

**MANAGEMENT LETTER**  
AUD-FM-17-13

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

Kearney & Company, P.C. (referred to as “we” hereafter), has 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, 2016, and has issued our report thereon dated December 19, 2016.<sup>1</sup> In planning and performing our audit of the USIBWC consolidated financial statements, we considered USIBWC’s internal control over financial reporting and compliance with certain provisions of laws, regulations, and contracts. Our auditing procedures were designed for the purpose of expressing an opinion on the consolidated 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 laws, regulations, and contracts.

During our audit, we noted certain matters related to internal control over financial reporting that we considered to be significant deficiencies 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. 15-02, “Audit Requirements for Federal Financial Statements.” These items are not repeated in this letter, as they are explained in detail in our report on USIBWC’s FY 2016 financial statements.

Our procedures were designed primarily to enable us to form an opinion on USIBWC’s consolidated financial statements and therefore may not have identified all internal control weaknesses and instances of noncompliance that may exist. We noted certain other matters not considered to be material weaknesses, significant deficiencies, or reportable instances of noncompliance, which involve internal control and operations. 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 have been discussed with appropriate USIBWC officials. USIBWC comments to a draft of this report are reprinted in Appendix B.

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<sup>1</sup> OIG, *Independent Auditor’s Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2016 and 2015 Financial Statements* (AUD-FM-17-12, January 2017).



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 7, 2017

## MANAGEMENT LETTER COMMENTS

### REPEAT MANAGEMENT LETTER COMMENT

During the audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), FY 2015 financial statements, Kearney & Company, P.C. (referred to as “we” hereafter), identified matters that were reported in a management letter.<sup>1</sup> As described in Table 1, the severity of three issues included in the FY 2015 management letter has decreased, and we consider these items closed. One issue related to inaccurate recording of capital upgrade remained open, and we updated the issue with information obtained during the audit of USIBWC’s FY 2016 financial statements.

**Table 1: Current Status of Prior Year Management Letter Findings**

FY 2015 Management Letter Findings	FY 2016 Status
Inaccurate Recording of Capital Upgrade	Repeat
Insufficient Controls over Real Property Accounting	Closed
Untimely Disbursements of Payments to Vendors Pursuant to the Prompt Payment Act	Closed
Insufficient Construction-in-Progress Accrual Process	Closed

### I. Property and Equipment

#### Inaccurate Recording of Capital Upgrade

USIBWC manages wastewater treatment plants in San Diego, CA, and Nogales, AZ. The infrastructure of the waste water treatment facilities uses a supervisory control and data acquisition<sup>2</sup> (SCADA) information system package to maintain plant operations and remotely monitor equipment activities.

During our testing of operations and maintenance expenditures, as of June 30, 2016, we identified disbursements to upgrade the SCADA system at the South Bay International Wastewater Treatment Plant in San Diego, CA. The upgrade to the SCADA system should have been capitalized and reported as an asset upon completion. However, USIBWC did not have an effective process to ensure that capital upgrades were identified and classified as a property asset in the financial statements.

<sup>1</sup> OIG, *Management Letter Related to the Audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2015 Financial Statements* (AUD-FM-16-13, February 2016).

<sup>2</sup> SCADA systems provide information to engineers and plant operations managers to ensure equipment is operating properly and effectively.

As of June 30, 2016, USIBWC's operating expense was overstated and the property account was understated by the amount of the SCADA upgrade. USIBWC made an accounting adjustment at year end for financial reporting purposes, but the control weakness related to the classification of capital upgrades could result in future misstatements of the financial statements.

## **NEW MANAGEMENT LETTER COMMENT**

During the audit of USIBWC FY 2016 financial statements, an additional matter came to our attention that was not previously reported in the FY 2015 internal control report or management letter.

### **II. Budgetary Accounting**

#### **Validity and Accuracy of Unliquidated Obligations**

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. USIBWC records obligations in its financial management system when it enters into an agreement, such as a contract or purchase order, to acquire goods and services. Once recorded, obligations remain open until they are fully reduced by a disbursement, are deobligated, or the appropriation funding the obligations is canceled. USIBWC reported \$54.5 million in ULOs as of September 30, 2016.

USIBWC's Finance and Accounting Division (FAD) conducts an internal review on a quarterly basis to identify ULOs that are at risk of being invalid. The ULOs identified by FAD are sent to the Acquisitions Division, the Budget Division, and Cost Center managers in USIBWC field offices to review selected ULOs, certify their validity or deobligate, and report to FAD. Once responses are received, depending on the type of ULO, either the Budget Division or Acquisitions Division deobligates the outstanding funds within the financial system that are no longer needed.

We evaluated the validity of 40 ULOs totaling \$2.13 million and found 23 invalid ULOs (57.5 percent) totaling \$564,203. We determined that these items were invalid on the basis of management's response that funds were no longer needed, expired periods of performance, or prolonged inactivity.

Although FAD conducted quarterly ULO validity reviews, the reviews did not always ensure the identification and deobligation of invalid ULOs. For example, we found that not all Cost Center managers were aware of the criteria for confirming the validity of ULOs and provided responses to FAD that incorrectly identified invalid ULOs as valid. In addition, FAD did not consistently review and follow up with the Cost Center managers to validate their responses. Further, we found that ULOs identified as invalid were not always deobligated in a timely manner by either the Budget Division or Acquisitions Division. USIBWC officials indicated that resource

limitations and competing priorities limited the effectiveness of its ULO review process in FY 2016.

