, such as expense activity and fluctuations.

We found that USIBWC did not have procedures for performing routine analytical comparisons of accounts and fund groups, which should be performed at least quarterly. In addition, USIBWC’s Finance Division had limited resources, which would make developing and implementing internal controls a challenge.

Without effective routine financial reviews, material errors and anomalies in the financial statements may not be identified and corrected. In addition, circumstances of potential interest to management, such as unexpected increases in expenditures, may go unnoticed.

Recommendation:

We recommend that USIBWC

- Develop standard operating procedures for performing periodic comparative reviews of financial data that it determines are cost beneficial.
- Establish standard thresholds for dollar (absolute) and percentage (relative) variances that require investigation.
- Mandate routine timelines for the periodic reviews.
- Conduct and document supervisory review of the analyses to ensure completeness, accuracy, and timeliness.

Presentation of the Statement of Net Cost

Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, defines the form and content for a Federal performance and accountability report or agency

financial report. The Circular establishes the components of an agency's annual financial statements, including instructions for how information should be presented for each of the basic statements. The major provisions of the Circular apply to each Executive Branch department, agency, and other entity that is required to prepare audited financial statements. USIBWC is not required to prepare audited financial statements, and therefore, the provisions of OMB Circular A-136 do not apply to USIBWC. However, USIBWC prepares audited financial statements and has elected to comply with the Circular. USIBWC states in Note 1 of its financial statements and accompanying financial disclosures that the financial statements are presented in accordance with the requirements of OMB Circular A-136.

We reviewed USIBWC's interim financial statements at June 30, 2012. We found that USIBWC did not present its Statement of Net Cost (SNC) in accordance with the requirements of OMB Circular A-136. USIBWC presented its SNC by expenditure and revenue streams, including a breakout of Intragovernmental balances, rather than by the major programs related to USIBWC's major goals as required. As a result of our interim finding, USIBWC modified the SNC presentation in the year-end financial statements by adding totals for mission-level expenses and revenue. Although the modified format complied with OMB Circular A-136 requirements, refinements could be made to the SNC presentation to improve information reported for USIBWC's major programs and strategic goals.

We found that USIBWC did not have a control in place to ensure that all financial information and disclosures in its annual financial statements were in compliance with the requirements of OMB Circular A-136. Further, USIBWC did not have a cost accounting methodology in place to track costs and revenues by major program or strategic goal.

Without a breakout of net cost by major goal, users of USIBWC's financial statements would not be able to obtain the necessary information to analyze and interpret the total cost of each of USIBWC's major programs against the output of each program. This information is essential for determining whether programs are cost effective.

Recommendation:

We recommend that USIBWC

- Revise the presentation of its Statement of Net Cost to show the net cost of operations by the major programs related to its major goals.
- Implement a cost accounting methodology to track and monitor costs and revenues by major program.
- Design and implement an internal control, such as a Circular A-136 checklist, to verify that its financial statements comply with all presentation requirements.

II. Compliance With Laws and Regulations**Vendor Payments**

USIBWC is subject to the requirement of the Prompt Payment Act (PPA). The PPA generally requires that Federal agencies pay commercial vendors within 30 days of the receipt of a proper invoice. When timely payments are not made, the PPA requires that agencies calculate and include interest penalties in the vendor payment. Interest penalties represent additional and avoidable costs that decrease the amount of funds available for other needs.

We tested expenses and identified untimely payments of invoices and incorrect payments of interest. Of a sample of 33 items, we identified two invoices (6 percent) that were not paid within 30 days as required. For these two exceptions, we found that USIBWC had not paid interest as required by the PPA.

Delays in processing necessary contract modifications caused two invoices to be processed in an untimely manner. After the contract modifications were processed, the proper invoice receipt dates were not entered into the accounting system, which prevented the system from automatically calculating and paying the required interest amount.

Additionally, USIBWC did not have a process to prioritize the review of aged invoices that were at risk for requiring PPA interest penalties.

