



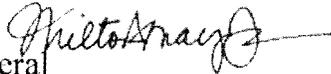
U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION
Washington, D.C. 20507

Office of
Inspector General

November 12, 2010

MEMORANDUM

TO: Jacqueline Berrien
Chair

FROM: Milton A. Mayo, Jr. 
Acting Inspector General

SUBJECT: Audit of the Equal Employment Opportunity Commission's Fiscal
Year 2010 Financial Statements (OIG Report No. 2010-03-FIN)

The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of Harper, Rains, Knight and Company, P.A (HRK) to audit the financial statements of the U.S. Equal Employment Opportunity Commission (EEOC) for fiscal year 2010. 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*.

HRK issued an unqualified opinion on EEOC's FY 2010 financial statements. In its Report on Internal Control, HRK 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 with Applicable Laws and Regulations, HRK noted no instances of non compliance with certain laws and regulations applicable to the agency.

In connection with the contract, OIG reviewed HRK'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. HRK is responsible for the attached auditor's report dated November 10, 2010 and the conclusions expressed in the report. However, OIG's review disclosed no instances where HRK 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: Claudia Withers
Jeffrey A. Smith
Raj Mohan
Nicholas Inzeo
John Schmelzer
Mary McIver
Lisa Williams
Kimberly Hancher
Peggy Mastroianni
Justine Lisser
Todd Cox



**HARPER, RAINS, KNIGHT
& COMPANY**

*Certified Public Accountants
A Professional Association*

Report of Independent Auditors

Inspector General
Equal Employment Opportunity Commission

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of the U.S. Equal Employment Opportunity Commission (EEOC), as of September 30, 2010, and the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources, for the year then ended. These financial statements are the responsibility of EEOC management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of EEOC as of September 30, 2009 were audited by other auditors whose report, dated November 13, 2009, expressed an unqualified opinion on those statements.

We conducted our audit 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 OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2010, and its net cost of operations, changes in net position, and budgetary resources for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

In planning and performing our audit, we considered EEOC's internal control over financial reporting and compliance. We did this in order to determine our audit procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, as amended. We did not test all internal controls relevant to the operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. Providing an opinion on internal control was not the objective of our audit. Accordingly, we do not express an opinion on EEOC's internal control over financial reporting and compliance or on management's assertion on internal control included in Managements' Discussion and Analysis. However, our work identified the

need to improve certain internal controls, as defined above, they are described in Exhibit 1. These deficiencies in internal control, although not considered material weaknesses, represent significant deficiencies in the design or operation of internal control, which adversely affect the entity's ability to meet their internal control objectives or meet OMB criteria for reporting matters under FMFIA.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all deficiencies that might be a significant deficiency. A significant deficiency is a deficiency in internal control, or a combination of 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. Our consideration of the internal control over financial reporting would not necessarily disclose all significant deficiencies that might be a material weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected.

Report on Compliance with Applicable Laws and Regulations

The management of EEOC is responsible for complying with laws and regulations applicable to EEOC. As part of obtaining reasonable assurance about whether EEOC's financial statements are free of material misstatement, we performed tests of its compliance with selected provisions of laws and regulations including laws governing the use of budgetary authority and government-wide policies identified in OMB Bulletin No. 07-04, as amended, non-compliance with which could have a direct and material effect on the determination of consolidated and combined financial statements. Our tests disclosed no instances of noncompliance with laws and regulations which would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance.

We limited our tests of compliance to the provisions of laws and regulations referred to in the preceding paragraph. Providing an opinion on compliance with those provisions was not an objective of our audit. Accordingly, we do not express such an opinion.

Other Information

Management's Discussion and Analysis (MD&A) is not a required part of the financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of EEOC taken as a whole. The other accompanying information included in this performance and accountability report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the Equal Employment Opportunity Commission, the U.S. Office of Management and Budget, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

Heuper, Ramm, Knight & Company, P.A.

November 10, 2010

Exhibit 1

Significant Deficiencies

1. Lack of Adequate Controls over Time and Attendance

In fiscal years (FY) 2008 and 2009, a significant deficiency relating to the lack of adequate controls over time and attendance was reported.

