



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

MAR 19 2014

The Honorable Edward Drusina, U.S. Commissioner
International Boundary and Water Commission
United States and Mexico, U.S. Section
4171 North Mesa Street, Suite C-100
El Paso, TX 79902-1441

Dear Commissioner Drusina:

The management letter related to the audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), 2013 financial statements (AUD-FM-14-13) is enclosed for your review and action. It was prepared by an independent external auditor, Kearney & Company, P.C., at the direction of the Office of Inspector General (OIG). The letter contains informal recommendations that will not be subject to OIG's formal compliance process. However, the financial statement auditors will evaluate compliance during future audits of the financial statements.

OIG included comments provided by USIBWC in their entirety as Appendix B.

OIG appreciates the cooperation and assistance provided by your staff during this audit. If you have any questions, please contact me by email at [Redacted] (b) (2), [Redacted] (b) (6) @state.gov or Gayle Voshell, Director of the Financial Management Division, by email at [Redacted] (b) (2), [Redacted] (b) (6) @state.gov.

Sincerely,

Norman P. Brown
Assistant Inspector General
for Audits

Enclosure: As stated.

cc: WHA/MEX – Russell L. Frisbie
USIBWC – Diana C. Forti
Kearney & Company, P.C. – Kelly E. Gorrell

MANAGEMENT LETTER
AUD-FM-14-13

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

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, 2013, and has issued our report thereon dated December 20, 2013.¹ In planning and performing our audit of USIBWC’s consolidated financial statements, we considered USIBWC’s internal control over financial reporting. Our auditing procedures were designed for the purpose of expressing an opinion on the consolidated financial statements and not to provide assurances on internal control. Accordingly, we do not express an opinion on the effectiveness of USIBWC’s internal control over financial reporting.

During our audit, we noted certain matters related to internal control over financial reporting that we considered to be significant deficiencies under auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. These items are not repeated in this letter, as they are explained in detail in our report on USIBWC’s FY 2013 financial statements.

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. Although not considered to be material weaknesses or 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 strengthening internal control and improving operating efficiencies.

We appreciate the courteous and professional assistance provided by USIBWC personnel during our audit. These findings and recommendations have been discussed with appropriate USIBWC officials. Comments from USIBWC’s management on this report are presented as Appendix B.

¹ *Independent Auditor’s Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2013 and 2012 Financial Statements* (AUD-FM-14-12, Dec. 2013).

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.

Alexandria, Virginia
March 19, 2014

MANAGEMENT LETTER COMMENTS**COMMENT REPEATED FROM PRIOR YEAR**

During the audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC) FY 2012 financial statements, Kearney & Company, P.C., (referred to as “we” hereafter) identified matters that were reported in an internal control report¹ and a management letter.² During the audit of the FY 2013 financial statements, we assessed the status of the deficiencies reported during FY 2012. We reported a significant deficiency related to budgetary accounting in the FY 2012 internal control report. The severity of the budgetary accounting deficiency decreased in FY 2013. As a result, we are including budgetary accounting in the management letter rather than the FY 2013 internal control report.

I. Budgetary Accounting**Obligation Validity**

Obligations are definite commitments that create a legal liability of the government for payment. USIBWC records obligations in its financial management system when it enters into an agreement, such as a contract or purchase order, to acquire goods and services. Once recorded, obligations remain open until they are fully reduced by a disbursement, are deobligated, or until the appropriation funding the obligations is cancelled. As invoices are received and payments are made, obligations are liquidated by the amount of the payments. Unliquidated obligations (ULO) represent the cumulative amount of orders, contracts, and other binding agreements for which the goods and services ordered have not been received, or the goods and services have been received but payment has not yet been made.

During the FY 2012 USIBWC financial statement audit, we identified obligation validity as a significant deficiency. In response, USIBWC management placed more emphasis on ensuring the validity of all obligations. Management’s initiative improved controls, and some large ULO balances were deobligated during FY 2013. However, our testing of obligations during the FY 2013 audit identified three invalid ULOs. Although USIBWC conducted quarterly reviews for ULO validity, we found that USIBWC did not prioritize its review on specific ULOs that were considered to have a greater risk of being invalid. Rather, USIBWC reviewed all prior-year open obligations in the first quarter of the fiscal year and all open obligations in the remaining quarters. Focusing on high-risk obligations, such as aged ULOs that have not had recent activity, may improve the effectiveness and efficiency of the ULO review process.

When extrapolated over the population, the three invalid ULOs identified during our testing resulted in an estimated overstatement of obligations of \$555,464 as of June 30, 2013. Invalid

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).*

² *Management Letter Related to the Audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2012 Financial Statements (AUD-FM-13-11, Mar. 2013).*

ULO's also affect USIBWC's ability to manage its funds. Specifically, funds that could be used by USIBWC for other purposes have remained in unneeded obligations. In addition, invalid ULO's could result in inaccurate reporting by USIBWC in budgetary reports.