By not paying all invoices within 30 days, USIBWC incurred unnecessary interest penalties. Specifically, USIBWC reported approximately \$4,000 of PPA interest expense as of June 30, 2012. Because the proper amount of interest penalties was not remitted to vendors as required, USIBWC was not in compliance with the PPA.

Recommendation:

We recommend that USIBWC strengthen its controls to ensure that invoices are paid in a timely manner. Specifically, USIBWC should

- Implement procedures for the Finance Division to identify, monitor, and follow up on invoices that are not certified for payment within 7 days.
- Develop a process to ensure that the dates entered in required data fields in the accounting system are accurate.
- Utilize an accounts payable subsidiary ledger to track and prioritize amounts owed, including the aging of invoices, for each vendor.



INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO

March 6, 2013

Mr. Harold W. Geisel
United States Department of State
Deputy Inspector General
Office of Inspector General
Washington, D. C. 20520

Subject: Management Letter related to the Audit of the United States Section, International Boundary and Water Commission, 2012 and 2011 Financial Statements

Dear Mr. Geisel:

We received and have reviewed the draft Management Letter of the United States Section, International Boundary and Water Commission (IBWC), 2012 and 2011 financial statements. Thank you for the opportunity to comment on your audit recommendations.

Attached please find our responses to each of the recommendations as reported in the draft Management Letter. Please advise if you have any questions or if we may be of any assistance.

Sincerely,



Edward Drusina, P.E.
Commissioner



Management Letter
AUD-FM-13-XX

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- Mandate routine timelines for the periodic reviews.
- Conduct and document supervisory review of the analyses to ensure completeness, accuracy, and timeliness.

Response: USIBWC agrees with the recommendation. The Accounting Officer is developing reporting requirements that will satisfy this finding and recommendations.

Presentation of the Statement of Net Cost

Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, defines the form and content for a Federal performance and accountability report or agency **Appendix A 2** financial report. The Circular establishes the components of an agency's annual financial statements, including instructions for how information should be presented for each of the basic statements. The major provisions of the Circular apply to each Executive Branch department, agency, and other entity that is required to prepare audited financial statements. USIBWC is not required to prepare audited financial statements, and therefore, the provisions of OMB Circular A-136 do not apply to USIBWC. However, USIBWC prepares audited financial statements and has elected to comply with the Circular. USIBWC states in Note 1 of its financial statements and accompanying financial disclosures that the financial statements are presented in accordance with the requirements of OMB Circular A-136.

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USIBWC Response: USIBWC agrees with the finding and the recommendations. The CAO and Accounting Officer are conducting assessments of the financial structures, to determine whether it is feasible to implement changes to capture and report net cost and track and monitors costs and revenues by major program. An internal control utilizing Circular A-136 checklist will be implemented to verify that our financial statements in fact comply with all presentation requirements.

II. Compliance With Laws and Regulations

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We tested expenses and identified untimely payments of invoices and incorrect payments of interest. Of a sample of 33 items, we identified two invoices (6 percent) that were not paid within 30 days as required. For these two exceptions, we found that USIBWC had not paid interest as required by the PPA. Delays in processing necessary contract modifications caused two invoices to be processed in an untimely manner. After the contract modifications were processed, the proper invoice receipt dates were not entered into the accounting system, which prevented the system from automatically calculating and paying the required interest amount.

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Specifically, USIBWC should

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- Develop a process to ensure that the dates entered in required data fields in the accounting system are accurate.
- Utilize an accounts payable subsidiary ledger to track and prioritize amounts owed, including the aging of invoices, for each vendor.

Response: The USIBWC agrees with the finding and recommendations. The Finance and Accounting Division is in the process of implementing controls that will identify invoices that are not certified for payment within 7 days and that will ensure the dates entered in required data fields in the accounting system are accurate. In addition, this section will track and prioritize amounts owed by vendor as recommended.