

September 1998

INTERNATIONAL
BOUNDARY AND WATER
COMMISSION

U.S. Operations Need
More Financial Oversight



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-280776

September 28, 1998

The Honorable Benjamin A. Gilman
Chairman, Committee on International Relations
House of Representatives

The Honorable Harold Rogers
Chairman, Subcommittee on Commerce, Justice,
State, the Judiciary, and Related Agencies
Committee on Appropriations
House of Representatives

The United States provides funds for a number of independent international commissions, such as the International Boundary and Water Commission. You expressed concern about the lack of visibility and transparency (openness) of these commissions' programs and operations. This report provides information on the U.S. Section of the International Boundary and Water Commission. The Commission is responsible for resolving water and boundary issues along the U.S.' and Mexico's 1,952-mile common border.

As agreed with your staff, we examined (1) the sources and uses of the U.S. Section's funds, (2) certain aspects of the U.S. Section's system of accounting and internal controls, (3) the cost-sharing arrangements for joint projects between the United States and Mexico, (4) the administration of U.S. Section operations and maintenance contracts, and (5) the extent of oversight over the U.S. Section's programs and operations.

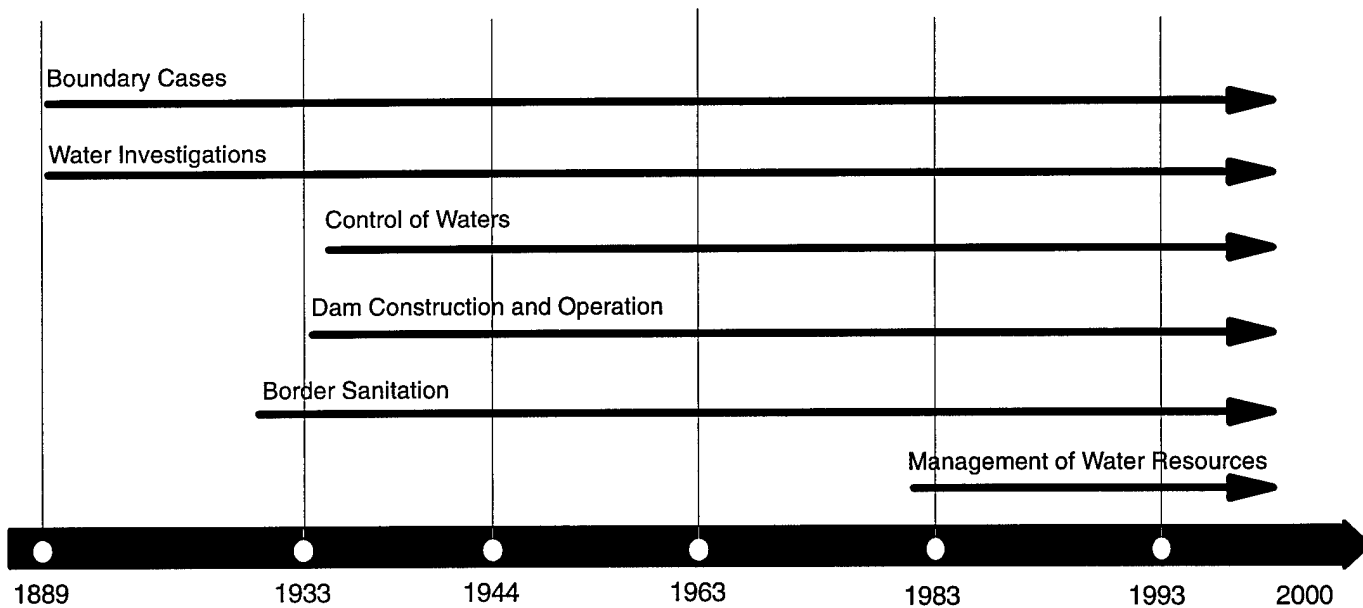
In completing this review, we examined the U.S. Section's activities for fiscal years 1994 through 1998, including project documents, program and financial records, contracts, and internal and external oversight mechanisms. We interviewed officials of the Commission's U.S. Section, the Department of State, the U.S. Environmental Protection Agency (EPA), and selected state and local officials. We also visited selected Commission project sites along the U.S.-Mexico border. (See app. I for a detailed description of our scope and methodology.)

