MEMORANDUM

TO: Stuart J. Ishimaru
Acting Chair

FROM: Aletha L. Brown
/s/
Inspector General

SUBJECT: Audit of the Equal Employment Opportunity Commission's Fiscal Year 2009 and 2008 Financial Statements (OIG Report No. 2009-04-FIN)

The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of Cotton and Company LLP to audit the financial statements of the U.S. Equal Employment Opportunity Commission (EEOC) for fiscal years 2009 and 2008. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards; Office of Management and Budget's Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/President's Council on Integrity and Efficiency's *Financial Audit Manual*.

Cotton and Company LLP issued an unqualified opinion on EEOC's FY 2009 and 2008 financial statements. In its Report on Internal Control, Cotton and Company LLP noted two areas involving internal control and its operation that were considered to be significant deficiencies. These included time and attendance controls and controls over revenue and receivables. In its Report on Compliance, Cotton and Co. LLP noted no instances of non compliance with certain laws and regulations applicable to the agency.

In connection with the contract, OIG reviewed Cotton and Company LLP's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on EEOC's financial statements or conclusions about the effectiveness of internal controls or on whether EEOC's financial management systems substantially complied with FFMIA; or conclusions on compliance with laws and regulations. Cotton and Company LLP is responsible for the attached auditor's report dated November 13, 2009 and the conclusions expressed in the report. However, OIG's review disclosed no instances where Cotton and Company LLP did not comply, in all material respects, with generally accepted government auditing standards.

EEOC management was given the opportunity to review the draft report and to provide comments. Management comments are included with the report as an attachment.

cc: Richard Roscio
Jeffrey A. Smith
Raj Mohan
Nicholas Inzeo
John Schmelzer
Anna Middlebrook

Lisa Williams
Kimberly Hancher
Peggy Mastroianni

Independent Auditor's Report

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Inspector General
Equal Employment Opportunity Commission

INDEPENDENT AUDITOR'S REPORT

We have audited the Balance Sheets of the U.S. Equal Employment Opportunity Commission (EEOC) as of September 30, 2009, and 2008, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the years then ended. These financial statements are the responsibility of EEOC management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EEOC as of September 30, 2009, and 2008, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis (MD&A) and other accompanying information are not required as part of EEOC's basic financial statements. For MD&A, which is required by OMB Circular A-136, *Financial Reporting Requirements*, and the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 15, *Management's*

Discussion and Analysis, we made certain inquiries of management and compared the information for consistency with EEOC's audited financial statements and against other knowledge we obtained during our audits. For other accompanying information, we compared the information with the financial statements. On the basis of this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance. We did not audit the MD&A or other accompanying information, and therefore express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued separate reports dated November 13, 2009, on our consideration of EEOC's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws and regulations. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing; not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audits.

COTTON & COMPANY LLP

Colette Y. Wilson, CPA
Partner

November 13, 2009
Alexandria, Virginia

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL WITH COMMENTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

We have audited the Balance Sheets of the U.S. Equal Employment Opportunity Commission (EEOC) as of September 30, 2009, and 2008, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the years then ended. We have issued our report thereon dated November 13, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits, contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audits, we considered EEOC's internal control over financial reporting as a basis for designing audit procedures for the purpose of expressing an 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. We did, however, note two matters involving internal control and its operation, which we considered to be significant deficiencies.

1. **Time-and-Attendance Controls**
2. **Inaccurate Timekeeping**

During fiscal year (FY) 2009, EEOC continued to experience difficulties in correctly recording time and attendance information. In addition, timekeepers and certifiers did not perform thorough reviews of information entered into EEOC's timekeeping system to ensure that it accurately reflected work performed by employees.

We noted the following during our testing:

- 55 timesheets were not signed by the employee
- 32 timesheets were not signed by the supervisor
- 33 instances in which the activity coding and/or hours per the timesheet did not tie to the information in Federal Personnel Payroll System (FPPS)
- 69 instances in which the program coding per the timesheet did not tie to information in the FPPS
- 13 SF-71 Request for Leave forms were not properly approved
- 14 instances in which the information per the SF-71 did not tie to the information in FPPS.

Per EEOC policy, each employee is required to complete a Cost Accounting Bi-weekly Timesheet each pay period. The employee is required to record and allocate time worked using activity codes that represent EEOC program areas. In addition, certifiers are expected to review and approve the assignment of hours to activity codes.

Failure to properly record hours worked and activity codes on the Bi-weekly Timesheet or entering incorrect data into EEOC's accounting system could lead to improper calculations of accrued annual leave liability as presented on the Balance Sheets, as well as incorrect program cost allocation on the Statements of Net Cost.

Recommendation: We recommend that the EEOC Office of Human Resources (OHR) review and refine controls in place over time-and-attendance reporting to ensure that all employees report accurate and complete information to timekeepers. Additionally, we recommend that OHR implement a policy requiring timesheets with incorrect or incomplete information to be returned to employees for correction before certifying time-and-attendance information in EEOC's online timekeeping system.

