Harper, Rains, Knight & Company

Independent Auditors' Report

Inspector General
U.S. Equal Employment Opportunity Commission

Report on the Audit of the Financial Statements

Opinion

In accordance with the Accountability of Tax Dollars Act, we have audited the financial statements of the U.S. Equal Employment Opportunity Commission (EEOC). EEOC's financial statements comprise the consolidated balance sheets as of September 30, 2023, and 2022, 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.

In our opinion, EEOC's financial statements present fairly, in all material respects, EEOC's financial position as of September 30, 2023, and 2022, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years 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) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-01 are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of EEOC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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

EEOC's 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; preparing, measuring, and presenting the Required Supplementary Information (RSI) in accordance with accounting principles generally accepted in the United States of America; preparing and presenting other information included in documents containing the audited financial statements and auditors' report, and ensuring the consistency of that information with the audited financial statements and the RSI; 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.

1052 Highland Colony Parkway, Suite 100
Ridgeland, MS 39157
p: 601-605-0722 · f: 601-605-0733

1425 K Street NW, Suite 1120
Washington, DC 20005
p: 202-558-5162 · f: 601-605-0733

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and (2) issue an auditors' 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 will always detect a material misstatement or a material weakness 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, GAGAS, and OMB Bulletin No. 24-01, 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 controls 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 EEOC'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.
- Perform other procedures we consider necessary in the circumstances.

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 issued by the Federal Accounting Standards Advisory Board (FASAB) require that the information in the Management's Discussion and Analysis 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 FASAB who considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with GAAS, which consisted of (1) inquiries of management about the methods of preparing the RSI and (2) comparing the information for consistency with management's responses to the auditors' inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit, and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on EEOC's financial statements. The information in the Message from the Chair and Other Information section contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information. Our opinion on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

Report on Internal Control over Financial Reporting

In planning and performing our audit of EEOC's financial statements as of and for the year ended September 30, 2023, in accordance with GAGAS, we considered EEOC's internal control relevant to the financial statement audit 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 EEOC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of EEOC's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and 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 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 deficiencies described in the accompanying Exhibit I to be significant deficiencies.

Our consideration of internal control over financial reporting was for the limited purpose described above 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 have not been identified. However, as described in the accompanying Exhibit I, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

During our audit, we identified a deficiency in EEOC's internal control over financial reporting that we do not consider to be a material weakness or a significant deficiency. Nonetheless, this deficiency warrants EEOC management's attention. We have communicated this matter to management and, where appropriate, will report on it separately.

Report on Internal Control over Financial Reporting (continued)

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

As part of obtaining reasonable assurance about whether EEOC's financial statements are free from material misstatement, we performed tests of its compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, that have a direct effect on the determination of material amounts and disclosures in EEOC's financial statements, and to perform certain other limited procedures, but not for the purposes of expressing an opinion on EEOC's compliance with applicable laws, regulations, contracts, and grant agreements. Accordingly, we do not express such an opinion. We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to EEOC. EEOC management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the entity.

Our tests of compliance with these selected provisions of applicable laws, regulations, and contracts, and grant agreements disclosed no instances of noncompliance for the year ended September 30, 2023, that would be reportable under GAGAS or OMB Bulletin No. 24-01. We caution that noncompliance may occur and not be detected by these tests.

Management's Response to Finding

Management's response to the findings identified in our audit is described in the accompanying Exhibit I. Management's response was not subjected to the auding procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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* is solely to describe the scope of our testing of internal control and compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on the effectiveness of EEOC's internal control or compliance. These reports are an integral part of an audit performed in accordance with GAGAS and OMB Bulletin No. 24-01 in considering the entity's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

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

November 14, 2023
Washington, DC

Exhibit I
Significant Deficiencies

I: Technology Modernization Fund Transactions

Condition:

EEOC was required to repay $60,000 in FY2021, $740,000 in FY2022, and $800,000 in FY2023 to GSA for funds associated with the Technology Modernization Fund (TMF) initiatives. Each of these payments were made, but inaccurately recorded as expenses in SGL 610000, Operating Expenses/Program Costs instead of as a reduction of the liability to GSA. As such, EEOC did not properly record the repayment of GSA funds and the capitalized costs associated with the TMF.

Criteria:

GSA's TMF was authorized by the Modernizing Government Technology Act of 2017 to fund projects for technology-related activities to improve information technology and enhance cybersecurity across the Federal government. Agency projects that are approved by the Technology Modernization Board are eligible to receive funding in the form of SF 1151: Non-expenditure Transfer Authorization. Projects recommended for funding by the Board receive incremental funding contingent on the successful execution of milestones. This funding could be full or incremental funding based on an agreed-upon schedule, detailing both the transfers-out (non-expenditure) and repayments to GSA (expenditure). Repayments, in accordance with the written agreement, must occur within 5 years of the last transfer-out to the recipient agency. EEOC has applied for, and received, $4 million over the past two fiscal years to fund its modernization program and has a liability established to repay GSA in U.S. Standard General Ledger (SGL) 299000, Other Liabilities. Guidance for transactions related to TMF can be found on Treasury's website[1].