Background

The International Boundary and Water Commission was established in March 1889 by treaty between the governments of the United States and

Mexico.¹ Under the treaty and subsequent agreements, the Commission is responsible for resolving boundary problems and maintaining the boundary between the United States and Mexico and managing issues involving the waters of the Rio Grande and Colorado Rivers. The focus of Commission responsibilities has evolved over time to include resolving border water quality problems and, more recently, to designing, constructing, and operating and maintaining wastewater treatment facilities along the border (see fig. 1). Much of this change in responsibilities has occurred in response to the expansion of economic activity and the growth of population along the border. These developments have heightened the need for additional water sources and an enhanced environmental infrastructure.

Figure 1: Evolution of Commission Responsibilities

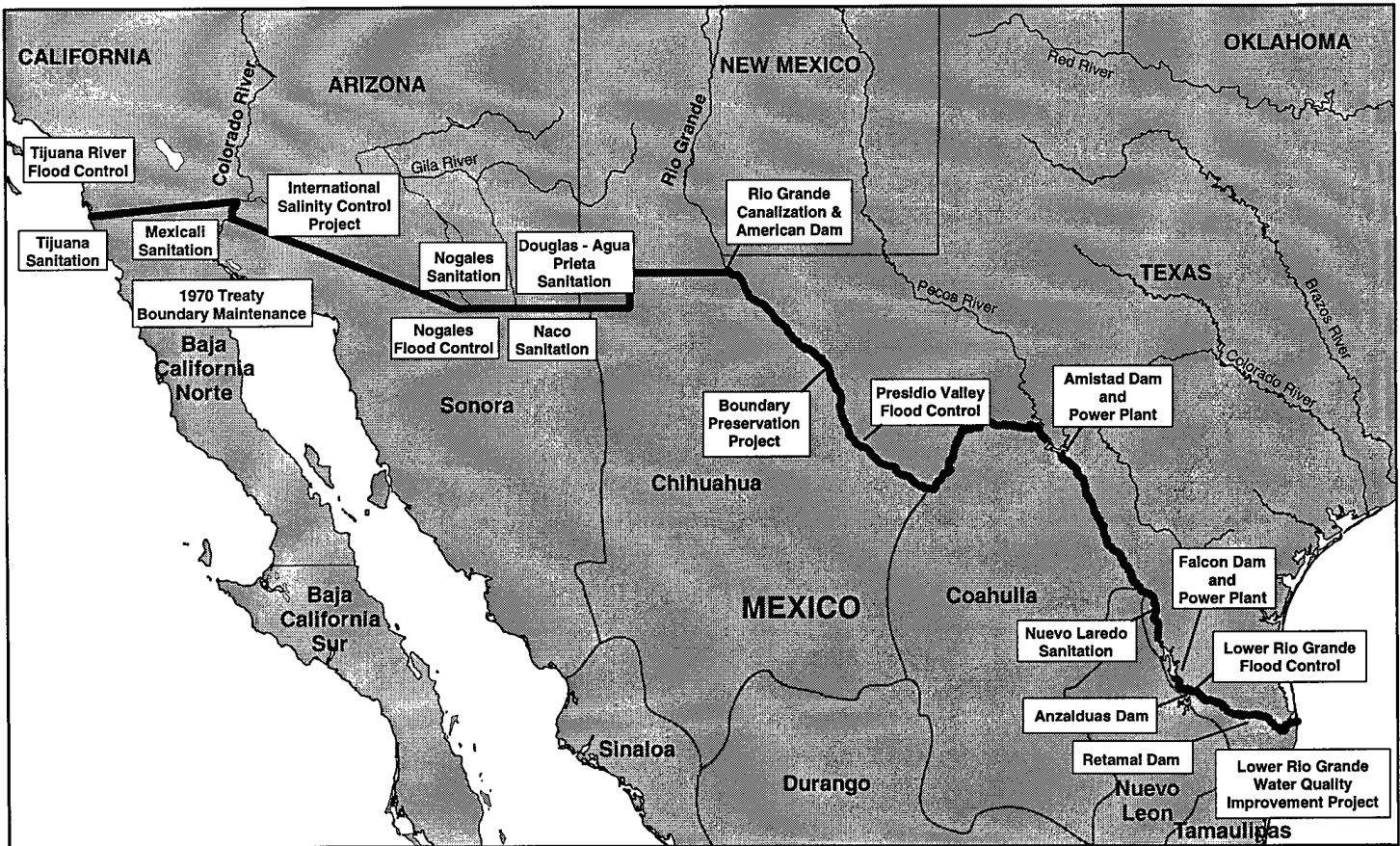


Source: International Boundary and Water Commission.

