

**MANAGEMENT LETTER**  
AUD-FM-15-12

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, 2014, and has issued our report thereon dated December 5, 2014.<sup>1</sup> In planning and performing our audit of the USIBWC consolidated financial statements, we considered USIBWC’s internal control over financial reporting and compliance with certain provisions of laws, regulations, and contracts. 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 or compliance. Accordingly, we do not express an opinion on the effectiveness of USIBWC’s internal control over financial reporting or on USIBWC’s compliance with certain provisions of laws, regulations, and contracts.

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 the USIBWC FY 2014 financial statements.

Our procedures were designed primarily to enable us to form an opinion on the USIBWC consolidated financial statements and therefore may not have identified all internal control weaknesses and instances of noncompliance that may exist. Although not considered to be material weaknesses, significant deficiencies, or reportable instances of noncompliance, we noted certain other matters involving internal control, operations, and compliance. 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 management on this report are presented in Appendix B.

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<sup>1</sup> *Independent Auditor’s Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2014 and 2013 Financial Statements* (AUD-FM-15-11, Dec. 2014).



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 &amp; Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
February 13, 2015

## **MANAGEMENT LETTER COMMENTS**

### **REPEATED FROM PRIOR YEAR**

During the audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), FY 2013 financial statements, Kearney & Company, P.C. (referred to as “we” hereafter), identified matters that were reported in a management letter.<sup>1</sup> During the audit of the FY 2014 financial statements, we assessed the status of the deficiencies reported during FY 2013. USIBWC executed corrective actions to address one issue included in the FY 2013 management letter related to asbestos cleanup costs. Based on the actions taken, we consider the item closed. One issue related to budgetary accounting remained open and was updated with information obtained during the audit of the USIBWC FY 2014 financial statements.

#### **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 or 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.

We evaluated the validity of 37 ULOs and found that 8 (21.6 percent) were invalid. Although USIBWC had improved its processes for overseeing ULOs during FY 2013 and had conducted quarterly reviews of ULO validity during FY 2014, we found that the process did not always ensure that invalid ULOs were identified and deobligated. For example, we found that USIBWC did not always obtain responses from relevant officials and did not always deobligate invalid ULOs identified by the reviews in a timely manner.

The invalid ULOs identified during our testing resulted in an overstatement of obligations as of June 30, 2014. Invalid ULOs 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 ULOs could result in inaccurate reporting by USIBWC in budgetary reports.

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<sup>1</sup> *Management Letter Related to the Audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2013 Financial Statements (AUD-FM-14-13, Mar. 2014).*

Recommendation

We recommend that USIBWC:

- develop and implement a process to follow up with unresponsive USIBWC officials during the quarterly unliquidated obligation review process and
- implement procedures, such as preparing a schedule of obligations requiring deobligation, to ensure that invalid obligations identified during quarterly reviews are promptly deobligated.

**NEWLY IDENTIFIED**

During the audit of the USIBWC FY 2014 financial statements, an additional matter relating to compliance with laws and regulations came to our attention. This matter was not previously reported in the FY 2013 report on compliance or the management letter.

**II. Compliance With Laws and Regulations****Untimely Disbursements of Payments to Vendors**

USIBWC is subject to the Prompt Payment Act (PPA). The PPA generally requires that Federal agencies pay commercial vendors within 30 days of 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.

During our testing of non-payroll operating expenditures, we identified untimely payments and a failure to pay an interest penalty. Of a sample of 31 invoices, we identified 3 invoices (9.7 percent) that were not paid within the required 30 days. In addition, USIBWC did not pay interest for one of the three invoices that were not paid timely.

We found that USIBWC did not have sufficient controls in place to ensure that payments were made in a timely manner. USIBWC management indicated that delays in the invoice receipt and disbursement process resulted in two of the sampled invoices being paid in an untimely manner. The third untimely payment occurred because an erroneous invoice receipt date was entered into the accounting system. As a result, the invoice appeared to have been paid in a timely manner, which prevented the system from automatically calculating and paying the required amount of interest.

By not paying all invoices within the required 30 days, USIBWC has incurred unnecessary interest penalties. In addition, if USIBWC does not remit the proper amount of interest penalties to vendors as required, USIBWC is not in compliance with the PPA.

Recommendation

We recommend that USIBWC:

- develop and implement procedures for the Financial Services Division to identify, monitor, and follow up on invoices that were received but were not certified for payment within 7 days and
- develop and implement a process to ensure that the dates entered in required data fields in the accounting system are accurate.

**STATUS OF PRIOR YEAR MANAGEMENT LETTER FINDINGS**

The current status of findings reported in the management letter related to the audit of the USIBWC FY 2013 financial statements is summarized in Table 1.

**Table 1. Current Status of Prior Year Management Letter Findings**

<b>FY 2013 Management Letter Findings</b>	<b>FY 2014 Status</b>
Obligation Validity	Open
Asbestos Cleanup Costs	Closed

INTERNATIONAL BOUNDARY AND WATER COMMISSION  
UNITED STATES AND MEXICO

February 5, 2015



OFFICE OF THE COMMISSIONER  
UNITED STATES SECTION

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, 2014 Financial Statements

Dear Mr. Brown:

We acknowledge and thank you for the opportunity to comment on the draft FY 2014 Financial Audit Management Letter AUD-FM-15-12. Below please find responses to each of the recommendations. Please advise if you have any questions or if we may be of any assistance.

Sincerely,

Edward Drusina, P.E.  
Commissioner

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Independent Auditor's Management Letter  
AUD-FM-14-11

I. Budgetary Accounting – Obligation Validity

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The invalid ULOs identified during our testing resulted in an overstatement of obligations as of June 30, 2014. Invalid ULOs 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 ULOs could result in inaccurate reporting by USIBWC in budgetary reports.

Recommendation

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- Implement procedures, such as preparing a schedule of obligations requiring deobligation, to ensure that invalid obligations identified during quarterly reviews are promptly deobligated.

Management acknowledges the need to improve its ULO review process. Actions taken this fiscal year in order to effectively and timely conduct these reviews are as follows: 1) the notification process has been elevated to the department level in order to give this process the attention that it deems; 2) a directive on the management process of Unliquidated Obligations (ULO) will be issued in FY 2015, which will clarify the roles and responsibilities for the Cost Center Managers; and 3) the CAO will work closely with the proponent department head and conduct quarterly updates on the status of the ULOs for their respective sections. Actions initiated: reviews of all prior year unliquidated obligations will be completed by end of February 2015.

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The CAO is working closely with department heads to ensure responsible Contracting Officer's Representatives accurately and timely submit their receiving reports; with the Finance and Accounting section to ensure reviews of accounts payables are being conducted on a weekly basis by the team; and closer attention is given to the payment Pass 1 and Pass 2 roles to ensure required dates are accurate and that payments are scheduled timely.