Management Response: Management concurred with the finding and recommendation. See appendix B for management's detailed response.

3. **Controls Over Revenue and Receivables**
4. **Untimely Revenue Recognition**

Revenue transactions for the Revolving Fund (RF) were recorded in the wrong period. Our testing of RF training-event transactions identified revenues of $12,694 recorded in FY 2008 for training events that occurred in FY 2009. This error was noted during the FY 2008 audit, but an adjustment was not processed in FY 2009 to properly record the revenue.

Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources*, Paragraph 36, states:

> *When services are provided to the public or another Government entity (except for specific services produced to order under a contract), revenue should be recognized when the services are performed.*

SFFAS No. 7 also states in Paragraph 37:

> *When advance fees or payments are received... revenue should not be recognized until costs are incurred from providing the goods and services (regardless of whether the fee or payment is refundable). An increase in cash and an increase in liabilities, such as "unearned revenue," should be recorded when the cash is received.*

The Revolving Fund Division (RFD) recognizes exchange revenue at the time a customer registers for a training course. In FY 2008, an accrual was processed at yearend to recognize that income that had not yet been earned was deferred for reporting purposes. This accrual did not, however, capture all unearned revenue at yearend. In FY 2009, an adjustment was not processed to properly recognize the revenue in FY 2009.

Recommendation: We recommend that the Chief Financial Officer (CFO), along with the Director of the RFD, review accrual procedures in place and refine these procedures to ensure that all revenue not earned at yearend is properly classified as deferred in the financial statements.

Management Response: Management concurred with the finding and recommendation. See appendix B for management's detailed response.

Incorrect Amounts and Ineffective Reconciliations over Revenue

Reconciliations are ineffective between Momentum and Certain Registration, the feeder system used to record event registrations and product orders for the RF. Momentum activity reconciled for FY 2009 did not tie to the yearend revenue balance reported on the financial statements. Additionally, differences in reconciliations were not resolved in a timely manner.

Results of testing also noted unsupported revenue amounts recorded in the general ledger. During substantive testing of revenue balances, RF personnel could not provide documentation to support revenue amounts recorded in the general ledger. This resulted in a known $2,392 overstatement of revenue and a projected overstatement of $272,440.

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1,* p. 15,states that control activities should be in place *"... to ensure that all transactions are completely and accurately recorded."*

The failure to ensure that financial system data are complete and accurate could lead to inaccurate and incomplete information being reported in the financial statements.

Recommendation: We recommend that the CFO work with the Director of RFD to ensure that documentation is maintained to support all transactions recorded in the general ledger. Additionally, we recommend that the CFO coordinate with the Director of RFD to ensure that timely, complete, and accurate reconciliations are performed between the general ledger and the subsidiary ledger, and that differences identified are researched and resolved.

Management Response: Office of Field Program (OFP) Management provided the following response:

"We believe this matter was resolved and need more information on the alleged discrepancies in order to determine if this finding is correct as we provided you with timely reconciled reports for FY 2009 from the Certain Registration System via Willie Eggleston on October 20, 2009. Additionally, we provided you with copies of the consolidated reconciliations from our current registration system managed by Kinsail Inc. on October 16, 2009."

Auditor Response: We received the documentation referenced in OFP's response and noted that the information included in the reconciliations provided did not tie to the yearend trial balance. We followed up with OFP personnel on 11/03/2009 regarding the discrepancies noted. Additionally, the 11/03/2009 email was forwarded to OFP management on 11/13/2009 upon receipt of OFP's comments. No response was received thus we still consider this matter unresolved.

The status of recommendations included in the FY 2008 Report on Internal Control is detailed in appendix A.

We noted other matters involving internal control and its operation that we will report to EEOC management in a separate letter.

This report is intended solely for the information and use of EEOC management, others within EEOC, OMB, and Congress. It is not intended to be and should not be used by anyone other than these specified parties.

5. COTTON & COMPANY LLP

Colette Y. Wilson, CPA
Partner

November 13, 2009
Alexandria, Virginia

APPENDIX A

STATUS OF MANAGEMENT'S ACTIONS ON PRIOR-YEAR RECOMMENDATIONS FISCAL YEAR 2009 FINANCIAL STATEMENT AUDIT U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

Recommendation	**Status as of 11-13-2009**
We recommend that the EEOC Office of Human Resources (OHR) review and refine controls in place over time-and-attendance reporting to ensure that all employees report accurate and complete information to timekeepers. Additionally, we recommend that OHR implement a policy requiring return of timesheets with incorrect or incomplete information to employees for correction before certification of time-and-attendance information in EEOC's online timekeeping system.	Unresolved: Repeat Condition
We recommend that the CFO, along with the Director of the RFD, review accrual procedures in place and refine these procedures to ensure that all revenue not earned at yearend is properly classified as deferred in the financial statements.	Unresolved: Repeat Condition
We recommend that the CFO work with the Director of RFD to ensure that documentation is maintained to support all transactions recorded in the general ledger. Additionally, we recommend that the CFO coordinate with the Director of RFD to ensure that timely, complete, and accurate reconciliations are performed between the general ledger and the subsidiary ledger and that differences identified are researched and resolved.	Unresolved: Repeat Condition