¹The International Boundary and Water Commission was known as the International Boundary Commission until it was reconstituted as the International Boundary and Water Commission by the Water Treaty of February 3, 1944.

The International Boundary and Water Commission is composed of a U.S. Section and a Mexican Section, each headed by a Commissioner, who must be an engineer. The U.S. Commissioner is appointed by the President for an indefinite term. The current Commissioner was appointed on June 15, 1994. The U.S. Section is located in El Paso, Texas; the Mexican Section is in the adjoining city of Ciudad Juarez, (Chihuahua) Mexico. As of July 1998, the U.S. Section had 254 staff at its headquarters and project offices located along the border. (See fig. 2.)

Figure 2: Location of Commission Projects



Source: International Boundary and Water Commission.

The U.S. Section must comply with applicable federal rules and regulations regarding financial management and contracting, including the Federal Acquisition Regulation. When problems such as the need for wastewater treatment plants on the border require joint actions to resolve, the two Commissioners work together to define the problem, plan the solution, and negotiate the level of participation for each country. The Commissioners jointly prepare draft agreements (referred to as "Minutes") on all aspects of each country's participation (including cost-sharing arrangements) to present to both countries' governments for approval. For joint projects determined to require binding international obligations, the U.S. Commissioner must obtain the approval of the Secretary of State.

Results in Brief

The U.S. Section of the International Boundary and Water Commission has received total funding of approximately \$217.9 million over the last 4 years. The funds were from appropriations and grants or payments from other federal agencies and state and local governments. It also received reimbursement from the Mexican government for costs incurred on joint projects. The U.S. Section expended \$46.7 million in fiscal year 1997, including \$21.9 million from its appropriations and \$24.8 million from grants and payments from others. The funds were used for salaries and benefits, administrative costs, operation and maintenance of International Boundary and Water Commission projects, and construction activities.

The cost-sharing agreements between the United States and Mexico for two recently completed projects had payment terms that varied from those used on other joint developments. For these two projects, the United States agreed to finance Mexico's share of costs due to Mexico's economic difficulties and in order to cover the cost of meeting environmental standards of the United States, which are higher than those in Mexico. This resulted in \$8.6 million worth of increased costs to the United States. The total investment for those two projects—Nogales, Arizona, and South Bay, California—is \$321.9 million.

There are weaknesses in certain aspects of the U.S. Section's finance and accounting systems. For example, funds owed by Mexico were not reflected in year-end financial statements, accounting duties were not properly segregated within the financial management system, and previously identified financial management deficiencies had not been corrected.

Regarding the administration of U.S. Section operations and maintenance contracts, required monthly reports on contractor performance were not submitted. As a result, the U.S. Section made payments of \$1.2 million to the contractors without proper documentation verifying that the required work was completed.

Oversight of the U.S. Section is minimal. Although the State Department reviews the U.S. Section's budget submission and provides policy guidance to the U.S. Commissioner, the Section is not a constituent part of the State Department and, therefore, the Department does not formally examine the Section's managerial activities because it operates administratively as an independent agency. While the Environmental Protection Agency funds some projects along the Southwest border, it only reviews U.S. Section contracts and monitors resulting construction projects where it is a major contributor. In addition, there have been no external financial statement audits of U.S. Section activities since the year-end audit for fiscal year 1995. Further, there are no requirements for program management audits, and none have been conducted since 1980. Moreover, internal audits were not being performed.

The U.S. Commissioner informed us in a July 1998 letter that actions have been taken or are in progress to correct the deficiencies discussed in this report. However, this report contains a matter that Congress may wish to consider to require periodic external financial statement audits of U.S. Section operations.

U.S. Section Receives Funding From Many Sources

The U.S. Section receives its direct appropriations through the Department of State's budget.² The Section's appropriations for salaries, expenses, and construction activities totaled \$85.7 million from fiscal years 1994 through 1997. The Section also receives contributions from federal, state, and local municipalities and the government of Mexico to help construct new projects and operate and maintain existing facilities, such as wastewater treatment plants. Contributions for these purposes totaled approximately \$132.2 million from fiscal years 1994 through 1997. Total funding for the 4-year period, therefore, came to approximately \$217.9 million, as shown in table 1.

