

INDEPENDENT AUDITOR'S REPORT
AUD-FM-17-12

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as the "consolidated financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with 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 (OMB) Bulletin No. 15-02, "Audit Requirements for Federal Financial Statements." Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of USIBWC as of September 30, 2016 and 2015, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Deferred Maintenance and Repair section, which includes the condition assessments of Heritage Assets, and the Combining Statement of Budgetary Resources (hereinafter referred to as "required supplementary information") be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by OMB Circular A-136, "Financial Reporting Requirements," and the Federal Accounting Standards Advisory Board, which consider the information to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02, we have also issued reports, dated December 19, 2016, on our consideration of USIBWC's internal control over financial reporting and on our tests of USIBWC's compliance with certain provisions of laws, regulations, and contracts for the year ended September 30, 2016. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the



results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 15-02 and should be considered in assessing the results of our audits.

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

Alexandria, Virginia
December 19, 2016

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have 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, 2016, and have issued our report thereon, dated December 19, 2016. We conducted our audit in accordance with 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 (OMB) Bulletin No. 15-02, "Audit Requirements for Federal Financial Statements."

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered USIBWC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate under the circumstances for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of USIBWC's internal control. Accordingly, we do not express an opinion on the effectiveness of USIBWC's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 15-02. We did not test 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.

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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Our audit was also not designed to identify deficiencies in internal control that might be significant. 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. We consider the following deficiencies in USIBWC's internal control to be significant deficiencies.

Significant Deficiencies

I. Manual Preparation of the Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) is derived predominantly from an entity's budgetary general ledger in accordance with budgetary accounting rules. Information on the SBR should reconcile to budget execution information reported to the Department of the Treasury (Treasury) on Standard Form (SF) 133, Report on Budget Execution and Budgetary Resources, and with information reported in the Budget of the U.S. Government to ensure the integrity of the information presented. Agencies must submit their financial information, including budgetary data, to the Treasury using the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS).

We found variances between certain information in USIBWC's proprietary accounts,¹ GTAS submissions, and Treasury activity reports, which led to misstatements in USIBWC's draft SBR. This occurred because USIBWC manually calculated and adjusted certain budgetary balances in GTAS, which USIBWC used to create the SBR. When manually performing an analysis to calculate its adjusted budgetary amounts, USIBWC did not consider all budgetary accounts and activity that affects the SBR, causing the misstatements. Further, USIBWC did not implement sufficient controls for recording adjustments to budgetary balances. For example, manual adjustments were made without proper supporting documentation, documented quality control, or supervisory review process. Additionally, USIBWC did not perform adequate reconciliations of budgetary to proprietary account balances to identify reconciling amounts, which could potentially be indicative of misstatements in its accounts and financial statements.

USIBWC recorded significant adjustments to the SBR as a result of audit procedures performed. The manual nature of the process USIBWC used to compile its SBR presented a risk that human error could occur and go undetected. Control deficiencies relating to the preparation of the SBR were not identified during our prior audits of USIBWC.

II. Information Technology

USIBWC uses key information systems maintained by the U.S. Department of State (Department), including the general support systems and applications for accounting, budget execution, procurement, and logistics. The Department is responsible for maintaining an adequate information security program over these systems. The Department's general support system, a component of its information security program, is the gateway for all the Department's systems, including the key financial management systems used by USIBWC. Generally, control deficiencies noted in the information security program are inherited by the systems that reside in it. USIBWC's sensitive information relies on the confidentiality, integrity, and availability of the Department's comprehensive and interconnected infrastructure.

¹ In contrast to budgetary accounts, proprietary accounts show the actual financial position of an organization, such as assets and liabilities. Certain proprietary accounts have a direct correlation to certain budgetary accounts.

In accordance with the Federal Information Security Modernization Act of 2014 (FISMA), the Office of Inspector General (OIG) is responsible for the audit of the Department's information security program. In the FY 2016 FISMA report,² OIG reported security weaknesses that significantly impacted the Department's information security program. Specifically, OIG reported weaknesses in all eight key FY 2016 Inspector General FISMA metric domains, which consist of risk management, contractor systems, configuration management, identity and access management, security and privacy training, information security continuous monitoring, incident response, and contingency planning. The Department did not have an effective information security program because the Department had not fully developed and implemented an organization-wide risk management strategy to identify, assess, respond to, and monitor information security risk at all levels of the organization.

Without an effective information security program, the Department is vulnerable to IT-centered attacks and threats. Information security program weaknesses can affect the integrity of financial applications, which increases the risk that sensitive financial information could be accessed by unauthorized individuals or that financial transactions could be altered either accidentally or intentionally. Information security program weaknesses within the Department, increase the risk that USIBWC will be unable to report financial data accurately.