Per the SGL 183200, Internal-Use Software in Development, is used to record the full cost amount incurred during the software development stage of (1) contractor-developed software, and (2) internally developed software. Upon completion, these costs will be transferred to the proper capital asset account as the acquisition cost of the item. This account does not close at year-end.

Per the SGL 661000, Cost Capitalization Offset, is used to record the amount of any costs originally recorded into another expense account that are directly linked to a specific job or a product. These costs are transferred to an "in-progress: asset account such as inventory-work-in-process, construction-in-progress, internal-use software in development or a completed asset account.

Cause:

EEOC Office of Information Technology (OIT) is responsible for notifying EEOC Office of Chief Financial Officer (OCFO) of any changes to projects for software under development. OIT failed to notify OCFO regarding progress on TMF activity in the current year. Additionally, controls over financial reporting were not operating effectively to appropriately capture the repayments to GSA.

[1] https://www.fiscal.treasury.gov/files/ussgl/approved_scenarios/technology-modernization-fund-accounting-guide-(gsa)-fiscal-2023.pdf

I: Technology Modernization Fund Transactions (continued)

Effect:

EEOC understated SGL 1832 (Internal-Use Software in Development) and overstated SGL 6610 (Cost Capitalization Offset) by $1,638,368 and overstated both SGL 2990 (Other Liabilities) and SGL 6100 (Operating Expenses/Program Costs) by $1,600,000 as of 9/30/23.

Recommendation:

We recommend that EEOC adjust the balances for all activity as of September 30, 2023, and vigilantly monitor transactions related to software under development, especially those associated with the TMF. As such, OIT should notify OCFO at least quarterly of all activity related to software under development for proper recording of costs associated with internally developed software.

Managements' Response

OCFO will coordinate with OIT to develop and implement TMF procedures that ensure the accuracy and timely recording of such transactions as a requirement for quarterly and year-end financial reporting.

Exhibit I
Significant Deficiencies

II: State and Local Expenditure Accruals

Condition:

We reviewed invoices received in October 2023 to ensure that cutoff of accounts payable was complete. Transactions were identified with FY23 activity that were not accrued in accounts payable as of September 30, 2023. Upon further examination, these transactions were contracts to state and local government offices (State and Local Program FPSLP).

- We reviewed eight transactions received in October 2023 greater than $100,000 that were not accrued as of September 30, 2023, totaling $2,467,520. Upon expanding invoice review to all state and local (FPSLP), the value of invoices received totaled $3,891,340.34.

Criteria:

EEOC Financial Policy and Procedures #7 – Accounts Payable Review Process states:

"EEOC's Certification of Unliquidated Obligations for Annual and Revolving Fund Accounts (1311 Review) will be conducted on a quarterly basis. Use EEC 1311 Undelivered Orders Review for this certification in Oracle Federal Financials (OFF).

District Offices submit their certifications to the Office of Field Programs (OFP) Headquarters. HQ offices should forward a hard copy of the certification to OCFO/FSSD (Finance and Systems Services Division).

As part of the review, ensure the following steps have been taken on a quarterly basis: 1) Must review all undelivered orders for validity of amount and accuracy of classification. 2) Must cancel/de-obligate invalid undelivered orders. 3) Ensure all items have the proper documentation required to support an obligation, delivery status, and payment.

Conducting these reviews: Make the necessary adjustments and reporting the results assist EEOC with determining the accurate status of appropriation account balances. To comply with accounting standards, all Office Directors must certify and sign that obligation reviews have been completed and that balances are not over-stated or under-stated. Because of the importance of the 1311 Review, each reviewer and certifying officer (Director) should make every effort to perform a complete review of the financial documents under the management control of the office. For every open item listed on the report they must be supported by a source document. The supporting documentation should be provided quickly upon request by FSSD or the external auditors. If there are no source documents to support the open item, the open balance for the item should be de-obligated."

Cause:

Contracts for State and Local Programs were not reviewed at year-end to ensure that outstanding expenditures could be accrued as of September 30, 2023.

II: State and Local Expenditure Accruals (continued)

Effect:

Failure to review these balances resulted in an understatement of accounts payable and expenditures on the Balance Sheet and an overstatement of the undelivered orders balance reflected in the notes to the financial statements.

Recommendation:

We recommend EEOC review all State and Local Program undelivered orders at year end and accrue an estimated value of these payments that will be made after year-end. As the State and Local Program is a reimbursement for the current year activity, the expectation is that a significant amount of these transactions will be submitted for reimbursement. EEOC should perform a historical review of State and Local Program reimbursements against contracts to determine an estimate to apply to all unpaid State and Local Program undelivered orders at each year end. Utilizing this historical ratio against current year outstanding undelivered orders as an accrual amount should help ensure that EEOC capture its costs for the fiscal year.

Managements' Response

OCFO will collaboratively work with the State and Local Program office to refine business operating procedures that align to the year-end accounting procedures by conducting trend analysis to generate an estimate for accrual processing in addition to maintaining consistent communication policy changes.