²The U.S. Section is funded through federal budget code 300—natural resources and environment, subcode 301—water resources.

Table 1: Sources of U.S. Section Funds, Fiscal Years 1994-97

Funding source	FY1994	FY1995	FY1996	FY1997	Total
Appropriations	\$25,600,000	\$19,479,000	\$18,669,000	\$21,953,000	\$85,701,000
Grants, payments, and reimbursements ^a	22,831,000	50,106,000	34,446,000	24,780,000	132,163,000
Total funds	\$48,431,000	\$69,585,000	\$53,115,000	\$46,733,000	\$217,864,000

Note: This table was developed from unaudited data provided by the U.S. Section. We did not attempt to verify the data or determine that it includes all grants, payments, or reimbursements from all possible sources.

^aIncludes funds from EPA; the General Services Administration; the Western Area Power Administration; Mexico; and the cities of Nogales, Arizona, and Hidalgo and El Paso, Texas.

Source: GAO analysis based on Commission data.

EPA provided \$123 million during this period. Approximately \$108 million was provided to construct wastewater treatment facilities along the border; another \$15 million was given for the administration of an EPA-supported facilities planning program for resolving border sanitation problems. The remaining funds were provided by Mexico (\$1.6 million), the General Services Administration and the Western Area Power Administration (\$1.9 million), local municipalities (\$4.4 million), and other (\$1.3 million).

Uses of Funds in Fiscal Year 1997

The U.S. Section received funds totaling approximately \$46.7 million in fiscal year 1997. These funds were used for U.S. Section operations, project engineering activities, operation and maintenance of existing projects, and construction activities. The expenditures included payments for personnel and benefits, training, travel, and supplies and materials; operating and maintaining field offices, dams, and sanitation plants; monitoring river water quality; and directing various construction projects. (See table 2.)

**Table 2: U.S. Section's Use of Funds,
Fiscal Year 1997**

Use of funds	Amount
Administration and engineering ^a	\$5,415,000
Operations and maintenance ^b	10,070,000
Reimbursements used for operations and maintenance ^c	2,132,000
Construction	6,463,000
Reimbursements used for construction ^d	22,647,000
Unused funds	6,000
Total	\$46,733,000

Note: This table was developed from unaudited data provided by the U.S. Section. We did not attempt to verify the data or determine that it includes all grants, payments, or reimbursements from all possible sources nor did we attempt to verify actual expenditures by program category.

^aIncludes personnel compensation, benefits, travel, training, supplies, materials, printing, and copying.

^bIncludes field offices, dams, sanitation plants, and flood control and water quality projects.

^cWork for which other entities provided a share of the cost in the form of reimbursements.

^dFunds from other entities that are sponsoring the cost of projects, such as EPA, or are sharing in the project cost, such as El Paso.

Source: GAO analysis based on U.S. Section data.

Financial and Accounting Systems Contain Weaknesses

Our examination of certain aspects of the U.S. Section's financial and accounting system found several weaknesses. These weaknesses included problems in recording reimbursements and accounting for funds owed by Mexico. We also observed that the U.S. Section did not follow applicable internal control standards³ regarding separation of duties and had not yet corrected previously identified financial management deficiencies. In addition, we noted that the U.S. Section has had no external financial statement audits conducted since 1995.

Funds Owed by Mexico Not Reflected in Financial Statements

In light of prior audit findings and the size of reimbursements to the U.S. Section by Mexico, we examined the U.S. Section's accounting procedures for billings to Mexico. We found that the U.S. Section had not corrected deficiencies identified in prior external audit reports. In fact, we observed that approximately \$16 million owed by Mexico for construction and operations and maintenance costs, including \$400,000 that had been billed between July 23, 1997, and March 6, 1998, was not properly recorded as

³GAO Policy and Procedures Manual for Guidance of Federal Agencies, "Standards for Internal Controls in the Federal Government" (Washington, D.C.: U.S. General Accounting Office, 1983), title 2, appendix II.

required by generally accepted accounting principles for federal financial reporting purposes. These billings were for the South Bay, California, and Nogales, Arizona, Wastewater Treatment facilities. Since these receivables were not included in the accounting records, the U.S. Section's financial statements and reports did not reflect the Section's true financial position. This discrepancy occurred because the U.S. Section lacks an integrated accounting system. For example, record-keeping for funds owed by Mexico was maintained independently from the accounting and finance system. However, the U.S. Section subsequently provided documentation to adequately support payments made.

