

INDEPENDENT AUDITOR'S REPORT
AUD-FM-26-11

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

Report on the Audit of the Financial Statements***Opinion***

We have audited the 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, 2025; 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of USIBWC as of September 30, 2025, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); 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. 24-02, "Audit Requirements for Federal Financial Statements." Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of USIBWC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about USIBWC's ability to continue as a going concern for a reasonable period of time.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of USIBWC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about USIBWC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Combining Statement of Budgetary Resources, Deferred Maintenance and Repairs, and Land be presented to supplement the financial statements. Such information is the responsibility of management and, 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 GAAS, 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. 24-02, we have also issued reports, dated April 20, 2026, 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. The purpose of those reports is solely 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 the effectiveness of USIBWC’s 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. 24-02 in considering USIBWC’s internal control over financial reporting and compliance.



Alexandria, Virginia
April 20, 2026

**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 Senior Official Performing the Duties of the 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. 24-02, "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, 2025, which collectively comprise USIBWC's financial statements, and we have issued our report thereon dated April 20, 2026.

Report on 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) as a basis for designing 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. 24-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982,¹ 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; 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, Public Law 97-255.

We consider the following deficiencies in USIBWC’s internal control to be significant deficiencies.

Significant Deficiencies

I. Property and Equipment

As of September 30, 2025, USIBWC reported more than \$900 million in capitalized property and equipment. Real property consisted primarily of functional facilities and capital improvements to these facilities. Real property accounts included land, buildings, structures, leasehold improvements, and construction-in-progress (CIP). Personal property included vehicles, security equipment, communication equipment, and software. This issue was identified as a material weakness during the audit of USIBWC’s FY 2024 financial statements. Although USIBWC made some improvements during FY 2025, USIBWC’s internal control structure continued to exhibit several deficiencies that negatively affected USIBWC’s ability to account for property in a complete, accurate, and timely manner. We concluded that the property-related deficiencies that we identified during the audit are considered a significant deficiency in internal control. The individual deficiencies we identified are summarized as follows:

- Construction Projects – As of September 30, 2025, USIBWC reported that it managed more than \$109 million in construction projects.² Construction costs for projects that meet a “capitalization threshold”³ should be recorded as CIP, an asset account, during the design and construction phases. Once a construction project is substantially complete, USIBWC should transfer the cost of the project to a different asset account,⁴ so that the item can be depreciated.⁵

We tested 23 CIP transactions as of September 30, 2025, to ensure that the amounts were accurately recorded in the proper period. We found that two (9 percent) transactions were related to a CIP project that was completed in a prior fiscal year, but the transactions were not transferred to the real property account until FY 2025. We found that field offices and relevant construction points of contact at headquarters did not always provide accurate updates on the status of CIP projects during quarterly data calls for financial reporting. Inaccurate and untimely reporting of construction projects increases the risk of incorrect reporting of CIP, structures, and accrued liabilities accounts and the possibility of misstatement to the financial statements. Specifically, the untimely transfer of CIP costs resulted in misstatements to USIBWC’s financial statements.

- Personal Property – USIBWC uses a property management system to track, manage, and record personal property transactions. Information in the property system is periodically merged or reconciled with the financial management system to centrally account for the acquisition, disposal, and transfer of personal property. We identified personal property

² Projects could include new construction, real property renovations, or improvements to leased property.

³ USIBWC’s capitalization threshold for CIP is \$25,000.

⁴ USIBWC’s real property accounts are land, buildings, structures, leasehold improvements, and CIP.

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

acquisitions and disposals that were not recorded in the correct fiscal year. We also found personal property acquisitions made during FY 2025 that were not recorded as capital assets. Additionally, we identified instances where gains or losses related to the transfer of some assets were not recorded properly. Furthermore, we identified assets that were removed from service because they were obsolete⁶ that continued to be reported in the property and financial reporting systems.

Although USIBWC made updates to standard operating procedures related to the acquisition and disposal of personal property during FY 2025, USIBWC personnel at different field sites did not always follow the updated guidance. In addition, although a physical inventory of all property assets was performed, the inventory process did not include steps to identify potentially damaged, obsolete, and excess assets. Additionally, when property transfers are added to the property system, which interfaces with the financial management system, the financial management system inaccurately classifies the transfers as disposals and, thus, automatically records either a gain or loss. Weaknesses implementing USIBWC personal property standard operating procedures related to acquisitions and disposals could lead to undetected theft or waste. Ineffective controls over the timely recording of property transactions are likely to continue to result in unrecorded transactions each year. The exceptions identified resulted in misstatements to USIBWC's financial statements.

II. Inaccurate Recording of Accruals

A liability is a federal agency's obligation to a vendor or another entity, representing a future outflow of resources. Accounts payable (AP) represent the amounts owed for goods or services received by an entity but unpaid. AP is recorded during normal business activities (e.g., when an invoice is received from a vendor for services provided). Federal accounting standards require entities to record an estimate (i.e., accrual) of unbilled AP when preparing financial statements (e.g., an agency incurs a liability when a vendor provides services even if the vendor's invoice is not received until a future accounting period). USIBWC prepares and records several types of AP accruals, including estimates related to construction and operating expenses.