The weaknesses reported by OIG as a result of the FISMA audit are considered to be a significant deficiency within the scope of our audit of USIBWC's financial statements. We have reported weaknesses in IT security controls as a significant deficiency since our audit USIBWC's FY 2012 financial statements.

During the audit, we noted certain additional matters involving internal control over financial reporting that we will report to USIBWC management in a separate letter.

USIBWC's Response to Findings

USIBWC management has provided its response to our findings in a separate memorandum attached to this report. We did not audit management's response, and accordingly, we express no opinion on it.

² OIG, *Audit of the Department of State Information Security Program* (AUD-IT-17-17, November 2016).

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the effectiveness of USIBWC's internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 15-02 in considering the entity's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

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

Alexandria, Virginia
December 19, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS,
REGULATIONS, AND CONTRACTS**

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

We have 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, 2016, and have issued our report thereon, dated December 19, 2016. We conducted our audit in accordance with 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 (OMB) Bulletin No. 15-02, "Audit Requirements for Federal Financial Statements."

Compliance

As part of obtaining reasonable assurance about whether USIBWC's consolidated financial statements are free from material misstatement, we performed tests of USIBWC's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a material effect on the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02.

During the audit, we noted certain additional matters involving compliance that we will report to USIBWC's management in a separate letter.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 15-02 in considering the entity's compliance. Accordingly, this report is not suitable for any other purpose.



Alexandria, Virginia
December 19, 2016

INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO



January 17, 2017

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

Subject: Independent Auditor's Report on the International Boundary and Water Commission,
United States and Mexico, U.S. Section, 2016 and 2015 Financial Statements

Dear Mr. Brown

We are in receipt and thank you for the opportunity to review and comment on the draft report Independent Auditor's Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2016 and 2015 Financial Statements. Attached please find our responses and planned actions on the deficiencies noted in the draft report. Please advise if you have any questions or if we may be of any assistance.

Sincerely,

A handwritten signature in blue ink, which appears to read "Edward Drusina".

Edward Drusina, P.E.
Commissioner



INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO

**Independent Auditor's Report on the International Boundary and Water
Commission, United States and Mexico, U.S. Section,
2016 and 2015 Financial Statements**

Significant Deficiencies

I. Manual Preparation of the Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) is derived predominantly from an entity's budgetary general ledger in accordance with budgetary accounting rules. Information on the SBR should reconcile to budget execution information reported to the Department of the Treasury (Treasury) on Standard Form (SF) 133, Report on Budget Execution and Budgetary Resources, and with information reported in the Budget of the U.S. Government to ensure the integrity of the information presented. Agencies must submit their financial information, including budgetary data, to the Treasury using the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS).

USIBWC Comments: USIBWC Management understands the importance of accurate reporting and the need to reconcile and balance between the SBR, budget execution information reported on the SF 133, and with information reported in the Budget of the United States Government to ensure the integrity of the numbers presented. Greater focus, controls and oversight will be placed on reconciliations of all Agency Treasury accounts to GFMS. Additionally, required controls reviews and supervisory approvals are being implemented of reconciliations of all proprietary and budgetary financial data and accounts as recommended. In the interim, management will ensure that a reliable and tested manual process is followed to ensure that all manual budgetary account adjustments are based on a complete analysis of all relevant budgetary accounts and events, sufficiently documented, and subject to quality control and supervisory reviews, and that all budgetary-to-proprietary reconciliation variances identified are timely and accurately resolved. We will reach out to Department of State financial managers for assistance in determining actions required to ensure GFMS produces the required system generated financial reports to meet monthly, quarterly, and annual Treasury financial reporting (GTAS, financial statements, trial balances, SBR, etc.). Currently, the manual process is necessary in the absence of system generated reports. Management acknowledges that manual processes introduce unnecessary risk when recalculating or rekeying of financial data. However, will attempt to mitigate as much of the risk via compensating controls as specified above.

II. Information Technology

USIBWC uses key information systems maintained by the U.S. Department of State

(Department), including the general support systems and applications for accounting, budget execution, procurement, and logistics. The Department is responsible for maintaining an adequate information security program over these systems. The Department's general support system, a component of its information security program, is the gateway for all the Department's systems, including the key financial management systems used by USIBWC. Generally, control deficiencies noted in the information security program are inherited by the systems that reside in it. USIBWC's sensitive information relies on the confidentiality, integrity, and availability of the Department's comprehensive and interconnected infrastructure.

USIBWC Comments: USIBWC Management is fully aware of the inherit risk associated with the use of the Department's financial systems accessed via the Global OpenNet (GO) portal. Consistent with actions being taken this FY to mitigate financial reporting weaknesses, more frequent and more in-depth reviews and reconciliations will continue to be implemented in the divisions that rely on financial, contracting, asset management systems to perform their respective missions, in an effort to attempt to mitigate some of the associated risks.