Standards for Separation of Duties Are Not Met

To reduce the risk of error, waste, or wrongful acts and ensure that effective checks and balances exist, "Standards for Internal Controls in the Federal Government"⁴ require a separation of duties and responsibilities. Our review of selected U.S. Section disbursements in fiscal years 1997-98 identified that the individual who created an obligation for an expenditure also had the authority to approve a bill for payment without any requirement for approval from contracting or procurement officials that goods or services were received. This scenario is inconsistent with the guidance contained in the "Standards for Internal Controls in the Federal Government," which call for the separation of duties.

Previously Identified Deficiencies Remain

To ensure that resources are not put at risk and that financial reports are based on accurate data, federal internal control standards require prompt resolution of audit findings. We found that the U.S. Section had not corrected 11 of 26 deficiencies, or about 42 percent, identified in annual financial statement audits conducted from fiscal years 1992 through 1995. As these deficiencies remained, the U.S. Section was vulnerable to unreliable financial reporting, noncompliance with laws and regulations, and inadequate safeguarding of assets.

The 11 deficiencies that the U.S. Section had not corrected include

- no procedures for tracking and recording costs to prepare annual financial statements;
- no monitoring of receivable accounts and failure to assess interest on late payments;

⁴GAO Policy and Procedures Manual for Guidance of Federal Agencies.

- insufficient procedures to record amounts due from state and local governments and the government of Mexico to ensure that all amounts due were properly recorded;
- outdated and/or incomplete written accounting policies and procedures;
- no performance of periodic vulnerability assessments and tests of internal controls;
- no system directive providing policy guidance to establish a single, integrated financial management system;
- no submission of payment performance data to the Office of Management and Budget as required by the Prompt Payment Act of 1983;⁵
- no audit follow-up system or procedures to evaluate the system;
- no system to identify and monitor compliance with applicable laws and regulations;
- no performance of periodic, independent reviews of electronic data processing controls; and
- no performance of periodic, physical counts of inventory on hand.

Cost-Sharing Arrangements on Recent Joint Projects

We examined the negotiated cost-sharing arrangements for the five most recent Commission projects undertaken jointly by the United States and Mexico. These projects had terms that varied from those for the other three. For three projects—two wastewater treatment plants and a cross-border bridge—each country assumed full responsibility for their respective project costs. However, for the other two projects—the Nogales Wastewater Treatment Plant, completed in 1992, and the South Bay Wastewater Treatment Plant, completed in 1998—the United States financed Mexico's share of the construction costs with a no-interest loan. Mexico will repay the loaned funds in 10 annual installments and was given a grace period until the plants were fully operational to initiate repayment.

Mexico's agreed-upon shares of the construction costs for the Nogales and South Bay projects were \$1 million and \$16.8 million, respectively. In present value terms, the net cost to the United States to finance Mexico's share for the two projects is approximately \$8.6 million, as shown in table 3. U.S. Section and Department of State officials informed us that this type of arrangement was made by the United States, following negotiation with Mexico, in response to the state of the Mexican economy and the dire need to build these joint projects in the United States, which is the preferred location from technical points of view, but where costs and standards are higher than in Mexico. This arrangement was made due

⁵31 U.S.C. 3901-07.

to the strong desire on the part of the U.S. communities, with the support of their congressional delegations, that these two projects go forward expeditiously.

Table 3: Difference Between Mexico's Actual and Discounted Cost-Share Payments for the Nogales and South Bay Projects

Project	Mexico's annual payments	Total Mexican payments	Discounted present value of Mexican payments	Difference
Nogales Wastewater Treatment Facility	\$100,000	\$1,000,000	\$603,000	\$397,000
South Bay Wastewater Treatment Plant	1,680,000	16,800,000	8,606,000	8,194,000
Total	\$ 1,780,000	\$ 17,800,000	\$ 9,209,000	\$8,591,000

Source: Our analysis based on International Boundary and Water Commission Minutes.

