



**HARPER, RAINS, KNIGHT  
& COMPANY**

*Certified Public Accountants  
A Professional Association*

**Independent Auditors' Report**

Inspector General  
U.S. Equal Employment Opportunity Commission

We have audited the accompanying consolidated balance sheets of the U.S. Equal Employment Opportunity Commission (EEOC), as of September 30, 2013 and 2012, 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. These financial statements are the responsibility of EEOC management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our audit of the EEOC for fiscal years 2013 and 2012, we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles,
- no material weaknesses in internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations, and
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions, (2) our conclusions on Management's Discussion and Analysis and other supplementary information, and (3) our and management's responsibilities.

**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 EEOC as of September 30, 2013 and 2012, 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.

### **Consistency of Other Information**

Management's Discussion and Analysis (MD&A) is not a required part of the financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and accordingly, we express no opinion on it.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered EEOC's internal control over financial reporting and compliance. We did this in order to determine our audit procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 14-02. We did not test all internal controls relevant to the operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. Providing an opinion on internal control was not the objective of our audit. Accordingly, we do not express an opinion on EEOC's internal control over financial reporting and compliance or on management's assertion on internal control included in Management's Discussion and Analysis. However, for the controls we tested, we found no material weaknesses in internal control over financial reporting (including safeguarding of assets) and compliance.

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. 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 deficiency described in Exhibit I to be a significant deficiency.

Our internal control work would not necessarily disclose all deficiencies in internal control that might be material weaknesses or other significant deficiencies.

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

### **Compliance with Applicable Laws and Regulations**

The management of EEOC is responsible for complying with laws and regulations applicable to EEOC. As part of obtaining reasonable assurance about whether EEOC's financial statements are free of material misstatement, we performed tests of its compliance with selected provisions of laws and regulations including laws governing the use of budgetary authority and government-wide policies identified in OMB Bulletin No. 14-02, non-compliance with which could have a direct and material effect on the determination of consolidated and combined financial statements. Our tests disclosed no instances of noncompliance with laws and regulations which would be reportable under auditing standards generally accepted in the United States of America or OMB audit guidance.

We limited our tests of compliance to the provisions of laws and regulations referred to in the preceding paragraph. Providing an opinion on compliance with those provisions was not an objective of our audit. Accordingly, we do not express such an opinion.

### **Management's Responsibility for the Financial Statements**

EEOC's management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met, and (3) complying with applicable laws and regulations.

### **Auditors' Responsibility**

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (3) performing limited procedures with respect to certain other information appearing in the Annual Financial Statement. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the Comptroller General of the United States; and OMB Bulletin No. 14-02. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of EEOC's internal control over financial reporting. Accordingly, we express no such opinion.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the entity and its operations, including its internal control related to financial reporting (including safeguarding assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- tested relevant internal controls over financial reporting, and compliance, and evaluated the design and operating effectiveness of internal control;
- considered the design of the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act; and
- tested compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin No. 14-02.

We believe that our audit provides a reasonable basis for our opinion.

Inspector General  
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We did not evaluate all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act*, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to EEOC. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to the EEOC's financial statements for the fiscal year ended September 30, 2013. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Our audit was conducted for the purpose of forming an opinion on the financial statements of EEOC taken as a whole. The other accompanying information included in this performance and accountability report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

EEOC's written responses to the findings identified in our audit and presented in Exhibit I were not subjected to the auditing procedures applied in the audit of the EEOC's consolidated financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the U.S. Equal Employment Opportunity Commission, the U.S. Office of Management and Budget, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

*Harper, Rainie, Knight & Company, P.A.*

December 12, 2013

## 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 2013, we tested a sample of 76 employees' personnel expenses and supporting documentation maintained by EEOC in the employees' personnel files (eOPF) for the period of October 1, 2012 through March 31, 2013. Based on our testing, we identified the following exceptions:

- Six (6) employees do not have a FEHB enrollment form (SF-2809, SF-2810 or transcript) in eOPF.
- Twenty (20) employees' enrollment code per most recent FEHB enrollment form (SF-2809, SF-2810 or transcript) in eOPF does not agree to enrollment code on LES for pay period sampled.
- Five (5) employees' elected 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 effective during pay period sampled.
- Seven (7) employees do not have a TSP election form (TSP-1 or transcript) in eOPF.
- Fifteen (15) employees' elected contribution (percentage/dollar amount) per most recent TSP election form (TSP-1 or transcript) in eOPF does not agree to contribution on LES for pay period sampled.

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 and FY 2012.

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.

## Significant Deficiencies

### Exhibit I

***Management's Response:*** As mentioned in last year's report, the majority of these issues occurred prior to our new agreement with DOI/IBC and OPM/Employee Express; whereas changes are transmitted automatically to the e-OPF. As for those issues that continue to require hard copy submissions, we will plan to correct this going forward by fully utilizing our new WTTS/EODS systems (automated on-boarding system), our Standard Operation Procedures dates August 6, 2012, which require internal audit and quality assurance reviews. This process requires the review of weekly reports from OPM and performing random samplings of e-OPFs each quarter with a report submitted to the Operations Services Director. We will also continue to use our volunteer veterans to perform some of these functions with the responsibility of monitoring the process and performing the audit going to the e-OPF Systems Administrator.

***Auditors' Response:*** FY 2014 audit procedures will determine whether the corrective actions have been implemented and are operating effectively.