We reviewed all 142 CIP additions recorded during FY 2025 and found 14 (10 percent) instances where FY 2024 construction costs were incurred but not included in the FY 2024 accrual. Additionally, we found 13 (9 percent) of 142 items that were included in the FY 2024 accruals; however, the accrued amounts should have included additional costs that were not captured. Furthermore, we found 14 (16 percent) of 88 operating expenses that were not accrued in FY 2024. Although not part of the normal process, USIBWC officials stated that, as a supplement to the accrual calculation, they request data from Cost Center Managers to capture expenses amounts for work performed during the fiscal year. However, in September 2024, there was a transition in roles and responsibilities, and no data call was sent out. Without stronger controls related to the methodology supporting AP accrual estimates, USIBWC's financial statement balances may be incomplete or otherwise misstated. USIBWC adjusted its FY 2025 financial statements to address issues identified during the audit.

⁶ 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.

III. 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 of 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.

On behalf of the Office of Inspector General, we performed an audit of the Department's FY 2025 information security program in accordance with the Federal Information Security Modernization Act of 2014 (FISMA).⁷ During that audit,⁸ we concluded that the Department did not have an effective organization-wide information security program. Specifically, we determined that 9 of 10 domains included in the "FY 2025 Inspector General Federal Information Security Modernization Act of 2014 (FISMA) Reporting Metrics v.2.0" were operating below an effective level. Some of the deficiencies identified that we determined had an impact on internal controls related to financial reporting were the lack of an effective process to authorize and reauthorize the Department's information systems to operate in a timely manner⁹ and the use of outdated guidance for the selection and implementation of required security and privacy controls during the authorization and reauthorization processes.¹⁰ In addition, the Department's processes to track and remediate identified vulnerabilities across the organization were ineffective.

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

⁷ Public Law 113-283 (December 18, 2014), codified at Title 44 United States Code Chapter 35, Subchapter II, "Information Security."

⁸ Office of Inspector General, *Audit of the Department of State FY 2025 Information Security Program* (AUD-IT-25-35, September 2025).

⁹ According to the National Institute of Standards and Technology, Special Publication 800-37, rev. 2, "Risk Management Framework for Information Systems and Organizations, A System Life Cycle Approach for Security and Privacy" (December 2018), page 91, an authorization to operate is "the official management decision given by a senior [f]ederal official or officials to authorize operation of an information system and to explicitly accept the risk to agency operations (including mission, functions, image, or reputation), agency assets, individuals, other organizations, and the Nation based on the implementation of an agreed-upon set of security and privacy controls."

¹⁰ OMB Circular A-130, "Managing Information as a Strategic Resource," July 28, 2016, page Appendix I – 16, states that agencies are required to meet and comply with NIST standards and guidance within 1 year after publication. NIST SP 800-53, rev. 5, "Security and Privacy Controls for Information Systems and Organizations," was published in September 2020. In addition, NIST SP 800-53A, rev. 5, "Assessing Security and Privacy Controls in Information Systems and Organizations," which provides guidance and establishes procedures for conducting assessments of security and privacy controls, was published in January 2022.



weaknesses and deficiencies increase the risk that USIBWC will be unable to report financial data accurately.

We considered the weaknesses and deficiencies identified during the FISMA audit to be a significant deficiency within the scope of the FY 2025 financial statement audit. We have reported weaknesses and deficiencies in IT security controls as a significant deficiency annually since our audit of USIBWC's FY 2012 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.

USIBWC's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on USIBWC's response to the findings identified in our audit and previously described. USIBWC provided its response to our findings 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. 24-02 in considering USIBWC's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

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

Alexandria, Virginia
April 20, 2026

**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 Senior Official Performing the Duties of the 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 and Budget (OMB) Bulletin No. 24-02, “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, 2025, which collectively comprise USIBWC’s financial statements, and we have issued our report thereon dated April 20, 2026.

Report on Compliance and Other Matters

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 laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statements. 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; 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 in accordance with *Government Auditing Standards* or OMB Bulletin No. 24-02.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of laws, regulations, and contracts and the results of that testing, and not to provide an opinion on the compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-02 in considering USIBWC’s compliance. Accordingly, this report is not suitable for any other purpose.



Alexandria, Virginia
April 20, 2026



INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO

April 17th, 2026

Ms. Gayle Voshell
United States Department of State Acting
Assistant Inspector General for Audits
Office of Inspector General Washington,
D.C. 20520

Subject: Draft Independent Auditor's Report Related to the Audit of the International
Boundary and Water Commission, United States and Mexico, U.S. Section, FY
2025 Financial Statements

Dear Ms. Voshell:

We acknowledge receipt of the draft report Independent Auditor's Report Related to the Audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section, FY 2025 Financial Statements. As requested, please find below, our updates on actions already taken or planned for each of the audit recommendations to address the Report's findings of significant deficiencies in the areas of Property and Equipment and Inaccurate Recording of Accruals. While we note the significance of the Information Technology (IT)-related deficiency, these matters fall under the purview of the Department of State's systems and therefore are not addressed within our planned actions.

