HARPER, RAINS, KNIGHT & COMPANY

Independent Auditors' Report

Inspector General
U.S. Equal Employment Opportunity Commission

Report on the Financial Statements

We have audited the accompanying consolidated balance sheets of the Equal Employment Opportunity Commission (EEOC), as of September 30, 2015 and 2014, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources, for the fiscal years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audit contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements including the accompanying notes, present fairly, in all material respects, the financial position of the Equal Employment Opportunity Commission as of September 30, 2015 and 2014, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information in the Management's Discussion and Analysis, and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic 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 Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information in the Message from the Chief Financial Officer (CFO) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered EEOC's internal control over financial reporting (internal control) to determine the 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 EEOC's internal control. Accordingly, we do not express an opinion on the effectiveness of EEOC's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the Appendices below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a 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. We consider the deficiencies described in Exhibit I to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit II to be significant deficiencies.

We noted certain additional matters that we will report to management of EEOC in a separate letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether EEOC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards.

EEOC's Responses to Findings

EEOC's responses to the findings identified in our audit are described in Exhibits I and II. EEOC's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

***Purpose of the Other Reporting Required by* Government Auditing Standards**

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of EEOC's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

Harper, Rains, Knight & Company, P.A.

November 16, 2015

1. Lack of Sufficient Controls over Financial Management

The U.S. Equal Employment Opportunity Commission (EEOC) changed accounting service providers during the fiscal year, causing significant issues related to financial management. The conversion consisted of an implementation of a new accounting system that required migration of accounting transactions from the legacy system into the new system. Numerous challenges occurred as a result of this change. Management operated for a majority of the year without adequate controls designed to detect and deter misstatements in its financial data. Additionally, support for financial transactions could not be readily located for review.

Based on our testing, we identified the following weaknesses:

- Obligating documents/contracts did not receive proper approval.
- Classification (object class) was not consistent with the expense transaction.
- Unable to provide supporting documentation for expense transactions, including invoices, receiving reports, and proof of payment.
- Unable to provide or readily locate internal control documentation to support the agencies financial management activities, including controls over charge cards, property, plant and equipment, accounts receivable, accounts payable, and all service providers.

Failure to properly record and maintain sufficient documentation over financial management could result in deficiencies in the completeness and existence assertions of assets and liabilities on the Balance Sheets, deficiencies in existence, completeness, and valuation and allocation assertions of program costs on the Statements of Net Cost, as well as noncompliance with laws and regulations.

The Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government (Green Book) states: “Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.”

The Office of Management and Budget (OMB) Circular A-123, Management’s Responsibility for Internal Control states: “Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions:

- Documentation for internal control, all transactions, and other significant events is readily available for examination.”

We recommend that EEOC update its controls over the maintenance of its accounting records. EEOC should ensure that all documentation, whether held by EEOC or its shared service providers, is readily available. EEOC should coordinate with its service providers to identify the type of documentation that is available for each financial transaction, where that information is located, and how long the data is available for review. This information should be clearly documented in EEOC’s policies and procedures. Additionally, management should perform a thorough review of its files to ensure that documentation exists, is accurate, and is available for review. EEOC should also perform an assessment over their internal controls over financial management to ensure all documentation has been updated for control and processes in place subsequent to the conversion.

Management's Response: As discussed with the auditors, fiscal year (FY) 2015 was very challenging for EEOC pertaining to the financial system. At the beginning of FY 2015 (October 2014 thru January 2015), EEOC was using FCS and the service providers were GCE and DOT. In February 2015 EEOC converted to DOI/IBC, Oracle Federal Financials (OFF). All transactions entered in the financial system were supported by a valid obligating document, and subsequently when a payment is made, there is a three way matching process (obligating document, receipt of goods and an invoice). EEOC does not make any payment without this matching process. After January 2015, we did not have access to the FCS system and that posed a problem for us in obtaining supporting documentation to satisfy the samples. All invoices are sent directly to the service provider. There was difficulty in obtaining some supporting documentation from the originating offices. We will advise all EEOC's Administrative Officers (AOs) and District Resource Managers (DRMs) to maintain a signed obligating document, and an invoice (courtesy copy from the vendor) in their files for audit purposes.

This situation will not occur for FY 2016 because EEOC's OFF system is under one service provider (IBC). Also, EEOC will review the retention procedures in place at DOI/IBC and document retention procedures over each type of transaction entered into OFF. These will be documented in a financial policy and procedures document.

As a result of the accounting system conversion, penalty interest was paid because invoices were not processed in a timely fashion in FCS. The prior service provider failed to process some invoices and that resulted in penalty interest. EEOC's plan is to work with the service provider to ensure all invoices are processed in accordance with the Prompt Payment Act.

EEOC will work closely with IBC, Administrative Officers (AOs) and District Resource Managers (DRMs) to verify that the correct budget object class is used for all obligating document. Also, we will stress the importance that all obligating documents, credit card statements are signed by the appropriate official. On October 26, 2015, EEOC discussed with IBC that there should not be any default budget object for any transaction in the OFF system. Also, EEOC will document the controls performed by IBC in an EEOC policy and procedures document.

