



**Management Letter
AUD-FM-20-23**

United States Commissioner
International Boundary and Water Commission, United States and Mexico, U.S. Section

Inspector General
U.S. Department of State

We have completed the audit of the financial statements of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), as of September 30, 2019, and for the year then ended and have issued our Independent Auditor's Report thereon dated January 24, 2020.¹

In planning and performing our audit of USIBWC's FY 2019 financial statements in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States we considered USIBWC's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of USIBWC's internal control over financial reporting. Accordingly, we do not express an opinion on USIBWC's internal control over financial reporting.

In our audit, we identified one significant deficiency in internal control over financial reporting that was included in our Independent Auditor's Report² and, therefore, is not repeated within this letter. However, we identified four internal control deficiencies that did not rise to the level of a material weakness or significant deficiency, but still warrant management's attention, which are provided in Appendix I. Our assessment of the current status of prior-year Management Letter control deficiencies, reported by another auditor, is presented in Appendix II. Comments from USIBWC management on this report are presented in Appendix III.

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

Williams, Adley & Company-DC, LLP

Washington, DC
March 19, 2020

¹ OIG, *Independent Auditor's Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section, FY 2019 Financial Statements* (AUD-FM-20-22, January 2020).

² Ibid.

Appendix I

Current-Year Internal Control Deficiencies

I. Abnormal Construction-in-Progress Balances

As of September 30, 2019, the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), managed more than \$73 million in various construction projects. These project costs are tracked and monitored using the Construction-in-Progress (CIP) roll forward prepared by USIBWC accounting staff using field office data calls and reports extracted from the Department of State's accounting system. The CIP roll forward is used to determine CIP amounts reported in the financial statements. Once a construction project is substantially complete and placed into service, costs are transferred from the CIP account to the appropriate asset account. Assets are then depreciated over their estimated useful life.

Williams Adley (referred to as "we" hereafter) identified six CIP projects with negative (i.e., credit) balances, totaling \$2,191,163.¹ CIP project balances should have a positive (i.e., debit) balance.

USIBWC officials stated that negative balances in the CIP roll forward generally occurred because of a change that USIBWC made in FY 2018 in the way it tracks construction costs. USIBWC officials stated that during FY 2019 they continued to work to reconcile and correct all negative CIP balances but were not able to complete the effort. USIBWC's control environment does not have an effective management review process in place to confirm that adjustments made in the CIP roll forward do not result in negative balances.

USIBWC officials stated that negative project balances reported in the CIP roll forward were offset by other positive amounts and had no effect on financial statement balances; however, USIBWC was unable to provide supporting documentation. Accordingly, we were unable to determine the impact of the exceptions on USIBWC's financial statements.

II. Prompt Payment Act

USIBWC is subject to the Prompt Payment Act (PPA). PPA requires that valid and proper invoices submitted by vendors are paid on time by Federal agencies. 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, PPA requires that agencies calculate and include interest penalties in the vendor payment. USIBWC uses the Department of State's Global Financial Management System to make payments to vendors.

We tested 59 expense transactions recorded during FY 2019 and identified 2 (3 percent) instances of noncompliance with PPA. Specifically, two vendors were not paid within 30 days and no interest was paid.

The Global Financial Management System requires that users identify whether vendors are eligible to receive interest payments. One of the vendors that did not receive an interest payment was incorrectly set up in the accounting system. USIBWC officials worked with Department of State officials to correct this error. The other vendor was correctly set up in the Global Financial

¹ Five of six exceptions—totaling \$2,175,161—were also identified as exceptions during the audit of USIBWC's FY 2018 financial statements, which was performed by a prior auditor.

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Management System and USIBWC officials were unclear why the Department of State's accounting system did not automatically calculate an interest payment. USIBWC officials stated that they will notify the Department of State's accounting system help desk of this situation and seek correction.

If the proper amount of interest penalties is not remitted to vendors as required, then USIBWC is not in compliance with PPA.

III. Payroll Control Deficiencies

USIBWC uses the Department of the Interior's payroll and personnel system, the Federal Personnel and Payroll System (FPPS). When an employee is hired or separates, USIBWC officials use FPPS to process personnel actions. For example, when an employee is hired, USIBWC creates a Standard Form (SF) 52, Request for Personnel Action, in FPPS. When an employee separates from the organization, USIBWC completes Form 317, Authorization Control, in FPPS. Both types of personnel actions are then documented on the SF 50, Notification of Personnel Action, which is created when USIBWC officials enter the data into FPPS.

For the 14 USIBWC employees hired during FY 2019, we reviewed the SF 52s and SF 50s for proper and timely approvals. We found that the SF 52s for 12 (86 percent) employees and the SF 50s for 13 (93 percent) employees were not approved prior to the employees' start dates. In addition, we tested 45 current employees and identified 1 (2 percent) employee who resigned on July 11, 2019 but was not removed from FPPS until October 15, 2019. Although the employee was included as a current employee, he did not receive any payments after his resignation date because he had been on leave without pay since January 2019.

According to USIBWC officials, some of the exceptions were caused by human error. USIBWC officials also stated that some exceptions were due to how FPPS is designed. Specifically, if data are entered into the system and later changed (e.g., if a quality control review identifies an error), the effective date of the document changes as well. In some instances, the quality control review took place several days after the initial data were entered into FPPS. Additionally, USIBWC management acknowledged that its payroll policy, which has not been updated since 2007, is outdated and should be updated. The potential for improper payments exists if personnel actions are not processed properly or timely.

