

INDEPENDENT AUDITOR'S REPORT
AUD-FM-21-09

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

Report on the Financial Statements

We have audited the accompanying financial statements of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), which comprise the consolidated balance sheet as of September 30, 2020; the related consolidated statements of net cost and changes in net position and the combined statement of budgetary resources for the year then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. 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. 19-03, "Audit Requirements for Federal Financial Statements." Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USIBWC as of September 30, 2020, and its net cost of operations, changes in net position, and budgetary resources for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Financial Statements

USIBWC's financial statements as of and for the year ended September 30, 2019, were audited by other auditors whose Independent Auditor's Report dated January 24, 2020, expressed an unmodified opinion on those financial statements.

As part of our audit of the FY 2020 financial statements, we also audited the adjustments described in Note 16 that were applied to restate the FY 2019 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the FY 2019 financial statements of USIBWC other than with respect to the adjustments. Accordingly, we do not express an opinion or any other form of assurance on the FY 2019 financial statements as a whole.

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, 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 financial statements. Such information, although not a part of the 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 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 making inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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. 19-03, we have also issued reports, dated December 15, 2020, on our consideration of USIBWC's internal control over financial reporting and on our tests of USIBWC's compliance with certain provisions of applicable laws, regulations, and contracts for the year ended September 30, 2020. 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. 19-03 and should be considered in assessing the results of our audit.

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

Alexandria, Virginia
December 15, 2020

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 Deputy Inspector General

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, "Audit Requirements for Federal Financial Statements," the financial statements and the related notes to the 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, 2020, and we have issued our report thereon dated December 15, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered USIBWC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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. 19-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982¹, 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. 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.

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 or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

¹ Federal Managers' Financial Integrity Act of 1982, Pub. L. No. 97-255, 96 STAT 814 (September 8, 1982).



We identified a deficiency in internal control, described below, as an item that we consider to be a significant deficiency.

Significant Deficiency

Information Technology

USIBWC uses key information systems maintained by the Department of State (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 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),² the Office of Inspector General (OIG) is responsible for annually auditing the Department's information security program. In the FY 2019 FISMA report,³ OIG reported security deficiencies that significantly impacted the Department's information security program and were considered a significant deficiency within the scope of USIBWC's FY 2019 financial statement audit.⁴ Due to the COVID-19 pandemic, OMB granted OIG an extension, from October 2020 to December 2020, for reporting the results of the FY 2020 FISMA audit. As a result, the FY 2020 FISMA audit report was not available before the deadline for reporting the results of the Department's annual financial statements audit. Therefore, we performed procedures to assess the Department's corrective actions to remediate deficiencies in the FY 2019 FISMA audit report that we considered to be the most significant to the FY 2020 financial statements. We found that the Department did not sufficiently develop, prioritize, and monitor corrective actions to remediate known security weaknesses and deficiencies, including those identified and reported to the Department by OIG.⁵

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 USIBWC will be unable to report financial data accurately.

² Pub. L. No. 113-283, 128 STAT. 3079-3080 (December 18, 2014).

³ OIG, *Audit of the Department of State Information Security Program* (AUD-IT-20-04, October 2019).

⁴ 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, February 2020).

⁵ OIG, *Independent Auditor's Report on the U.S. Department of State FY 2020 and FY 2019 Financial Statements* (AUD-FM-21-08, November 2020).



We considered the unremediated issues to be a significant deficiency within the scope of USIBWC’s FY 2020 financial statement audit. Weaknesses in IT security controls have been reported as a significant deficiency in each of USIBWC’s annual financial statement audits since FY 2012.

During the audit, we noted an additional matter 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 the Department’s FY 2019 financial statements,⁶ USIBWC’s prior auditor reported an issue related to internal control over financial reporting. The status of this issue is summarized in Table 1.

Table 1. Status of Prior Year Finding

Control Deficiency	FY 2019 Status	FY 2020 Status
Information Technology	Significant Deficiency	Significant Deficiency

USIBWC’s Response to This Report

USIBWC management has acknowledged receipt of our report without additional comment 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 *Government Auditing Standards* and OMB Bulletin No. 19-03 in considering the entity’s internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

Alexandria, Virginia
December 15, 2020

⁶ OIG, AUD-FM-20-22, February 2020.

**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 Deputy Inspector General

We have audited, 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 Budget (OMB) Bulletin No. 19-03, "Audit Requirements for Federal Financial Statements," the financial statements, and the related notes to the 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, 2020, and we have issued our report thereon dated December 15, 2020.

Compliance

As part of obtaining reasonable assurance about whether USIBWC's financial statements are free from material misstatement, we performed tests of USIBWC's compliance with certain provisions of applicable laws, regulations, and contracts, noncompliance with which could have a direct and material impact on the determination of financial statement amounts. 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. 19-03.

During the audit, we noted an additional matter involving compliance that we will report to USIBWC 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 *Government Auditing Standards* and OMB Bulletin No. 19-03 in considering the entity's compliance. Accordingly, this report is not suitable for any other purpose.



Alexandria, Virginia
December 15, 2020



INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO

January 4, 2021

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: Independent Auditor's Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section, FY 2020 Financial Statements

Dear Mr. Brown:

We acknowledge receipt of the Draft Report - Independent Auditor's Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section, FY 2020 Financial Statements, and submit that we do not have any questions or comments regarding the content and language of the draft report. Please advise if we may be of further assistance.

Sincerely,

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

Jayne Harkins, P.E.
Commissioner