Recommendation:

We recommend that USIBWC continue to strengthen its standardized processes to ensure the validity and accuracy of unliquidated obligations. Specifically, USIBWC should include a definition of aging and dollar-based strata in its policies for the quarterly review of unliquidated obligations to ensure consistent and representative reviews of high-risk items. Unliquidated obligations that meet the strata definition should receive additional scrutiny to ensure the obligations are needed.

NEWLY IDENTIFIED COMMENT

During the audit of USIBWC's FY 2013 financial statements, one additional matter came to our attention that had not been previously reported.

II. Environmental Liabilities

Asbestos Cleanup Costs

Asbestos is a mineral-based material that was widely used in construction during the 19th and early 20th century due to its affordability and resistance to fire, heat, and electrical damage. USIBWC owns buildings and other structures that were constructed when the use of asbestos in various building materials was common. Due to health concerns, the use of asbestos in most building materials became prohibited in the 1980s and 1990s. Beginning in FY 2013, Federal agencies were required to report on their financial statements a liability for the abatement and cleanup costs of asbestos-related materials.

In order to comply with the new accounting standard, USIBWC planned to have external environmental managers perform surveys to identify asbestos in USIBWC facilities and to estimate abatement costs for asbestos that was identified. This work was not completed in time for the FY 2013 financial reporting deadlines. As a result, USIBWC used an alternative method to estimate the asbestos liability for its FY 2013 financial statements. As a first step, USIBWC had field office representatives compile information on known and likely asbestos materials at its facilities. We performed site visits to validate the inventory of asbestos compiled by USIBWC and identified data issues. Specifically, we identified one facility that had been demolished during FY 2013 but that was still being reported as having asbestos. In addition, one facility that was not reported, because we were told the asbestos had already been abated, should have been included because asbestos containing building materials still existed.

Due to procurement delays, USIBWC had to develop and execute alternative procedures to meet FY 2013 asbestos reporting requirements. The need to perform these alternative procedures allowed limited opportunity for USIBWC to validate the inventory of asbestos at its facilities.

Although USIBWC corrected the data inaccuracies we identified during the audit and completed alternative procedures to meet FY 2013 financial reporting requirements, the timing of events increased the risk of error and omission.

Recommendation:

We recommend that USIBWC

- Complete its facility specific asbestos surveys and abatement estimates and update its process for reporting liability estimates in FY 2014.
- Develop quality control procedures to validate the reasonableness of the survey data and resulting abatement estimates.

STATUS OF PRIOR YEAR MANAGEMENT LETTER FINDINGS

The current status of findings reported in the management letter related to the audit of USIBWC’s FY 2012 financial statements is summarized in Table 1.

Table 1. Current Status of Prior Year Management Letter Findings

| FY 2012 Management Letter Findings | FY 2013 Status |
|--|----------------|
| Analysis and Review of Financial Information | Closed |
| Presentation of the Statement of Net Cost | Closed |
| Prompt Payment Act | Closed |

INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO

February 12, 2014



Mr. Norman P. Brown
United States Department of State
Assistant Inspector General for Audits
Office of Inspector General
Washington, D. C. 20520

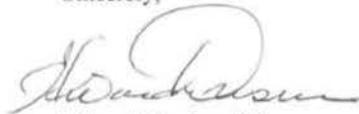
Subject: Management Letter related to the audit of the United States Section, International Boundary and Water Commission, 2013 Financial Statements

Dear Mr. Brown:

We received and have reviewed the draft Management Letter of the, International Boundary and Water Commission, United States and Mexico, United States Section (USIBWC) FY 2013 financial statements. Thank you for the opportunity to comment on your audit recommendations.

Attached please find our responses to each of the recommendations as requested 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

The Commons, Building C, Suite 100 • 4171 N. Mesa Street • El Paso, Texas 79902-1441
(915) 832-4100 • Fax: (915) 832-4190 • <http://www.ibwc.gov>

Management Letter
AUD-FM-14-XX

MANAGEMENT LETTER COMMENTS

I. Budgetary Accounting

Obligation Validity

Recommendation:

We recommend that USIBWC continue to strengthen its standardized processes to ensure the validity and accuracy of unliquidated obligations. Specifically, USIBWC should include a definition of aging and dollar-based strata in its policies for the quarterly review of unliquidated obligations to ensure consistent and representative reviews of high-risk items. Unliquidated obligations that meet the strata definition should receive additional scrutiny to ensure the obligations are needed.

Response: Concur

NEWLY IDENTIFIED COMMENT

II. Environmental Liabilities

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Recommendation:

We recommend that USIBWC

- Complete its facility specific asbestos surveys and abatement estimates and update its process for reporting liability estimates in FY 2014.
- Develop quality control procedures to validate the reasonableness of the survey data and resulting abatement estimates.

Response: Concur