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BY THE COMPTROLLER GENERAL

RELEASED

Report To The Chairman, Committee On Labor And Human Resources United States Senate

OF THE UNITED STATES

Continuing Financial Management Problems At The Equal Employment Opportunity Commission

For years, the Equal Employment Opportunity Commission has experienced severe financial management problems that adversely affect its ability to properly control and account for funds. The result has been unreliable financial information from which management decisions are made and inaccurate yearend reporting.

Agency management recognizes the extent of the Commission's financial problems and has promised a series of corrective actions. In recent months, progress has been made toward resolving longstanding deficiencies. Correction of financial management problems must continue to receive priority so that adequate fund controls can be established for fiscal 1982 funds and law violations that have developed can be resolved.

UNITED STATES GENERAL ACCOUNTING OFFICE

118663

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-205343

The Honorable Orrin G. Hatch
Chairman, Senate Committee on
Labor and Human Resources

Dear Mr. Chairman:

In your July 20, 1981, letter you asked us to review the financial operations of the Equal Employment Opportunity Commission (EEOC) with emphasis on determining the extent of deficiencies in the Commission's controls over appropriated funds. We issued, at your request, an interim report in October 1981 on the results of our review as of that date. In that report, we noted that EEOC's accounting system generally included necessary design features to effectively control and account for funds. However, the Commission's failure to operate the system as designed and comply with other procedures resulted in a number of serious deficiencies, some dating back several years.

Subsequent to our interim report, EEOC's Acting Chairman promised a number of actions to correct its financial management problems. This final report recognizes corrective actions promised or taken by the Commission and recommends further actions needed to establish control over fiscal 1982 funds and to ensure that long-standing deficiencies are corrected.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its date. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE COMMITTEE ON
LABOR AND HUMAN RESOURCES
UNITED STATES SENATE

CONTINUING FINANCIAL MANAGEMENT PROBLEMS AT THE EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

D I G E S T

In the past three fiscal years, the Equal Employment Opportunity Commission (EEOC) received about $377 million in budget authority to carry out its authorized programs and other activities. At the request of the Chairman, Senate Committee on Labor and Human Resources, GAO reviewed EEOC's accounting system for controlling those funds.

EEOC's accounting system generally includes design features necessary to control its funds. However, because the Commission failed to properly maintain and operate the system, records and reports produced were unreliable, receivables were not promptly collected, and bills were not paid on time. Also, in failing to follow some established procedures, the Commission's employees have created violations of law that must now be dealt with.

DEFICIENT ACCOUNTING PRACTICES HAVE RESULTED IN UNRELIABLE RECORDS

Accounting records provide the detailed information necessary to prepare financial reports for agency management and external organizations, such as the Department of the Treasury. EEOC's accounting system is capable of mechanically producing these reports. However, the staff manually prepared the yearend external reports for fiscal 1980 and 1981 by making millions of dollars worth of adjustments to the fund balances reported in general ledger accounts. These adjustments were made with the intent to more accurately report fund balances. However, GAO noted financial management problems of such severity at EEOC that reports generated using data from the centralized accounting system cannot be considered accurate. Specifically:

--Accounting records and reports were unreliable, due to such problems as the failure to keep general ledgers and subsidiary ledgers in agreement, to promptly input accounting transactions, and to reconcile obligation balance differences between the centralized accounting system and obligations records maintained by program and field offices. (See pp. 5-11.)

--Receivables, payables, and advances were inaccurately reported, due to the agency's failure to validate obligations, collect receivables, accurately record outstanding loans, settle travel advances, and perform contract audits. (See pp. 14-18, 32-33.)

--Internal controls were weak due to improper segregation of duties, insufficient training and supervision of key accounting and budget personnel, and inadequate internal audit coverage of financial operations. (See pp. 20-24.)

These problems, most of which were noted in GAO's interim report (AFMD-82-17, Oct. 30, 1981) will require considerable management attention and priority to correct. Failure to promptly resolve the problems will adversely affect the accuracy of future financial reports and the reliability of management decisions made based on those reports. Already, in an effort to resolve its operational problems, EEOC delayed production of monthly reports on fiscal 1982 funds until March 1982.

POOR FISCAL PRACTICES HAVE RESULTED IN ADDITIONAL FUND CONTROL PROBLEMS

The Commission in recent years has committed a number of questionable acts, some of which violate federal statutes. Specifically:

--Obligating funds in one fiscal year to cover goods and services that were clearly to satisfy needs of future years; in some cases, using expired instead of current appropriations to cover costs.

--Failing to review the validity of the unliquidated obligations as recorded; in one case, even recording a transaction as an obligation that was known to be invalid.

--Certifying yearend reports for fiscal 1980 and 1981 as accurate under conditions clearly indicating that the reports contained erroneous data; in one case, after specifically being told that the data were inaccurate.

--Entering, with questionable authority, into agreements whereby money was either loaned or granted to private persons.

RECOMMENDATIONS

GAO is making a number of recommendations to the Chairman, EEOC. (See pp. 13, 19, 25, and 34.) Included are recommendations that the Chairman:

--Review obligations made at the end of the past three fiscal years and adjust records as necessary to charge obligations to the correct year. Also, complete the investigation of the yearend certifications and, if conditions warrant, refer the case to the Department of Justice. (See p. 34.)

--Require EEOC employees to follow established accounting procedures, develop new procedures where needed, record and collect receivables owed the agency, and validate unliquidated obligations. (See pp. 13, 19, 25, and 34.)