The invalid ULOs identified during our testing resulted in an overstatement of obligations as of June 30, 2016. Invalid ULOs affect USIBWC's ability to manage its funds. Specifically, funds that could be used by USIBWC for other purposes remained in unneeded obligations.

**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

March 1, 2017

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 (USIBWC), FY 2016 Financial Statements

Dear Mr. Brown:

Thank you for providing us the opportunity to respond to the draft report Management Letter Related to the Audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), FY 2016 Financial Statements.

We have reviewed the report and have provided responses to the two findings included in this letter. We appreciate the review and feedback of our operations, which assist us in improving and strengthening internal controls of our operations.

Sincerely,



Edward Drusina, P.E.  
Commissioner



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

**I. Property and Equipment: Inaccurate Recording of Capital Upgrade**

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During our testing of operations and maintenance expenditures, as of June 30, 2016, we identified disbursements to upgrade the SCADA system at the South Bay International Wastewater Treatment Plant in San Diego, CA. The upgrade to the SCADA system should have been capitalized and reported as an asset upon completion. However, USIBWC did not have an effective process to ensure that capital upgrades were identified and classified as a property asset in the financial statements.

As of June 30, 2016, USIBWC's operating expense was overstated and the property account was understated by the amount of the SCADA upgrade. USIBWC made an accounting adjustment at year end for financial reporting purposes, but the control weakness related to the classification of capital upgrades could result in future misstatements of the financial statements.

Response:

The established CIP process now requires identification, coordination and communication of capital projects between the Master Planning Division, Construction Branch, Acquisition Division, Information Management Division, Budget Division and the Finance and Accounting Division. The Accounting Officer issues a data call to this group requesting they validate all CIP that is being tracked, based on monthly construction COR and Construction Management Services reports. Each area is required to review and update the list, and coordinate with the Accounting Officer any contracts that are for capital projects that are not currently on the list, and the status of each contract, to determine if it is still in CIP or has reached the "substantial completion phase. In addition, FAD issues a separate data call to all field managers that requires them to provide updates and report changes to recorded real property. This is accomplished on a quarterly basis via a real property statement of assurance. Greater emphasis is being given to the centralization of all projects within the Master Planning Division, which is documenting and identifying all Capital Projects from the onset, to ensure all capital projects comply with the established process.



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

## I. Budgetary Accounting

### Validity and Accuracy of Unliquidated Obligations

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. USIBWC records obligations in its financial management system when it enters into an agreement, such as a contract or purchase order, to acquire goods and services. Once recorded, obligations remain open until they are fully reduced by a disbursement, are deobligated, or the appropriation funding the obligations is canceled. USIBWC reported \$54.5 million in ULOs as of September 30, 2016,

USIBWC's Finance and Accounting Division (FAD) conducts an internal review on a quarterly basis to identify ULOs that are at risk of being invalid. The ULOs identified by FAD are sent to the Acquisitions Division, the Budget Division, and Cost Center managers in USIBWC field offices to review selected ULOs, certify their validity or deobligate, and report to FAD. Once responses are received, depending on the type of ULO, either the Budget Division or Acquisitions Division deobligates the outstanding funds within the financial system that are no longer needed.

We evaluated the validity of 40 ULOs totaling \$2.13 million and found 23 invalid ULOs (57.5 percent) totaling \$564,203. We determined that these items were invalid on the basis of management's response that funds were no longer needed, expired periods of performance, or prolonged inactivity.

#### Response:

Management continues to address this matter and is committed to correcting the deficiencies of its current process to ensure timely actions are taken to deobligate all invalid ULOs. FAD and Budget are charged with the responsibility of following up and ensuring that all vetted ULOs are processed consistent with the determinations resulting from the reviews. An official report will now be submitted with the initial requests and results of the actions taken, to ensure all expected actions were completed. The Finance and Accounting Division's Standard Operating Procedures (SOP) document this process, and will continue to refine this process until it achieves the key objectives. The current process establishes a quarterly requirement to review all ULOs 10 days after each quarter. Criteria has also been included in the SOP on the order of priority for the ULO reviews, as well as the review and approval process in the designation of ULOs as valid or invalid. CCMs are being educated on what criteria they are required to consider in evaluating their respective ULOs to determine the validity of the obligation. In addition, they are required to submit evidence of their determination of valid obligations. Summaries of the quarterly reviews are being submitted to the CAO for final review to ensure compliance with the process.





INTERNATIONAL BOUNDARY AND WATER COMMISSION  
UNITED STATES AND MEXICO  
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Management understands the importance of clearing all invalid ULOs in a timely manner, and of the efficiencies in clearing them earlier in the year. Actions have been taken in FY 2017 to ensure all years, to include current fiscal year ULOs, are reviewed quarterly to ensure all existing invalid ULOs are cleared within the month of identification. Most all identified invalid ULOs were processed in the 4<sup>th</sup> quarter of FY 2016, which presented the USIBWC with opportunities to apply balances towards planned agency-wide unfinanced requirements.