

INDEPENDENT AUDITOR'S REPORT
AUD-FM-16-12

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, 2015 and 2014, 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, 2015 and 2014, 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, condition assessments of Heritage Assets, Combining Statement of Budgetary Resources, and Deferred Maintenance (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 the information 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 4, 2015, 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, 2015. 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 4, 2015

**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, 2015, and have issued our report thereon dated December 4, 2015. 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 deficiency in USIBWC's internal control to be a significant deficiency.

Significant Deficiency

I. 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 general and application control environment over these systems.

The Department's IT internal control structure for its general support system exhibited limitations in several areas, including risk management strategies and user account management. The National Institute of Standards and Technology and the Government Accountability Office's Federal Information System Controls Audit Manual provide control objectives and evaluation techniques that we used during our audit of the Department's financial statements. Weaknesses in IT controls have been reported as a financial statement significant deficiency since our audit of the Department's FY 2009 consolidated financial statements.

In accordance with the Federal Information Security Modernization Act of 2014 (FISMA), the Office of Inspector General (OIG) performed a review of the Department's information security program for FY 2015, including controls related to the Department's general support system.¹ The Department's general support system is the gateway for all of the Department's systems, including the financial management applications utilized by USIBWC. Generally, control deficiencies noted in the support system are inherited by the other systems that reside on it. We did not perform additional work on the controls related to the general support system but instead relied on the work performed by OIG.

Overall, OIG found that the Department had made progress during FY 2015 in addressing IT deficiencies identified in prior FISMA reports, but OIG continued to identify weaknesses in the Department's information security program. OIG had found that the Department was not in compliance with Federal laws, regulations, and information security standards. The FISMA audit identified deficiencies in configuration management, identity and access management, incident response and reporting, security training, plans of action and milestones, contingency planning, and contractor systems. Collectively, the control deficiencies identified represented a significant deficiency to organization-wide security. Specifically, ineffective IT security controls increase the risk that sensitive financial information could be accessed by unauthorized individuals or that financial transactions could be altered either accidentally or intentionally. The Department's IT weaknesses increase the risk that USIBWC will be unable to report financial data accurately.

The weaknesses identified by OIG during the Department's FISMA audit are considered to be a significant deficiency within the scope of our audit of USIBWC's 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.

¹ OIG, *Audit of the Department of State Information Security Program* (AUD-IT-16-16, Nov. 2015).

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 2014 financial statements,² we noted issues that were related to internal control over financial reporting. The status of each of the FY 2014 internal control findings is shown in Table 1.

Table 1. Status of Prior Year Findings

Control Deficiency	FY 2014 Status	FY 2015 Status
Property and Equipment	Significant Deficiency	Management Letter
Information Technology	Significant Deficiency	Significant Deficiency

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.

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.



Alexandria, Virginia
December 4, 2015

² OIG, *Independent Auditor’s Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2014 and 2013 Financial Statements* (AUD-FM-15-11, Jan. 2015).

**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, 2015, and have issued our report thereon dated December 4, 2015. 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 a matter 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 4, 2015

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



INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO
UNITED STATES SECTION

December 22, 2015

Mr. Norman P. Brown
United States Department of State
Assistant Inspector General for 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, 2015 and 2014 Financial Statements

Dear Mr. Brown:

We are in receipt of and thank you for providing us the opportunity to review the draft report Independent Auditor's Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2015 and 2014 Financial Statements.

We have reviewed the report and do not have any additional comments to submit. We appreciate the annual reviews of our financial operations, as these continue to assist us in improving our internal controls across the board.

Sincerely,

Edward Drusina, P.E.
Commissioner