Harper, Rains, Knight & Company

Independent Auditors' Report

Inspector General
U.S. Equal Employment Opportunity Commission

Report on the Financial Statements

We have audited the accompanying consolidated balance sheets of the Equal Employment Opportunity Commission (EEOC), as of September 30, 2016 and 2015, 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.

Management's Responsibility for the Financial Statements

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; 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 audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 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.

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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 EEOC as of September 30, 2016 and 2015, 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 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 audit of the financial statements as of and for the year ended September 30, 2016, 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 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.

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. 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. 15-02.

EEOC's Responses to Findings

EEOC's response to the finding identified in our audit are described in Exhibit I. EEOC's response was 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

November 15, 2016

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 2016, we tested a sample of 45 employees' personnel expenses and supporting documentation maintained by EEOC in the employees' personnel files (eOPF) for the period of October 1, 2015 through July 31, 2016. Based on our testing, we identified the following exceptions:

FEHB:

- **One (1)** employees' FEHB withholding amount per the OPM FEHB Premium Rates chart (using the enrollment per the SF-2809) does not agree to the employee FEHB withholding amount per the ELS.
- **One (1)** employees' FEHB contribution amount per the OPM FEHB Premium Rates chart (using the enrollment per the SF-2809) does not agree to the employer FEHB contribution amount per the FPPS.

TSP:

- **Five (5)** employees' elected TSP employee withholdings per eOPF (TSP-1) and the ELS do not agree.
- **Five (5)** employees' calculated TSP employee withholding amount based on the bi-weekly elected TSP percentage or fixed amount per TSP-1 does not agree with the actual TSP employee amount withheld per ELS.
- **Five (5)** employees' calculated TSP employer contribution amount (automatic and matching) based on the bi-weekly elected TSP percentage or fixed amount per TSP-1 does not agree with the actual TSP employer contribution amount recorder per FPPS.

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 audits of FY 2010, FY 2011, FY 2012, FY 2013, FY 2014, and FY 2015.

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: The Office of Chief Human Capital Office (OCHCO) accepts the recommendation. However, while this has been a repeated finding, OCHCO has improved tremendously over previous years. As of this report, we were cited for 5 issues as opposed to the 32 plus issues in previous years. This was due to lack of resources and performance issues. We are recruiting for a Branch Chief, GS-14 who will oversee the data input. We will have three HR Assistants, all of which will be responsible for benefits processing instead of one. We have contract scanners who are currently reviewing all documents for scanning. This along with our temporary Payroll Administrator, who is very knowledgeable in this area, we should receive a clean audit next year. With the arrival of the new Chief Human Capital Officer, we will discuss with her the possibility of adding this to our Business Operations and Strategic Planning Division’s audit responsibilities.

Auditors' Response: FY 2017 audit procedures will determine whether the corrective actions have been implemented and are operating effectively.