EEOC plans to fully comply with all PBC requests for the audit of FY 2016 financial statements. We will work with IBC to identify documentation that is available for each financial transaction, where it is located and for how long it is available for review. This will be documented in an EEOC financial policy and procedures document.

Auditors' Response: FY 2016 audit procedures will determine whether the corrective actions have been implemented and are operating effectively.

Significant Deficiencies
Exhibit II

1. Lack of Sufficient Controls over Supporting Documentation for Personnel Expenses

The U.S. Equal Employment Opportunity Commission (EEOC) does not properly maintain supporting documentation for personnel expenses recorded in the general ledger. EEOC maintains personnel files for all employees to ensure that wages and elections for withholdings and benefits are consistent with the employee's intent. These files have minimum standards for accuracy, relevancy, necessity, timeliness, and completeness.

In FY 2015, we tested a sample of 45 employees' personnel expenses and supporting documentation maintained by EEOC in the employees' personnel files (eOPF) for the period of October 1, 2014 through July 31, 2015. Based on our testing, we identified the following exceptions:

<u>Compensation:</u>

- **<u>Two (2)</u>** employees' adjusted base pay rates per the SF-50 do not match the employees' adjusted base pay rates per the Earnings and Leave Statement (ELS).
- **<u>Two (2)</u>** employees' calculated gross pay using hours worked per the ELS and the employees' pay rate indicated in the SF-50 do not match the actual amount per FPPS.

<u>FEHB:</u>

- **<u>Four (4)</u>** employees' calculated employee withholdings using the enrollment code per most recent FEHB enrollment form (SF-2809, SF-2810 or transcript) in eOPF do not match actual employee withholding amount per ELS.
- **<u>Four (4)</u>** employees' calculated agency contributions using the enrollment code per most recent FEHB enrollment form (SF-2809, SF-2810 or transcript) in eOPF do not match actual agency contribution amount per FPPS.

<u>FEGLI:</u>

- **<u>Three (3)</u>** employees' FEGLI coverage per most recent FEGLI election form (SF-2817, FE 2004 or RI 76-27) in eOPF does not agree to election code per SF-50.
- **<u>Three (3)</u>** employees' calculated basic and optional FEGLI withholdings using the FEGLI calculator on OPM's website do not match actual FEGLI employee withholdings per ELS.
- **<u>One (1)</u>** employee's calculated agency contributions for FEGLI do not match actual agency contributions per FPPS.

<u>TSP:</u>

- **<u>Six (6)</u>** employees' elected contribution (percentage/dollar amount) per TSP election form (TSP-1 or transcript) in effect for period in eOPF does not agree to contribution on ELS for pay period sampled
- **<u>Six (6)</u>** employees' showed variances between the employee withholding amount per ELS and employee withholding as calculated by the auditor.

- **<u>Four (4)</u>** employees' showed variances between the employer contribution amount per FPPS and employer withholding as calculated by the auditor.

These exceptions were caused by insufficient controls in place at EEOC to ensure proper and timely documentation is maintained in the eOPF. We identified similar exceptions in our audit from FY 2010, FY 2011, FY 2012, FY 2013, and FY 2014.

EEOC's failure to properly record and maintain official personnel records increases the risk for improper calculations of liabilities on the Balance Sheets and improper calculations of program costs on the Statements of Net Cost.

The Government Accountability Office's (GAO) GAO Standards for Internal Control in the Federal Government (Green Book) states: "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained."

To address this issue, we recommend that EEOC update its controls over the maintenance of its official personnel files. Additionally, management should perform a thorough review of its employees' personnel files to ensure that documentation is current and complete.

Management's Response: The Office of Chief Human Capital Office (OCHCO) will update our policy and procedure to perform internal audits of the EEOC eOPF system for proper implementation and application of all OPM and EEOC policies and procedures over the recording and maintaining of official personnel records. We currently have an agreement with IBC to automatically post changes made in Employee Express to be data flowed directly in e-OPF.

As for those issues that continue to require hard copy submissions, we plan to correct this going forward by fully utilizing our new WTTS/EODS systems (automated on-boarding system). OCHCO is exploring the option to have a contract with OPM to conduct day forward scanning monthly. In addition, management will continue to perform a thorough review of its employees' personnel files to ensure that documentation is accurate and current.

We have resolved the following findings:

<u>FEGLI:</u>

- **<u>Four (4)</u>** employees had basic coverage, so a form is not needed. When an employee on-boards basic coverage is automatic, a form is needed from the employee to waive basic coverage.
- **<u>Three (3)</u>** employees' FEGLI and SF-50 matches in eOPF and FPPS.

<u>FEHB:</u>

- **<u>One (1)</u>** employees' FEHB form was found and scanned into eOPF.

TSP:

- **One (1)** employees' TSP form was found and scanned into eOPF

Auditors' Response: FY 2016 audit procedures will determine whether the corrective actions have been implemented and are operating effectively.

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

Status of Prior Year Findings

Title of Finding from FY14 Audit Report	Prior Year Status	Current Year Status
Lack of Sufficient Controls over Supporting Documentation for Personnel Expenses	Significant Deficiency	Significant Deficiency
Lack of Sufficient Controls over Financial Management	Significant Deficiency	Material Weakness