APPENDIX B

November 13, 2009

MEMORANDUM

TO:	Aletha L. Brown Inspector General
FROM:	Lisa M. Williams /s/ Chief Human Capital Officer
SUBJECT:	Response to Draft FY 2009 Financial Statement Audit of the EEOC

This is in response to the draft audit reports from Cotton & Company dated November 12, 2009. By way of this memorandum, our response is as follows:

Original Entry in the Draft letter:

Time and Attendance Reporting -- Recommendation

We recommend that the EEOC Office of Human Resources (OHR) review and refine controls in place over time-and-attendance reporting to ensure that all employees report accurate and complete information to timekeepers. Additionally, we recommend that OHR implement a policy requiring timesheets with incorrect or incomplete information to be returned to employees for correction before certification of time-and-attendance information in EEOC's online timekeeping system.

Response to Recommendation:

As we reported in our response to the FY 08 audit report, in early October 2008, the update for the FY 09 Time Attendance Guidance was produced and placed on EEOC's internal website for reference. It dictates that "Timekeepers will review time and attendance documentation to determine that they are complete and accurate. If any documentation is missing or if the Bi-Weekly Worksheet is coded inaccurately, the Timekeeper must return the form to the employee for correction." Also at that time, OHR sent an email through the FPPS GroupWise Mailbox to all timekeepers and certifiers; a reminder that this has been an issue in past audit results and advised them to review those documents that may be requested of them. One piece of good news is that the Agency has purchased a web based time and attendance system which will alleviate most of these problems. It will be completely paperless and will provide a number of edits which will ensure the accuracy of the data. It is set for implementation in January 2011. In the meantime, OHR would like to request a list of the specific offices involved in the audit and any other information that can be provided. We would like to communicate the information directly to Office and District Directors to ensure a better outcome of next year's audit.

If you have any questions, please feel free to contact Arlethia Monroe of my staff at (202) 663-4340.

November 13, 2009

TO: Aletha L. Brown
Inspector General

FROM: Nicholas M. Inzeo /s/
Director, Office of Field Programs

SUBJECT: November 12, 2009 Transmittal-Draft FY 2009 Financial Statement Audit of The EEOC

Following is management's response to the Untimely Revenue Recognition noted for the Revolving Fund:

We agree with your findings. However, please note that although the $12,694 of revenue was not properly identified as deferred it was reported as earned. Therefore, we could not reclassify the amount as unearned or deferred and ultimately correct the error.

Following is management's response to Incorrect Amounts and Ineffective Reconciliations over Revenue:

We believe this matter was resolved and need more information on the alleged discrepancies in order to determine if this finding is correct as we provided you with timely reconciled reports for FY 2009 from the Certain Registration System via Willie Eggleston on October 20, 2009. Additionally, we provided you with copies of the consolidated reconciliations from our current registration system managed by Kinsail Inc. on October 16, 2009.

In response to the unsupported revenue amounts recorded in the general ledger:

We agree with this finding and implemented controls on December 2, 2008 with our new contractor to insure that proper documentation is being kept to support all revenue amounts in the general ledger. We have had at least two internal control reviews to test this system of controls the week of May 19, 2009 and the week of June 25, 2009 and found that our new registration contractor is properly maintaining support documentation.

November 13, 2009

MEMORANDUM

TO: Aletha L. Brown

Inspector General

FROM: Jeffrey A. Smith
Chief Financial Officer

SUBJECT: November 12, 2009 Transmittal -- Draft FY 2009 Financial Statement Audit of the EEOC

We have no comments on the draft reports for the financial audit and compliance with laws and regulations.

For the draft internal control report, we have no comments on the "Inaccurate Timekeeping" findings and "Recommendation."

For the draft internal control report, we have no comments on the "Untimely Revenue Recognition" and "Incorrect Amounts and Ineffective Reconciliations over Revenue" findings. Similar recommendations carried forward without resolution from the fiscal year 2008 internal control report. The Office of the Chief Financial Officer (OCFO) accounting staff went to considerable lengths during fiscal year 2009 to assist the Office of Field Programs (OFP) staff with hands-on reconciliations and technical meetings on these accounting issues. We thought our technical assistance would help clear the findings. We suggest OFP, possibly with a third party, conduct a detail review of the revolving fund accounting processes and procedures. This review and subsequent action plan may help eliminate these findings for the fiscal year 2010 financial audit.

We thank Cotton & Company LLP management and staff for their professional audit services for fiscal year 2009 and the prior six years.