

**MANAGEMENT LETTER**  
AUD-FM-23-14

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

Kearney & Company, P.C. (referred to as “we” hereafter), has audited 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, 2022, and has issued our report thereon, dated January 20, 2023.<sup>1</sup> In planning and performing our audit of USIBWC’s financial statements, we considered USIBWC’s internal control over financial reporting and USIBWC’s compliance with certain provisions of applicable laws, regulations, and contracts. Our auditing procedures were designed for the purpose of expressing an opinion on the 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 applicable laws, regulations, and contracts.

During our audit, we noted one matter related to internal control over financial reporting that we considered to be a significant deficiency 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. 22-01, “Audit Requirements for Federal Financial Statements.” This item is not repeated in this letter because it is explained in detail in our report on USIBWC’s FY 2022 financial statements.

Our procedures were designed primarily to enable us to form an opinion on USIBWC’s 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 noncompliance. These findings are summarized in Appendix A and are intended to assist USIBWC in strengthening internal controls and improving operating efficiencies.

We appreciate the courteous and professional assistance provided by USIBWC personnel during our audit. These findings were discussed in detail with appropriate USIBWC officials, and management’s response to the draft of this report is presented in its entirety in Appendix B.

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<sup>1</sup> Office of Inspector General, *Independent Auditor’s Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section, FY 2022 and FY 2021 Financial Statements* (AUD-FM-23-13, February 2023).



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  
March 23, 2023

## **MANAGEMENT LETTER COMMENTS**

### **ISSUE REPEATED FROM PRIOR YEAR**

During the audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section's (USIBWC) FY 2021 financial statements, Kearney & Company, P.C. (referred to as "we" hereafter), identified a matter that was reported in a previous management letter.<sup>1</sup> As this one issue remains open in the current year, we have updated it with information obtained during our audit of USIBWC's FY 2022 financial statements.

#### **I. Prompt Payment Act**

USIBWC is subject to the Prompt Payment Act (PPA),<sup>2</sup> which generally requires that federal agencies pay commercial vendors within 30 days of the receipt of a proper invoice. When payments are not made in a timely manner, the PPA requires that agencies calculate and include interest penalties in the vendor payment. USIBWC uses the Department of State's (Department) Global Financial Management System (GFMS) to make payments to vendors.

We tested 78 expense transactions recorded as of June 30, 2022, and identified 6 (8 percent) instances of noncompliance with the PPA. Specifically, USIBWC overpaid interest for six invoices that were not paid within 30 days.

USIBWC officials asked Department officials about the cause of the incorrect interest payments. The Department identified an issue with how GFMS calculates interest for invoices having due dates on weekends or holidays, as noted with the six exceptions. Although Department officials indicated that they had implemented systematic changes to GFMS to address the issue, we continued to identify interest miscalculations in FY 2022.

If interest penalty errors to vendors continue, USIBWC may not be in compliance with the PPA. Furthermore, USIBWC could miss opportunities to apply funds paid on GFMS miscalculated interest payments to other purposes.

This issue was initially reported in the FY 2019 management letter.

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<sup>1</sup> Office of Inspector General, *Management Letter Related to the Audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section, FY 2021 Financial Statements* (AUD-FM-22-25, March 2022).

<sup>2</sup> 31 United States Code §§ 3901-3907, "Prompt Payment."

**NEW MANAGEMENT LETTER COMMENTS**

During the audit of USIBWC's FY 2022 financial statements, two additional matters came to our attention that were not previously reported in the FY 2021 Report on Internal Controls or the management letter.

**II. Accounting for Personal Property**

USIBWC owns a significant amount of capitalized property, including equipment, buildings, vehicles, and land. Specifically, as of September 30, 2022, USIBWC reported \$847 million in capitalized property, plant, and equipment (PP&E), which was 76 percent of USIBWC's total assets. USIBWC uses the Department's Integrated Logistics Management System (ILMS) to track, manage, and record personal property transactions. ILMS periodically interfaces with the accounting system used by USIBWC, GFMS.

Our testing identified errors related to the completeness and accuracy of IBWC's capitalized personal property. Specifically,

- We tested all personal property disposals (two items) recorded during FY 2022 and determined that neither transaction had been recorded in the proper fiscal year.
- We observed 11 obsolete<sup>3</sup> capital assets at two field offices. One (9 percent) of the assets remained in GFMS despite being removed from service.
- We found one asset that was duplicated in the accounting system.

