

**INDEPENDENT AUDITOR'S REPORT**  
AUD-FM-19-05

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

**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, 2018 and 2017, 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. 19-01, "Audit Requirements for Federal Financial Statements." Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit 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, 2018 and 2017, 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 section; the 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 considers 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. 19-01, we have also issued reports, dated December 21, 2018, on our consideration of USIBWC's internal control over financial reporting and on our tests of USIBWC's compliance with provisions of applicable laws, regulations, and contracts for the year ended September 30, 2018. 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 *Government Auditing Standards* and OMB Bulletin No. 19-01 and should be considered in assessing the results of our audits.

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

Alexandria, Virginia  
December 21, 2018

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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, 2018, and have issued our report thereon dated December 21, 2018. 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. 19-01, "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. 19-01. 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 Financial Statements**

USIBWC records budgetary and proprietary<sup>1</sup> financial transactions in the Department of State's (Department) Global Financial Management System (GFMS). The financial transactions are aggregated into a trial balance, which is then used to compile the annual financial statements. The annual financial statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position (which include proprietary transactions), and Statement of Budgetary Resources (which includes budgetary transactions). These statements, which are compiled from the trial balance, normally require journal voucher adjustments that are recorded in the financial system. While journal vouchers are inherently manual, management officials should maintain supporting documentation and evidence of management review and approval of each adjustment.

While attempting to reconcile the GFMS trial balance to USIBWC's financial statements, we identified material differences for certain financial statement line items. USIBWC officials did not have readily available documentation or analyses that explained the differences, and they were initially unable to determine whether the differences needed to be corrected using manual adjustments. For example, USIBWC officials could not initially explain differences between the Property, Plant, and Equipment balances in the GFMS trial balance and those reported on the Balance Sheet. In addition, USIBWC officials were unable to initially explain differences between expenditures reported on the Statement of Net Cost and corresponding outlays on the Statement of Budgetary Resources. All of the material differences were eventually supported through significant effort on the part of USIBWC officials and Kearney employees. However, USIBWC officials should be able to more effectively justify and support significant differences.

This situation occurred because USIBWC lacks an internal control structure that would allow officials to ensure that its financial statements are accurately prepared and reconcilable to accounting records. For example, USIBWC does not have documented procedures for its financial statement compilation process or a documented management review process. We also found little or no audit trail for certain compilation procedures and journal voucher adjustments. In addition, USIBWC's control environment did not include a requirement for officials to perform a reconciliation to identify and document explanations for differences between the financial statements and the GFMS trial balance. Moreover, USIBWC did not perform adequate reconciliations of budgetary information to proprietary account balances.

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<sup>1</sup> Proprietary accounts show financial position and operations, such as assets, liabilities, expenditures, and revenues, while budgetary accounts provide information on budgetary funds. Although the budgetary and proprietary trial balances are distinct, in some instances there are links between the two types of accounts. In those situations, tests can be performed to compare and validate the accuracy of these budgetary and proprietary account balances.

The manual and undocumented nature of the process USIBWC used to compile its financial statements is high risk and resource intensive. The significant number and amount of manual steps required by USIBWC officials and the lack of documentation introduce the risk that amounts on the financial statements are not accurately or completely reported. In addition, without reconciliations of budgetary and proprietary account balances, there is a risk that misstatements exist that could go undetected by management.

## **II. Obligation Validity and Accuracy**

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. On a quarterly basis, USIBWC's Finance and Accounting Division is responsible for analyzing and validating ULOs. We tested all of the ULOs that had no activity in FY 2018 to determine whether the ULOs were valid. USIBWC management stated that one significant ULO was no longer needed because the contract was in closeout status and the funds were therefore no longer needed. This invalid ULO occurred because USIBWC's review process did not always assess whether ULOs for contracts that were being closed out continued to be needed. USIBWC made an adjustment to its financial statements to correct the invalid ULO.

## **III. Information Technology**

USIBWC uses key information systems maintained by the Department, including 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 of 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.

In accordance with the Federal Information Security Modernization Act of 2014 (FISMA),<sup>2</sup> the Office of Inspector General (OIG) is responsible for the audit of the Department's information security program. In the FY 2018 FISMA report,<sup>3</sup> OIG reported security weaknesses that significantly impacted the Department's information security program. Specifically, OIG reported weaknesses in all eight FY 2018 Inspector General FISMA metric domains: risk management, configuration management, identity and access management, data protection and privacy, security training, information security continuous monitoring, incident response, and contingency planning. OIG reported the following:

The deficiencies identified with the information security program occurred for several reasons. For example, the CIO [Chief Information Officer] does not have proper authority to manage IT activities, as provided for in law. In addition, the

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<sup>2</sup> Federal Information Security Modernization Act of 2014, Pub. L. No. 113-283, 128 Stat. 3079-3080 (December 18, 2014).