To address the significant deficiencies related to Property and Equipment and the Inaccurate Recording of Accruals, we will be focusing on the key improvement areas outlined below:

Inaccurate Accruals:

1. The Finance and Accounting Division (FAD) will implement a standardized operating procedure that clearly outlines required steps, responsibilities, and documentation standards.
2. The Finance and Accounting Division FAD has established regular meetings with relevant Cost Center Managers and Contracting Officer Representatives (CORs) to review ongoing and new contracts, to verify the status of goods and services received, and confirm that all costs are recorded in the correct accounting period.
3. In FY26, the Administrative Department released an updated Cost Center Manual and is prioritizing updates to Finance directives to clearly define the roles and responsibilities of Cost Center Managers and Contracting Officers Representatives

(CORs), improving timely and accurate recording of property transactions and expenses.

4. USIBWC has also implemented weekly and quarterly coordination between Operations (to include Asset Management), Engineering (to include Master Planning), and the Administrative Department to monitor the full lifecycle of construction projects. A multi-year priority tracking list is being established, and quarterly status reviews with legal, budget, acquisitions, senior engineers, and the Chief Administrative Officer ensure more accurate and timely updates for financial reporting.
5. The Administrative Department mapped the full construction in progress (CIP) process in FY 2025 to capture the lifecycle of construction projects from purchase request through closeout. The Administrative Department is working with Engineering to finalize a standardized procedure that incorporates CIP accounting requirements. This effort, combined with expanded use of data analytics and strengthened internal controls, will support more accurate and timely reporting of construction costs.

Accounting for Personal Property and Equipment:

6. To strengthen controls over personal property, USIBWC completed its FY 2025 and FY 2026 personal property inventories on time with clean results. The agency has also implemented annual memorandums formally designating Cost Center Managers as Custodial Officers, clearly outlining their responsibilities to improve compliance, accountability, and accurate asset recording. The agency has recently implemented a hand receipt sign-off process for accountable IT equipment to ensure documented tracking and oversight of these assets.
7. The Personal Property Office, in coordination with the Finance and Accounting Division, recently implemented a strengthened verification process. Receiving reports (DS-127) are now validated against ILMS asset records before invoices are approved in IPP, ensuring assets are recorded accurately, upon physical receipt (not purchase date, which may differ due to delivery timelines). This approach ensures compliance with asset recognition standards based on receipt and acceptance.
8. The Personal Property Office has implemented updated Standard Operating Procedures (SOPs) to align with current disposal processes utilizing GSA PPMS and ILMS. As part of this improvement, all relevant disposal documentation, including SF-123s, transfer orders, purchase receipts, and DS-132 forms, is now systematically attached to asset records within ILMS to ensure a complete and auditable asset lifecycle history. For assets disposed of in prior fiscal years, these were identified during the Annual Inventory process and subsequently processed for disposal by the Accountable Property Officer (APO) upon receipt of required documentation from custodial officers.

9. The Administrative Department is updating policies and procedures governing disposals and accountable property tracking to clarify requirements and strengthen oversight. The agency is also expanding internal training for property management staff - including WEX/GSA Fleet Card and property management training—to promote consistent compliance with personal property responsibilities across all field offices and levels of oversight.
10. To enhance USIBWC internal controls and address audit observations, we will continue refining and expanding physical inventory procedures to better identify damaged, obsolete, or excess assets in a timely manner. Additionally, we will continue to review procedures for all disposal transactions to ensure accurate classification, including verification of transfers versus disposals, and correction of any misstatements impacting reported gains or losses.

To further strengthen internal controls and reduce manual errors, the agency engaged a consultant in FY 2024 to streamline administrative and financial workflows. This effort included mapping end-to-end processes, simplifying hand-offs, and introducing automation where appropriate. As a result, the agency has achieved measurable time savings, reduced processing errors, and enhanced operational resilience by establishing standardized procedures for critical administrative and financial activities.

This contractor support also enabled the development and rollout of Customer Management Engine (C-ME)—a portfolio of reports that provides Cost Center Managers and Contracting Officer Representatives with direct access to key financial, procurement, and contract oversight data. By consolidating information that previously required manual retrieval, C-ME improves visibility into spending, commitments, contract status, and budget execution with near real-time data views. These insights enhance decision-making, support timely recording of transactions, and strengthen oversight responsibilities across the organization.

Collectively, these efforts reinforce organizational change management and promote stronger collaboration and adoption of best practices across administrative and programmatic operations.

ROBERT
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Tony Frye, Deputy Commissioner
for W.C. McIntosh, P.E., Commissioner

Cc:
Sherry Fullwood, OIG/DOS
Robert “Tony” Frye, Deputy Commissioner, IBWC
Jennifer Pena, Senior Legal Counsel, IBWC
Maricela Ortiz, Lead Accountant, IBWC
Stephanie Mitjans, Kearney & Co.