USIBWC's processes to ensure that personal property assets were recorded in a timely and accurate manner were ineffective. Specifically, property management officials did not always comply with USIBWC's ad hoc desk procedures and did not receive training to ensure that processes were understood and implemented. Furthermore, USIBWC's personal property processes had not been formalized to explain appropriate property management procedures.

The lack of effective controls results in the loss of accountability for asset custodianship, which could lead to undetected theft or waste. In addition, the untimely and inaccurate processing of property transactions resulted in immaterial misstatements to USIBWC's financial statements. Although the errors identified were immaterial, additional errors are likely to occur unless effective property management procedures are implemented.

**III. Untimely Recording of Constructed Assets**

USIBWC manages flood control systems, dams, and hydroelectric power plant facilities along the U.S. and Mexican border. All real property is owned by USIBWC. As of September 30, 2022, USIBWC reported that it was managing \$52 million in construction projects. All construction projects should be tracked as construction-in-progress (CIP), an asset account, until

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<sup>3</sup> An obsolete asset is an asset that is no longer useful to agency operations as it can no longer produce value or is otherwise unfit for its intended use.

the project reaches substantial completion. Once a project is substantially complete, the cost of the project should be transferred to a different asset account<sup>4</sup> to be depreciated.<sup>5</sup>

USIBWC field offices manage construction projects, and USIBWC's Finance and Accounting Division is responsible for property accounting and financial reporting. On a quarterly basis, USIBWC's Finance and Accounting Division requests that all field offices and other relevant points-of-contact at USIBWC headquarters provide information and documentation of all completed and ongoing construction projects.

We identified nine construction projects, totaling \$2.5 million, that were transferred from CIP to another real property account during FY 2022. We found that three of nine projects, with associated costs of \$1.3 million, were substantially completed in FY 2021 and should have been transferred to real property during that fiscal year.

Although USIBWC used a quarterly real property data call to obtain information on CIP, the process did not ensure that all completed construction projects were transferred to their respective asset account when they were substantially complete. USIBWC's process relies on effective and timely communication, which did not always occur. Specifically, the field offices and relevant construction points-of-contact at headquarters did not provide the date of substantial completion for three CIP projects to the Finance and Accounting Division during its quarterly data calls. Furthermore, the Finance and Accounting Division's quarterly data call process had not been formalized.

The untimely transfer of costs related to three construction projects resulted in a misclassification of assets in the footnotes of USIBWC's FY 2021 financial statements. For example, in the "General Property, Plant, and Equipment, Net" footnote, the CIP amount was overstated, and the "Structures" amount was understated by \$1.3 million. Without internal control enhancements, misclassified CIP and real property accounts could have a material impact on USIBWC's financial statements.

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<sup>4</sup> USIBWC's real property accounts are land, buildings, structures, leasehold improvements, and CIP.

<sup>5</sup> Depreciation is the allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life for all capitalized assets except land.



INTERNATIONAL BOUNDARY AND WATER COMMISSION  
UNITED STATES AND MEXICO

March 14, 2023

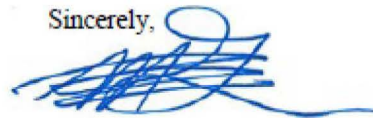
Mr. Norman P. Brown  
United States Department of State  
Assistant Inspector General for Audits  
Office of Inspector General  
Washington, D.C. 20520

Subject: Management Letter Related to the Audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section, FY2022 Financial Statements

Dear Mr. Brown:

We acknowledge receipt of the Draft Report Management Letter related to the Audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section FY 2022 Financial Statements. As requested, please find our updates on actions taken or planned for each of the recommendations. No other comments are provided on the draft report. Please advise if we may be of further assistance.

Sincerely,



Dr. Maria-Elena Giner, P.E.  
Commissioner



**I. Prompt Payment Act**

USIBWC is subject to the Prompt Payment Act (PPA), which generally requires that federal agencies pay commercial vendors within 30 days of the receipt of a proper invoice. When payments are not made in a timely manner, the PPA requires that agencies calculate and include interest penalties in the vendor payment. USIBWC uses the Department of State's (Department) Global Financial Management System (GFMS) to make payments to vendors.

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USIBWC officials asked Department officials about the cause of the incorrect interest payments. The Department identified an issue with how GFMS calculates interest for invoices having due dates on weekends or holidays, as noted with the six exceptions. Although Department officials indicated that they had implemented systematic changes to GFMS to address the issue, we continued to identify interest miscalculations in FY 2022.