The following recommendations were made to management:

- The EEOC Office of Human Resources (OHR) should review and refine controls in place over time and attendance reporting to ensure all employees report accurate and complete information to time keepers.
- OHR should 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.

In response to the prior year finding, OHR indicated the updated Time Attendance Guidance included policy and procedures to address the deficiencies and that follow-up with timekeepers and certifiers was performed. In addition, OHR's response indicated EEOC had purchased a web based time and attendance system with a planned implementation of January 2011.

During FY 2010, EEOC continued to experience difficulties in providing support for recorded time and attendance, including providing time and attendance support that was incomplete, for the incorrect pay period and not properly approved.

We noted the following during our testing:

- 3 instances in which no information was provided for the employee
- 7 instances in which the Bi-weekly Labor Hours Distribution Worksheets provided were for the wrong pay period
- 5 instances in which Bi-weekly Labor Hours Distribution Worksheets did not indicate pay period end date
- 20 instances in which the SF-71 Request for Leave forms were not properly approved.

Based on the knowledge OHR is implementing a new system in FY2011, we make the following recommendations:

- Integrate and document the existence of controls in the web based time and attendance system, set for implementation in January 2011, which address and mitigate the time and attendance deficiencies identified in the current year and two previous years.
- Establish a policy and procedure to perform internal audits of the EEOC time and attendance system for proper implementation and application of all EEOC policies and procedures over the recording and maintaining of time and attendance.

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

2. Lack of Adequate Controls over Revenue and Receivables

In fiscal years (FY) 2008 and 2009, a significant deficiency relating to the lack of adequate controls over revolving fund (RF) revenue and receivables was reported.

It was recommended to management that the Revolving Fund Division (RFD) ensure documentation is maintained to support all transactions recorded in the general ledger.

During fiscal year (FY) 2010, EEOC continued to experience difficulties providing complete and timely documentation supporting RF transactions recorded in the general ledger.

We noted the following during our testing:

- 4 instances in which the project code on the invoice does not match the document number recorded in Momentum.
- 24 instances in which the invoices provided do not provide complete support for the recorded transaction in Momentum.

Per interviews with RFD personnel, we were informed that due to systems limitations with the contracted systems to record on-line registrations and payment and the core accounting system, additional manual processes were required to be performed by RFD personnel on a daily basis in order to maintain accurate accounting records over the RF revenue and accounts receivable activity.

Recognizing the manual nature of certain RF revenue and accounts receivable activities, we make the following recommendations:

- RFD and CFO management should work with the third party contractors of EEOC's on-line registration and payment and core accounting systems to identify potential solutions to systems limitations regarding the recording of RF revenue and accounts receivable transactions.
- RFD management should continue working with the third party contractor of EEOC's on-line registration and payment system to ensure accurate and complete documentation is maintained and readily available to support all RF transactions recorded in the general ledger.
- RFD management should document all manual procedures performed to maintain proper RF revenue and accounts receivable balances.
- RFD management should maintain complete documentation and justifications for all manual RF transactions entered in Momentum by RFD personnel.

Management's Response: Management generally concurs with the finding and recommendation. See appendix B for management's detailed responses. While the OCFO concurs with the overall finding, they take exception to their inclusion, as well as the inclusion of the core accounting system, Momentum, in the recommendation and request "the recommendation in the first bullet needs to drop the reference to CFO management and core accounting system limitations."

Auditor Response: Ultimately the OCFO is responsible for all transactions recorded in Momentum and therefore their inclusion in the recommendation is considered necessary to resolve the finding.

Appendix A

Status of Management's Actions on Prior Year Recommendations

Recommendation	Status as of 11-10-2010
OHR should review and refine controls in place over time-and-attendance reporting to ensure that all employees report accurate and complete information to timekeepers. Additionally, OHR should 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
The CFO, along with the Director of the RFD, should 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.	Resolved
The CFO should work with the Director of RFD to ensure that documentation is maintained to support all transactions recorded in the general ledger.	Unresolved: Repeat Condition
The CFO should 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 the differences identified are researched and resolved.	Resolved

Appendix B
Management's Response



U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION
Washington, D.C. 20507

Office of
Human Resources

November 9, 2010

MEMORANDUM

TO: Milton A. Mayo, Jr.
Acting Inspector General

FROM: Lisa M. Williams /s/
Chief Human Capital Officer

SUBJECT: Transmittal of Draft FY 2010 Financial Statement Audit Report of the EEOC

In response to Exhibit 1, Number 1, Lack of Adequate Controls over Time and Attendance, we understand the listed findings.