Weaknesses in Contract Administration by the U.S. Section

The primary tool used to validate payment claims by contractors is monthly reports prepared by the on-site contract operations representative. We found that the contract operations representative did not submit these required monthly reports on the performance of the contractors at the international wastewater treatment facilities at South Bay, California, and Nogales, Arizona, to the contract administrator. The reports were not submitted because the reporting requirement was not enforced by the contract administrator. As a result, payments of \$1.2 million were made without proper documentation demonstrating that the required work had been completed.

U.S. Section officials agreed with our findings. They issued directives to the U.S. Section's on-site representatives at both facilities stating that the representatives should immediately begin submitting written reports evaluating the contractor's overall performance and documenting specific performance for each month's work.

Minimal Oversight of U.S. Section Programs and Activities

Oversight of the U.S. Section of the Commission is minimal. While the Department of State reviews the U.S. Section's budget requests and provides foreign policy guidance to the section, the Department told us that it does not have the authority to routinely monitor or oversee the management of the U.S. Section because the Section is not a constituent part of the Department of State. And, EPA's oversight authority over the Commission's operations is limited to construction projects for which it provides funding. In addition, there is no requirement that financial or

program audits of the U.S. Section be conducted. In fact, the U.S. Section has not undergone an external program review since 1980, and, as pointed out earlier, no financial statement audit has taken place since 1995. Moreover, internal audits were not being conducted.

Good management practices call for periodic program audits to determine the extent to which the organization is achieving the desired results or benefits established by its charter, the effectiveness of its programs and activities, and the compliance with the laws and regulations applicable to its programs. The U.S. Section has received no external program audits of its activities since 1980.

The Commission acts as the project manager for selected EPA-funded projects along the southwest border. EPA officials informed us that they (1) review U.S. Section construction contracts, (2) monitor disbursement of project funds, (3) participate in periodic sessions to review the progress of projects with the U.S. Section and other involved agencies, and (4) conduct periodic site visits. They also said that, when appropriate, they contract with other entities to inspect actual construction activities. With respect to contracting, EPA provides advice to the Commission on both technical and business issues. However, EPA's review focuses only on contracts for which it provides funding.

While the head of the Department of State's Office of Mexican Affairs told us that the Department does not routinely exercise management oversight, the Department's Inspector General said that it has authority⁶ to conduct audits and contracted for financial statement audits from 1992 to 1995. However, in a July 1998 letter, State's Inspector General informed us that the Inspector General has not conducted audits since 1995 due to resource constraints.

Lack of Internal Audits

Our review also found that the U.S. Section did not have a well-functioning internal audit capability. The U.S. Section recognizes that internal audit is to be used to determine, through unbiased examinations, that operations are efficient and economical and that other internal controls are sufficient, adequate, and consistently applied. Although the U.S. Section had a compliance office with internal audit responsibilities, the head of the office stated that he was working on other critical personnel issues. He told us that 10 audits had been scheduled for 1998, but no audits had been completed to date.

⁶Inspector General Act of 1978 (5 U.S.C. app. 3).

In a July 29, 1998, letter to us, the U.S. Commissioner agreed with our observations regarding the Section's financial and accounting systems' weaknesses. The Commissioner told us that actions had been taken or were in process to (1) correct general ledger accounts to assure that the accounting reports reflect correct accounts receivable amounts, (2) establish proper segregation of duties and assure that all payments are approved by contracting officers, (3) correct previously identified weaknesses, and (4) provide the internal auditor more time to conduct audits. In light of the Commissioner's actions, this report contains no recommendations for corrective actions regarding the Section's financial and accounting systems.

Conclusions

Border issues between the United States and Mexico form an increasingly critical part of the bilateral relationship. The Commission is involved in a growing number of issues along the U.S.-Mexico border. The expected increase in commerce between the two countries and the resulting impact on the environmental infrastructure are likely to expand the importance of the Commission's operations. Moreover, in addition to its own annual appropriations, the Commission directs funding from other federal, state, and local sources. In light of our findings regarding the finance and accounting systems, including the failure to correct previously identified weaknesses, weaknesses in contract administration, and minimal oversight of programs and activities and the significance of the U.S. Section's activities, we believe greater oversight of the U.S. Section's financial and program operations is needed.

Matter for Congressional Consideration

In order to provide greater oversight over International Boundary and Water Commission operations, Congress may wish to consider requiring the U.S. Commissioner to obtain annual financial statement audits of the U.S. Section's activities by an independent accounting firm in accordance with generally accepted government auditing standards.