IV. Untimely Deobligation of Unliquidated Obligations

USIBWC records obligations, which are binding agreements that will result in outlays, immediately or in the future in its financial management system. The obligations are made using appropriated funds and remain open until they are fully reduced by a disbursement or deobligated or the appropriation is canceled. Unliquidated obligations (ULO) represent binding agreements for goods and services that have not yet been delivered or received and will require future outlays. USIBWC's September 30, 2019, ULO report identified \$39.6 million in ULOs, of which \$13.4 million was for obligations created prior to FY 2019.

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To test the validity of ULOs, we selected 59 ULOs, totaling \$6 million, to review. As shown in Table 1, 4 of 59 (6.8 percent) ULOs, totaling \$33,169 (0.6 percent), did not have any expenditure activity for at least 2 years and were not deobligated as of September 30, 2019.

Table I.1: Results of ULO Testing

Document No.	ULO Balance	Inactive Period (In Years)	Contract Type
IBM13C0013	\$18,158	3	Firm-Fixed-Price
IBM13C0013	8,209	3	Simplified Acquisition
IBM15T0016	4,186	4	Simplified Acquisition
IBM15T0016	2,616	4	Indefinite-Delivery
Total	\$33,169		

In response to our inquiries, USIBWC personnel stated that no additional invoices were expected on the four items. We consider these ULOs to be invalid because, in each case, the contracts have been in contract closeout longer than the time allowed by the Federal Acquisition Regulation.

USIBWC did not ensure that the contract closeout process was performed in accordance with the Federal Acquisition Regulation requirements. Delays in performing contract closeouts could hinder the agency’s ability to deobligate and reallocate funds for use on other activities that could further the agency’s mission. The projected error for the exceptions identified is approximately \$406,000.

Appendix II
Prior-Year Internal Control Deficiencies

Our assessment of the current status of prior-year internal control deficiencies reported by another auditor¹ is presented in Table II.1.

Table II.1: Status of Prior-Year Internal Control Deficiencies

Prior-Year Control Deficiencies	Current Status
Timeliness and Accuracy of Personal Property Acquisitions and Disposals	Closed
Abnormal Construction-In-Progress Balances	Open and repeated in the FY 2019 Management Letter

¹ Office of Inspector General, *Management Letter Related to the Audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2018 Financial Statements* (AUD-FM-19-21, April 2019).

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International Boundary and Water Commission, United States and Mexico, U.S. Section
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INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO

March 13, 2020

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

Subject: Draft Report: Management Letter Related to the International Boundary and Water
Commission, United States and Mexico, U.S. Section, 2019 Financial Statements

Dear Mr. Brown:

We acknowledge receipt of the draft report management letter related to the International
Boundary and Water Commission, United States and Mexico, U.S. Section, FY 2019 Financial
Statements. Thank you for the opportunity to provide comments on the draft report. Below
please find our comments. Please advise if you have any questions or if we may be of any
assistance.

Sincerely,

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

Jayne Harkins, P.E.
Commissioner

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I. Abnormal Construction-In-Progress Balances

USIBWC Concur. Financial reporting requirements previously did not require that the USIBWC track nor record CIP by contract number. CIP was tracked and recorded instead, by lump sum amounts then capitalized accordingly. Over the last couple of years, the USIBWC has modified its process to ensure CIP is tracked by contract number, consistent with new reporting requirements. Doing so has introduced a much more labor-intensive research process of previously recorded CIP. Existing balances will net zero once all balances are reconciled and associated to specific contracts. Significant progress was made during FY 2019 to reduce the negative balances by reconciling against contracts that had been previously capitalized (64% of negative balances were reconciled). We anticipate reconciling the balance within the next 8-12 months. The USIBWC has incorporated the same process for all financial adjustments to the review of all pending CIP negative balances recon process to confirm that all adjustments made are accurate and have supporting documentation. Management is confident that identified negative balances will in fact be offset by other positive amounts.

II. Prompt Payment Act

USIBWC Concur. USIBWC has a reliable process that reviews all invoices against associated contracts for accuracy and validity, and scheduling for payment. In FY 2019 there were two instances that lead to non-payment of interest - one invoice was improperly set up in the system, but correct timely, and one invoice that was not paid interest within the GFMS system. USIBWC acknowledges both instances of non-compliance with Prompt Payment Act and will provide greater oversight of invoices to ensure all vendors are properly set up in the system and monitor other invoices to ensure applicable interest is applied. Management fully understands the importance of compliance with PPA. USIBWC management will work with Department of State officials to determine the cause for the non-payment of interest on the one instance.

III. Payroll Control Deficiencies

USIBWC Concur. The USIBWC HRO will be updating the Agency's 2007 Pay and Leave directive and will be drafting and incorporating a clear guide for processing and approval of personnel actions consistent with OPM's Guide to Processing Personnel Actions". The USIBWC acknowledges that improvements in our internal procedures and controls are necessary to ensure we mitigate discrepancies in issuance dates between SF50s and SF52s.

IV. Untimely Deobligation of Unliquidated Obligations

USIBWC Concur. USIBWC management officials understand the importance of timely contract close-outs and deobligations of associated balances. The CAO and Accounting

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Officer have been closely coordinating the ULO review process with technical proponents to ensure that contract close-outs are completed timely. Regular reviews are being held with all CORs to ensure timely close-outs. A large number of ULOs in FY 2019 were tied to construction contracts, which have a series of deliverables from contractors and reviews from internal technical teams that take time. Part of the internal process is that no balances will be deobligated until it reaches both, substantial completion and the punch list is cleared by the COR and CO to ensure no additional invoices will be submitted. This process is lengthy at times and difficult to project. However, our Construction team has taken measures to attempt to mitigate the lengthy timeframes. Other ULOs are as well reviewed quarterly to ensure all obligations are valid. Any invalid obligations are timely deobligated.