To improve control over our time and attendance (T&A) system, in January 2011, the EEOC is transitioning to Quicktime which is an automated web-based T&A system that allows employee entry of time, as well as traditional timekeeper data entry. The system provides for extensive editing to ensure that data meets relational edits and regulatory requirements. T&A's must be validated and certified through electronic signatures before updating and producing payroll interface files. Quicktime currently provides payroll interfaces for our existing Federal Personnel and Payroll System (FPPS).

We are providing mandatory training sessions, webinars, and workshops for all timekeepers and certifiers. Web-based training is currently available on inSite for all Agency end users.

As a result of this new T&A system, we hope to improve the internal controls and provide more integrity to the overall T&A process.

If you have any questions regarding the above, you may contact me or Tonya Williams at ext. 4341.



U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION
Washington, D.C. 20507

Office of the Chief Financial Officer

November 9, 2010

MEMORANDUM

TO: Milton A. Mayo, Jr.
Acting Inspector General

FROM: Jeffrey A. Smith
Chief Financial Officer

A handwritten signature in black ink that reads "Jeffrey A. Smith".

SUBJECT: November 5, 2010 Transmittal – Draft FY 2010 Financial Statement Audit of the EEOC

We have no comments on the draft for the “Opinion on the Financial Statements” and “Report on Compliance with Applicable Laws and Regulations.”

For the draft “Report on Internal Control over Financial Reporting” we have no comments on “1. Lack of Adequate Controls over Time and Attendance” notes and recommendations.

For the draft internal control report, we have comments on “2. Lack of Adequate Controls over Revenue and Receivables.” Our comments deal with the RFD personnel interviews and the recommendation in the first bullet. RFD personnel are incorrect by suggesting there are system limitations with the core accounting system that cause additional manual processes. The facts are that the contracted system sends over invalid project codes to the core accounting system. The core accounting system correctly rejects them in the edit process. Also, the contracted system sometimes sends over incorrect collections and refunds. There would be no manual intervention if valid project codes and collections and refunds were correctly interfaced to the core accounting system from the contracted system. To allow incorrect data into the core accounting system would compromise financial data quality. As a result, the recommendation in the first bullet needs to drop the reference to CFO management and core accounting system limitations.

As noted, similar revolving fund findings and recommendations carried forward without resolution from the fiscal year 2008 and 2009 internal control reports. As we recommended in 2009, we again recommend an independent third party professional services firm conduct a detail evaluation of the revolving fund accounting processes and procedures as well as the third party accounts receivable and collection system. Hopefully, an evaluation coupled with system and procedure changes will eliminate these findings for the fiscal year 2011 financial audit.



U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION
Washington, D.C. 20507

Office of
Field Programs

November 9, 2010

MEMORANDUM

TO: Milton A. Mayo, Jr.
Acting Inspector General

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

SUBJECT: Management's Comments Regarding Auditor's Draft Report on Internal Controls

In the November 5, 2010, report from Harper, Rains, Knight & Co., P.A., the auditors noted a lack of adequate controls over revenue and receivables in the Revolving Fund.

We agree with the auditor's finding. While the Revolving Fund staff has worked closely with the contractor responsible for the registration process and the agency's financial management staff, we agree that there is more to be done in this area. However, during the audit process there appeared to be some instances in which there existed uncertainty with respect to what the auditor required in the form of support for some of the samples provided.

Further, just prior to completion of the audit of the Revolving Fund controls, a new Program Director was selected and after being briefed by staff directly involved in this process agrees that additional steps are warranted to ensure this finding is not repeated in the future. Over the next year, the Director will work to identify what changes are warranted in the existing process and to implement those changes as quickly as possible. She also plans to work with the registration contractor to ensure that information required for future audits is available in a timely manner and format to satisfy audit requirements.