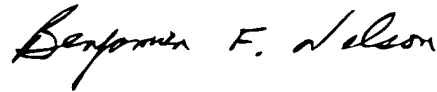
Agency Comments

In written comments on a draft of this report, the State Department agreed with our matter for congressional consideration. The Department also provided technical comments, which we have incorporated in the report where appropriate. The Department of State's comments are reprinted in appendix II.

The EPA reviewed a draft of this report and had no comments.

We are sending copies of this report to the Secretary of State; the Administrator, EPA; and the U.S. Commissioner of the International Boundary and Water Commission. Copies will also be made available to other interested parties on request.

If you or your staff have any questions concerning this report, please call me at (202) 512-4128. Major contributors to this report are listed in appendix III.

A handwritten signature in cursive script that reads "Benjamin F. Nelson".

Benjamin F. Nelson, Director
International Relations and Trade Issues

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Abbreviations

EPA	Environmental Protection Agency
FY	fiscal year

Objectives, Scope, and Methodology

Our objectives were to examine (1) the sources and uses of the funds for the U.S. Section of the International Boundary and Water Commission, (2) certain aspects of the U.S. Section's system of accounting and internal controls, (3) the cost-sharing arrangements for joint projects between the United States and Mexico, (4) the administration of U.S. Section construction and operations and maintenance contracts, and (5) the extent of oversight over the U.S. Section's programs and operations.

We conducted our review at the Department of State and the Environmental Protection Agency (EPA) in Washington, D.C.; the International Boundary and Water Commission's U.S. Section in El Paso, Texas; the International Wastewater Treatment plants in Nogales, Arizona, and South Bay, California; and at EPA Region 9 in San Francisco, California. At all these locations, we examined available program records and files and interviewed knowledgeable officials involved with the Commission's activities.

We did not conduct a full internal control review nor a financial audit of the U.S. Section. Instead, we focused on key aspects of U.S. Section activities that were related to our audit objectives. Further, we did not evaluate the effectiveness of the U.S. Section's activities.

Sources and Uses of Funds

To identify the amount of the U.S. Section's direct appropriation, we reviewed the U.S. Department of State's appropriation data for fiscal years 1994 to 1998 and its budget request for fiscal year 1999. Specifically, we analyzed the U.S. Section's funding development schedules, Department of State apportionment schedules, and reports on budget execution.

To identify those funding sources in addition to the direct appropriation, we analyzed records supporting the U.S. Section's financial statement. We reviewed the funds reimbursed to the U.S. Section for construction, as well as for operations and maintenance expenses from Mexico, other federal agencies (such as EPA), and state and local municipalities. We examined interagency agreements between the Commission and EPA for the administration of EPA's Facility Planning Fund. We reviewed the history and status of construction project funding, schedules of anticipated and earned reimbursements, and various congressional hearing records and correspondence.

To obtain an understanding of various budget and execution records, we interviewed the U.S. Section's key financial management officers, including the Chief Administrative Officer, the Chief of the Finance and Accounting Division, and the Budget Office Analyst. We inspected the records of all funds provided to the U.S. Section for fiscal years 1994-98, identifying direct appropriations from the Department of State and all other funding sources. We also analyzed the uses of those funds and reviewed fiscal year 1997 expenditures.

Accounting and Internal Controls

To determine that funds owed to the U.S. Section from Mexico and other entities for construction and operations and maintenance costs were properly included and classified in the accounts and financial reports, we reviewed appropriation and funding data documents and project Minutes to identify arrangements for and amounts of payments the accounting system should reflect. We examined accounting system reports maintained by the U.S. Section's Finance and Accounting Division that included monthly trial balances, accounts receivable aging, and general ledger unbilled receivables. We also reviewed the Mexico receivables records maintained by the Foreign Affairs Office. We analyzed and scheduled construction and operations and maintenance receivable receipts for fiscal year 1994 through April 1998. To assess whether any corrective measures have been instituted, we reviewed earlier financial statement audits to identify and follow up on any condition of improper accountability of funds due to the U.S. Section. In cases of identified deficiencies in the accounting system processes, we discussed the results with the U.S. Section's Chief Administrative Officer and the Chief of the Financial Services Division to consider what needed to be done to correct the process.