If interest penalty errors to vendors continue, USIBWC may not be in compliance with the PPA. Furthermore, USIBWC could miss opportunities to apply funds paid on GFMS miscalculated interest payments to other purposes.

This issue was initially reported in the FY 2019 management letter.

**Response: Management Concur**

In FY 2021, USIBWC reached out to the Department of State, and they stated that the issue had been addressed. The Department also said that they were going to meet with Treasury to ensure that the update they applied to the GFMS would comply with the Prompt Payment Act. USIBWC will continue to follow-up with the Department to ensure that we are aware of related system updates and the outcomes of any future meetings with Treasury. In the interim, USIBWC will continue to mitigate the issue by ensuring timely processing of payments so that the issue does not affect the payment to the vendor.

**II. Accounting for Personal Property**

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USIBWC's processes to ensure that personal property assets were recorded in a timely and accurate manner were ineffective. Specifically, property management officials did not always comply with USIBWC's ad hoc desk procedures and did not receive training to ensure that processes were understood and implemented. Furthermore, USIBWC's personal property processes had not been formalized to explain appropriate property management procedures.

The lack of effective controls results in the loss of accountability for asset custodianship, which could lead to undetected theft or waste. In addition, the untimely and inaccurate processing of property transactions resulted in immaterial misstatements to USIBWC's financial statements. Although the errors identified were immaterial, additional errors are likely to occur unless effective property management procedures are implemented.

#### **Response: Management Concur**

The USIBWC agrees that the existing process requires improvement to ensure all personal property is recorded in a complete, timely, and accurate manner. USIBWC is taking extra measures to ensure all offices receive and dispose of property in a timely manner. In addition, the Administration Department, through the efforts of the Agency's Property Manager, has continued to perform in-depth personal property inventories, which are being reconciled with the Department of State's Integrated Logistics Management System (ILMS).

In addition to the standard training provided to new designated Contracting Officer's Representatives (CORs), annual refresher training will be provided to Area and Assistant Area Operations Managers (AOMs/AAOMs) and Division Chiefs. Target date for the refresher training is the end of May of each fiscal year. In addition, a tracking system has been reintroduced, which will assist in tracking all assets identified for disposal, to ensure disposals are fully processed timely. The completion of our annual inventory in FY 2022 identified assets eligible for disposal and discrepancies in asset locations. USIBWC is working with Department of State on the best approach to dispose of assets that are no longer in service. Our Property Directive will be reviewed to address updates needed to our internal controls and internal review process to ensure accuracy of data entered into ILMS.

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USIBWC field offices manage construction projects, and USIBWC's Finance and Accounting Division is responsible for property accounting and financial reporting. On a quarterly basis, USIBWC's Finance and Accounting Division requests that all field offices and other relevant points-of-contact at USIBWC headquarters provide information and documentation of all completed and ongoing construction projects.

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Although USIBWC used a quarterly real property data call to obtain information on CIP, the process did not ensure that all completed construction projects were transferred to their respective asset account when they were substantially complete. USIBWC's process relies on effective and timely communication, which did not always occur. Specifically, the field offices and relevant construction points-of-contact at headquarters did not provide the date of substantial completion for three CIP projects to the Finance and Accounting Division during its quarterly data calls. Furthermore, the Finance and Accounting Division's quarterly data call process had not been formalized.

The untimely transfer of costs related to three construction projects resulted in a misclassification of assets in the footnotes of USIBWC's FY 2021 financial statements. For example, in the "General Property, Plant, and Equipment, Net" footnote, the CIP amount was overstated, and the "Structures" amount was understated by \$1.3 million. Without internal control enhancements, misclassified CIP and real property accounts could have a material impact on USIBWC's financial statements.

**Response: Management Concur**

The USIBWC agrees that the existing process requires improvement to ensure completed construction projects are transferred to their respective asset account when they were substantially complete. USIBWC has taken extra measures to ensure all offices report construction progress to Finance and Accounting (FAD) on a quarterly basis.

In addition to the standard training provided to new designated Contracting Officer's Representatives (CORs), annual refresher training will be provided to Area and Assistant Area Operations Managers (AOMs/AAOMs) and Division Chiefs. Target date for the refresher training is the end of May of each fiscal year. In addition, a refresher on the importance of responding to the quarterly requests will be provided to the CORs/AOMs/AAOMs.