

MANAGEMENT LETTER
AUD-FM-19-21

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

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, 2018, and has issued our report thereon dated December 21, 2018.¹ In planning and performing our audit of USIBWC’s 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. 19-01, “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 2018 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. 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 have been discussed with appropriate USIBWC officials. Comments from USIBWC management on this report are presented in Appendix B.

¹ OIG, *Independent Auditor’s Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2018 and 2017 Financial Statements* (AUD-FM-19-05, April 2019).



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 & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
April 15, 2019

MANAGEMENT LETTER COMMENTS

REPEATED MANAGEMENT LETTER COMMENT

During the audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), FY 2017 financial statements, Kearney & Company, P.C. (referred to as “we” hereafter), identified matters that were reported in a management letter.¹ As described in Table 1, the severity of one issue included in the FY 2017 management letter has decreased, and we consider the item closed. One issue remained open, and we have updated this issue with information obtained during the audit of USIBWC’s FY 2018 financial statements.

Table 1: Current Status of Prior Year Management Letter Findings

FY 2017 Management Letter Findings	FY 2018 Status
Timeliness and Accuracy of Personal Property Acquisitions and Disposals	Repeat
Recognition of Contingent Liabilities	Closed

I. Property and Equipment

Timeliness and Accuracy of Personal Property Acquisitions and Disposals

USIBWC owns a significant amount of capitalized property, including equipment, buildings, vehicles, and land. Specifically, as of September 30, 2018, USIBWC reported \$892 million in capitalized property, plant, and equipment (PP&E), which was 85 percent of USIBWC’s total assets. USIBWC uses the Integrated Logistics Management System (ILMS), which is owned by the Department of State, to track, manage, and record property transactions. ILMS periodically interfaces with USIBWC’s accounting system, the Global Financial Management System.

Our FY 2018 testing identified several errors related to capitalized personal property. Specifically,

- We tested a sample of 20 personal property acquisitions recorded in FY 2018 and identified 4 (20 percent) that were recorded inaccurately or untimely. Specifically, the cost of one item was incorrect and three items had incorrect in-service dates.
- Four (8 percent) of 51 assets tested at USIBWC’s field offices were no longer in use. USIBWC was unable to show that it had taken action to dispose of these items after we identified them as unneeded.
- We recalculated depreciation for all 298 reported assets and determined that the depreciation for 3 (1 percent) exceeded the salvage value. These exceptions were also identified during our FY 2017 audit but were not corrected.

¹ OIG, *Management Letter Related to the Audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2017 Financial Statements* (AUD-FM-18-09, March 2018).

The errors we identified occurred because USIBWC's processes to ensure that personal property was recorded in a complete, timely, and accurate manner were ineffective. Specifically, property management officials were not always following USIBWC's procedures and did not receive training to ensure that procedures were understood and implemented. We also found that data entered into ILMS were not subject to a quality control review.

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.

NEW MANAGEMENT LETTER COMMENT

During the audit of USIBWC's FY 2018 financial statements, one matter came to our attention that was not previously reported in the FY 2017 management letter.

II. Abnormal Construction-In-Progress Balances

USIBWC managed more than \$58 million in various construction projects as of September 30, 2018. These projects' costs are tracked and monitored using a Construction-in-Progress (CIP) Roll-Forward worksheet prepared by USIBWC accounting staff on the basis of field office data calls and reports extracted from the Global Financial Management System. The CIP Roll-Forward worksheet is used to determine the amount of CIP to report in USIBWC's 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.

Our review of USIBWC's September 30, 2018, CIP Roll-Forward worksheet identified 11 projects with negative balances, totaling \$3.5 million. CIP project balances should be positive. USIBWC officials stated that negative CIP balances occurred because of a change USIBWC made in the way it tracks construction costs. Because of timing, the officials have not been able to make the adjustments needed to correct the negative balances. Furthermore, USIBWC does not have a management review process in place to confirm that adjustments made in the CIP Roll-Forward worksheet do not result in negative balances.

USIBWC officials stated that negative project balances reported on the CIP Roll-Forward worksheet were offset by other positive amounts. Therefore, USIBWC officials believed that the negative balances had no effect on the financial statement. However, USIBWC officials were unable to provide documentation to support this explanation. Accordingly, we were unable to determine the impact of the \$3.5 million on USIBWC's financial statements.

INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO



OFFICE OF THE COMMISSIONER
UNITED STATES SECTION

April 8, 2019

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 2018 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 (USIBWC), 2018 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". The signature is fluid and cursive.

Jayne Harkins, P.E.
Commissioner

Independent Auditor's Management Letter
AUD-FM-19-XX

I. Timeliness and Accuracy of Personal Property Acquisitions and Disposals

Internal controls are included in the updated property management directive to ensure acquired property is recorded accurately and timely. The agency is centralizing the creation of assets to Headquarters vice the field offices and implementing an internal quality control review and approval process to validate the accuracy of information entered about each asset prior to its creation. Our updated disposal procedures will also include more oversight and follow up on all tasks involved in properly disposing of agency owned assets and ensuring they are completed in a timely manner. Agency field offices will be required to provide responses to a monthly "property tracker" that will document their progress towards pending disposals and other property action items.

II. Abnormal Construction-In-Progress Balances

The USIBWC previously did not track nor record CIP by contract number. Instead, lump sum amounts were tracked in CIP then capitalized accordingly. Over the last couple of years, the USIBWC has modified its process to ensure CIP is tracked by contract number. Doing so has introduced much more labor-intensive research of previous recorded CIP, and only amounts tracked and reconciled against contracts have been correctly capitalized. Existing balances will net zero once all balances are reconciled and associated to specific contracts. Management is confident that identified negative balances will in fact be offset by other positive amounts. The intent is to complete the reconciliation by end of this calendar year. Audit trails will continue to be available of all amounts resolved.