To determine that disbursements were exercised by personnel who had delegated authority and were separate from the obligation function, we selected 11 payments made in fiscal years 1997-98 to review for compliance with requirements. These payments were chosen because they were of an international nature requiring more sensitive scrutiny and were processed outside the unit that initiates contractor payments. We reviewed the transactions' documentation and steps followed to determine who initiated, who reviewed, and who approved the execution of these disbursements. We also documented and reviewed the certifications of delegated monetary authority and obligation authority for personnel associated with these payments. In cases of deficiencies in the process and to understand the consequences of not meeting the "Standards for Internal

Controls in the Federal Government," we discussed the results with cognizant officials to consider what needed to be done to correct the process.

To determine the extent to which previously identified oversight weaknesses have been addressed, we obtained and reviewed all available U.S. Section reports and management letters related to external audits conducted from 1992-95 and compiled a list of all deficiencies identified. For each deficiency, we interviewed cognizant U.S. Section officials and their staff members and reviewed U.S. Section policies and procedures to determine if corrective actions had been taken. To the extent that previously identified deficiencies had not been corrected, we obtained the rationale for not doing so and documented whether a plan for corrective action had been determined.

To assess the adequacy of internal oversight, we interviewed the Compliance Officer and obtained and reviewed pertinent U.S. Section requirements for compliance reviews. We reviewed the U.S. Section's Internal Audit Directive, the current Compliance Officer's activities since joining the U.S. Section, reports and working papers related to completed audits, and the Compliance Officer's future audit plans.

Cost-Sharing Arrangements

To evaluate the cost-sharing arrangements for joint projects with Mexico, we reviewed the Minutes associated with the five most recent negotiations and compared the agreed-upon terms with both Commission and Department of State documentation that demonstrated the level of involvement and when that involvement occurred. To determine how the terms provided to Mexico on two recent joint projects would affect costs, we performed a present value analysis of the repayment schedule. We also reviewed the appropriate Minutes to determine if there were other agreements reached that were not beneficial to the United States.

Contract Administration

To determine the adequacy of the U.S. Section's oversight of contract administration, we reviewed the contract administrator's performance on five recent contracts awarded by the U.S. Section. We identified the applicable regulations, policies, and procedures that govern U.S. Section contracting processes. We selected the five contracts based on their having been awarded in the 1990s, having exceeded \$1 million in value, and having files and key personnel located at the U.S. Section in El Paso, Texas. We assessed the performance of the contract administrator on two

operations and maintenance contracts to ensure that certified payments were supported by proper documentation. We also reviewed the contractor's performance by evaluating the extent to which the contractor corrected known deficiencies.

Program and Operations Oversight

To assess the adequacy of management oversight over U.S. Section activities, we obtained and reviewed policies and procedures associated with oversight of the U.S. Section. We interviewed cognizant officials of the Department of State, EPA, and state and local entities to identify requirements for oversight of the U.S. Section. We analyzed regulations, policies, and procedures provided by these organizations and compared the requirements to the level of oversight achieved.

We performed our work between April and July 1998 in accordance with generally accepted government auditing standards.

Comments From the Department of State



United States Department of State

Chief Financial Officer

Washington, D.C. 20520-7427

September 1, 1998

Dear Mr. Hinton:

We appreciate the opportunity to review your draft report, "INTERNATIONAL BOUNDARY AND WATER COMMISSION: U.S. Section Operations Need Greater Oversight," GAO Job Code 711339.

Enclosed are the Department's technical comments. If you have any questions concerning this response, please call Mr. Paul Storing, Bureau of Inter-American Affairs, Office of Mexican Affairs, ARA/MEX, at (202) 647-8529.

Sincerely,

Kathleen J. Charles
Kathleen J. Charles, Acting

Enclosure:
As stated.

CC:
GAO - Mr. Martin
STATE/ARA/MEX - Mr. Cook

Mr. Henry L. Hinton, Jr,
Assistant Comptroller General,
National Security and International Affairs,
U.S. General Accounting Office.

Appendix II
Comments From the Department of State

4

Pages 17 and 18, under MATTER FOR CONGRESSIONAL CONSIDERATION:

The Department of State has no objection to the recommendation that the U.S. Commissioner obtain annual financial statement audits of the U.S. Section's activities by an independent accounting firm.

Major Contributors to This Report

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