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Inspector General
Equal Employment Opportunity Commission

Independent Auditor's Report on Compliance with Laws and Regulations

Cotton & Company LLP audited the Consolidated Balance Sheet of the Equal Employment Opportunity Commission (EEOC) as of September 30, 2003; the related Consolidated Statements of Net Cost of Operations, Changes in Net Position, and Financing; and the Combined Statement of Budgetary Resources for the year then ended and has issued our report thereon dated December 22, 2003. We conducted our audit in accordance with *Government Auditing Standards*, auditing standards generally accepted in the United States of America, and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*.

EEOC management is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of EEOC's compliance with certain provisions of laws and regulations. Noncompliance with these laws and regulations could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 01-02, including requirements referenced in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to EEOC.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the preceding paragraph, exclusive of FFMIA, that we are required to report under *Government Auditing Standards* or OMB Bulletin 01-02.

Under FFMIA, we are required to report whether EEOC's financial management systems substantially comply with federal financial management system requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803 (a) requirements.

The results of our tests disclosed one instance, described in the following two paragraphs, in which EEOC's financial management systems do not substantially comply with applicable federal accounting standards.

EEOC's reporting of cost information was not in substantial compliance with provisions of Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Standards*. Specifically, EEOC allocated material amounts of costs based on estimates rather than actual data. This standard requires that costs that cannot be directly traced to cost objectives be allocated on a reasonable and consistent basis.



EEOC prorated costs to each program based on the number of staff who worked on the program (full-time equivalent, or FTE) to the number of FTEs used by EEOC for Fiscal Year (FY) 2003. Instead of collecting actual numbers, EEOC estimated the number of FTEs used in each program. It made these estimates in the middle of the fiscal year, and they were not based on hours worked as reported by each employee or the employee's immediate supervisor. Moreover, an adequate audit trail of the process of determining FY 2003 estimated FTEs for each program did not exist.

Recommendation

We recommend that, if EEOC allocates similar costs to programs in FY 2004, it (1) collect hours worked by cost objective after the end of the fiscal year, (2) obtain this information from employees or their immediate supervisors, and (3) establish and adequately document an audit trail for data collection and summarization.

Management Comments

The CFO agreed that EEOC's method for allocating costs was not in substantial compliance with SFFAS No. 4. Further, the CFO stated that he needs to gather hours worked by cost objective on a frequent basis to meet EEOC's other reporting needs. He commented that our recommendation to collect this information after yearend will not be adequate to meet these other reporting needs.

Auditor Comments

Our recommendation was made specifically to allow EEOC to meet its yearend financial reporting requirements, which at present are its only financial reports subject to an independent audit. EEOC may propose and adopt other methods of collecting this information, provided that they meet the intent of SFFAS No. 4.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of EEOC management, OMB, and Congress. It is not intended to be and should not be used by anyone other than these specified parties. This report is, however, a matter of public record and its distribution is not limited.

COTTON & COMPANY LLP



Matthew H. Johnson, CPA , CISA, CGFM

December 22, 2003
Alexandria, Virginia