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Independent Auditors' Report

Inspector General
U.S. Equal Employment Opportunity Commission

Report on the Financial Statements

We have audited the accompanying consolidated balance sheet of the Equal Employment Opportunity Commission (EEOC), as of September 30, 2014 and 2013, and the related consolidated statements of net cost, and changes in net position, and combined statement 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 general accepted accounting principles 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. 14-02, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 14-02 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.

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, 2014 and 2013, 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

Generally accepted accounting principles 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 Chair and 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*.

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

Internal Control over Financial Reporting - continued

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. During our audit, we did identify deficiencies in internal control that we consider to be significant deficiencies, described in Exhibit I.

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, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. 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 or OMB Bulletin No. 14-02.

EEOC's Responses to Findings

EEOC's responses to the findings identified in our audit are described in Exhibit I. 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 17, 2014

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 2014, we tested a sample of 63 employees' personnel expenses and supporting documentation maintained by EEOC in the employees' personnel files (eOPF) for the period of October 1, 2013 through March 31, 2014. Based on our testing, we identified the following exceptions:

- **Two (2)** employees do not have a FEHB enrollment form (SF-2809, SF-2810 or transcript) in eOPF, but show FEHB transactions per FPPS and LES.
- **Five (5)** 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 which results in a variance between the employee's withholding amount calculated by the auditor and per the LES.
- **Four (4)** 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 which results in a variance between the employer's contribution amount calculated by the auditor and per FPPS.
- **Two (2)** employees do not have a FEGLI enrollment form (SF-2817, FE 2004 or RI 76-27) in eOPF, but show FEGLI transactions per FPPS and LES.
- **Six (6)** 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 which results in a variance between actual employee withholdings per LES and calculated employee withholdings per OPM.
- **Three (3)** 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 which results in a variance between actual employer contributions per FPPS and employer contributions as calculated by the auditor.
- **One (1)** employee does not have a TSP election form (TSP-1 or transcript) in eOPF, but shows TSP transactions per LES.
- **Seven (7)** 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 which results in variances between the employee withholding amount per LES and employee withholding as calculated by the auditor.
- **Seven (7)** 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 which results in 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, and FY 2013.

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: We accept the recommendation that EEOC update its controls over the maintenance of its official personnel files. The Office of Chief Human Capital Office (OCHCO) has established a 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 posted in e-OPF directly. However, this is not always done in “real” time. Therefore, OCHCO is currently working with Interior Business Center (IBC) to establish a link to “view FEHB/TSP Transaction Data” bi weekly. This report will allow OCHCO to view all FEHB and TSP transactions completed in Employee Express in a certain time frame (bi weekly); whereas we can cross reference any activities. This should be accomplished by November 24, 2014; and if not OCHCO will follow-up with IBC.

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) and scanning in those documents we have received from our new hires. In addition, management will continue to perform a thorough review of its employees’ personnel files to ensure that documentation is accurate and current, as we started this spring.

Also, you tested a sample of 63 payroll expense transaction and noted 37 exceptions. We have reviewed the 37 exceptions of which seven issues (2/6/51/55 and 1/10/26) were the same employees/same issues; twenty-two (22) were exceptions, which we will have to possibly negotiate with affected employees to complete a corrective document; and the remaining 8 have been investigated, forms located and scanned, in the appropriate e-OPF.

Auditors' Response: FY 2015 audit procedures will determine whether the corrective actions have been implemented and are operating effectively.

2. Lack of Sufficient Controls over Financial Management

The U.S. Equal Employment Opportunity Commission (EEOC) did not properly evaluate the controls in place at its financial systems service provider, Global Computer Enterprises, Inc. (GCE), during the fiscal year.

The U.S. 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.

The Federal Managers Financial Integrity Act of 1982 (FMFIA) states: “Internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurances that --

(i) obligations and costs are in compliance with applicable law
(ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
(iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

GCE ceased its operations in September, 2014. As a result, GCE did not conduct or provide EEOC with an SSAE 16 Report over the controls in place during the fiscal year and EEOC did not perform an evaluation of the controls at the service provider.

The lack of monitoring internal controls could result in an inadequate assessment of the risk of material misstatement to the financial statements, ineffective review of financial transactions, and potential misstatement of the financial statements.

To address this issue, we recommend that EEOC implement procedures to ensure that it has a complete understanding of policies and procedures at its service providers.

Management's Response: EEOC will be proactive to implement procedures so that we have a clear understanding of the services that are provided by our financial service provider (Note: relative to this recommendation, there was an unusual situation with GCE/GSA/DOL with the purchase of GCE). In February 2015, EEOC service provider will be DOI/IBC. Our previous experiences with DOI/IBC were exceptional and we do not foresee that this problem will exist with DOI/IBC.

Auditors' Response: FY 2015 audit procedures will determine whether the corrective actions have been implemented and are operating effectively.