<sup>3</sup> OIG, *Audit of the Department of State Information Security Program Highlights* (AUD-IT-19-08, October 2018).

Department has not completed the development and implementation of an information security risk management strategy or identified resources to support the implementation of a Department-wide information security risk management strategy. Furthermore, the Department has not maintained a complete and accurate organization-wide information system inventory.

Without an effective information security program, the Department remains vulnerable to IT-centered attacks and threats to its critical mission-related functions. 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 increase the risk that the 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 financial statement audit. We have reported weaknesses in IT security controls as a significant deficiency in each audit since our audit of 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.

### **Status of Prior Year Findings**

In the Independent Auditor's Report on Internal Control Over Financial Reporting included in the audit report on USIBWC's FY 2017 financial statements,<sup>4</sup> we noted several issues that were related to internal control over financial reporting. The status of the FY 2017 internal control findings is summarized in Table 1.

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<sup>4</sup> OIG, *Independent Auditor's Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2017 and 2016 Financial Statements* (AUD-FM-18-08, February 2018).

**Table 1. Status of Prior Year Findings**

Control Deficiency	FY 2017 Status	FY 2018 Status
<b>Manual Preparation of the Financial Statements</b>	Significant Deficiency	Significant Deficiency
<b>Information Technology</b>	Significant Deficiency	Significant Deficiency

**USIBWC’s Response to Findings**

USIBWC management has provided its response to our findings in a separate letter included in this report as Appendix A. We did not audit management’s response, and accordingly, we express no opinion on it.

**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. 19-01 in considering USIBWC’s internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.



Alexandria, Virginia  
December 21, 2018

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

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

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, 2018, and have issued our report thereon dated December 21, 2018. 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. 19-01, "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 provisions of applicable laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statements. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, and contracts applicable to USIBWC. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an 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. 19-01.

**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 *Government Auditing Standards*, and OMB Bulletin No. 19-01 in considering USIBWC's compliance. Accordingly, this report is not suitable for any other purpose.



Alexandria, Virginia  
December 21, 2018



INTERNATIONAL BOUNDARY AND WATER COMMISSION  
UNITED STATES AND MEXICO

March 27, 2019

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

Dear Mr. Brown:

We acknowledge receipt of the Independent Auditor's Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), 2018 and 2017 Financial Statements dated March 15, 2019. Thank you for the opportunity to provide comments on the draft report. Below please find our comments to each of the audit recommendations. Please advise if you have any questions and how we may be of any assistance.

Sincerely,

A handwritten signature in blue ink that reads "Jayne Harkins".

Jayne Harkins, P.E.  
Commissioner

**Independent Auditor's Report on the International Boundary and Water  
Commission, United States and Mexico, U.S. Section,  
2018 and 2017 Financial Statements  
AUD-FM-19-XX**

**I. Manual Preparation of the Financial Statements**

The USIBWC management agrees with this recommendation and understands the importance of accurate financial reporting and the associated risk of using a manual process. The Agency will perform additional reconciliations to mitigate the potential for error. In particular, a reconciliation between GTAS financial statements and GFMS (Agency) financial statements will be accomplished quarterly starting with Quarter 2 of FY 2019, along with developing and implementing a process to reconcile the GFMS trial balance to the financial statements and performing routine reconciliations of budgetary and proprietary account balances.

The Agency is updating its Finance and Accounting Division's Policy and Procedures Manual, and it will ensure it details every aspect of developing the Agency's financial statements. While the existing process already requires reviews by management officials of all journal vouchers, it has not completed reviews of the supporting documentation explaining differences between the financial statements and the GFMS trial balance once completed.

**II. Obligation Validity and Accuracy**

The USIBWC management agrees with this recommendation. The Agency is in the process of updating its policy and procedures and will incorporate actions required of the Agency to timely and accurately record invalid ULOs in our financial statements, that may need to remain obligated due to legal or other policy reasons. Currently, the Finance and Accounting function makes every effort to review 100% of all prior year and current year ULOs on a quarterly basis irrelevant of associated risk. However, greater attention will be given to ULO's with greater risk to ensure de-obligations or recording of the invalid obligations occur within the same period of identifying and reviewing the ULO.

**III. Information Technology**

The USIBWC management agrees with this recommendation. Management is fully aware of the inherit risk associated with the use of the Department's financial and other systems accessed via the Department of State's Global OpenNet (GO) portal. In an effort mitigate the inherit risk, more frequent and more in-depth reviews and reconciliations will continue to be conducted by the divisions that rely on financial, contracting, and asset management systems to perform their respective missions.