--Direct the Office of Audit to periodically review financial activities to determine if promised corrective actions are completed and if procedures for recording data and reconciling records are being followed. (See p. 13.)

AGENCY COMMENTS AND ACTIONS

EEOC's management recognizes the extent of its financial management problems which are discussed in chapters 2, 3, and 4. EEOC has reviewed those chapters and agrees with the contents. In discussing GAO's interim report (see app. I), the Acting Chairman, EEOC, promised specific corrective actions. Among them were the following:

--Fill all vacant budget and accounting officer positions and hire more internal auditors.

--Resolve and input all valid transactions rejected by the mechanized accounting system, and establish a cleanup cycle before producing any future periodic reports.

--Begin an active program for validating unliquidated obligations and settling outstanding travel advances.

--Improve the internal control system by establishing proper segregation of duties.

Resolution of EEOC's financial management problems has received high priority and progress has been made in implementing promised actions. Recently, fiscal 1982 records were established through March 1982. Obligation balances must, however, be reconciled to total obligations reported by each program and field office before the balances can be relied upon as accurate.

Contents

ABBREVIATIONS

EEOC	Equal Employment Opportunity Commission
GAO	General Accounting Office
MAPS	Manpower and Payroll Statistics
OMB	Office of Management and Budget

CHAPTER 1

INTRODUCTION

In the past 3 years, the Congress has provided the Equal Employment Opportunity Commission (EEOC) with about $377 million in budget authority to carry out its authorized programs and activities. The agency is required by provisions of the Accounting and Auditing Act of 1950 (31 U.S.C. 66a) to establish and maintain an accounting system that will provide the data needed for management purposes and for reporting to the Congress and others on budget execution. In fiscal 1981, the Senate Committee on Labor and Human Resources became concerned about the adequacy of EEOC's system and on July 20, 1981, the Committee's Chairman asked us to review the system with emphasis on determining the extent of deficiencies.

The Committee's request was prompted by allegations that serious control deficiencies existed in EEOC's accounting operation similar to those discussed in our 1976 report. 1/ In that report, we stated that the chaotic accounting record conditions existing at the agency in fiscal 1974 led to the agency's obligating more money than was appropriated by the Congress, a practice specifically prohibited by the Anti-Deficiency Act (31 U.S.C. 665). We cited a number of actions promised by the agency to improve the reliability of its accounting records and the effectiveness of its fund control procedures. We also noted that the agency had made good progress toward establishing controls over the fiscal 1975 appropriation.

Our preliminary work on the Committee's request established that serious deficiencies again existed in EEOC's accounting operation. In an interim report, issued in October 1981 at the request of the Committee, 2/ we discussed

--recordkeeping problems that make accounting records unreliable for management purposes,

--actions that negate fund control features of the system,

--practices that adversely affect bill payment and debt collection, and

--internal control weaknesses that contribute to accounting and other management problems.

1/"Violations of the Anti-Deficiency Act And Other Financial Management Problems at the Equal Employment Opportunity Commission," FGMSD-76-12, Apr. 5, 1976.

2/"Financial Management Problems At The Equal Employment Opportunity Commission," AFMD-82-17, Oct. 30, 1981.

Although our interim report contained no recommendations to the agency, the Acting Chairman of EEOC notified the Committee on December 14, 1981, of the actions taken or planned to correct the deficient conditions discussed in the interim report. Since that time, the Commission has also started or planned other actions to address system deficiencies subsequently noted.

This final report presents the results of our review of EEOC's accounting system and acknowledges actions completed or planned by the agency to correct longstanding system deficiencies. It discusses the adequacy of these actions and recommends controls to ensure that the agency this time corrects system deficiencies as promised.

RESPONSIBILITY FOR CONTROLLING APPROPRIATED FUNDS

EEOC was created by Title VII of the Civil Rights Act of 1964 (42 U.S.C. 2000e-4) as amended, and became operational July 2, 1965. The Commission comprises five members appointed for 5-year terms by the President with the advice and consent of the Senate. The chairperson--designated by the President--directs the Commission's operations with the advice and consent of the other four members.

The Commission receives its budget authority for authorized activities in the form of an annual appropriation from the Congress. The appropriation specifies the amount of obligations that can be incurred for such items as orders placed, contracts awarded, services received, or similar transactions during the fiscal year that will require payment during the same or future periods. Following the apportionment of the obligation authority from the Office of Management and Budget (OMB), the Commission Chairman makes two allotments to the executive director. One allotment is for the agency's salaries and expenses and the other is for fair employment contracts with State and local agencies. Below the allotment level, the executive director issues operating budgets of fixed amounts to program managers in EEOC headquarters and field offices for the purpose of carrying out the Commission's function. Accounting for the annual appropriations is performed centrally in headquarters and relies largely on data and documentation submitted from the headquarters program and field offices.

The Commission's current centralized accounting system was acquired in 1978 from a private contractor. The system was intended to be a centralized integrated accounting system operated in Washington, D.C. EEOC uses the computer facilities of the Food and Drug Administration in Rockville, Md., to process transactions prepared by system personnel. EEOC employees, however, are paid by the Manpower and Payroll Statistics (MAPS) system operated by the General Services Administration in Kansas City. The MAPS system interfaces with the control system by providing summary data needed for recording payroll costs and related expenses.

REQUIREMENTS FOR ACCOUNTING SYSTEMS CONTROLLING AGENCY FUNDS

As required by section 113 of the Accounting and Auditing Act of 1950 (31 U.S.C. 66a), the head of an executive agency such as EEOC should establish and maintain an accounting system that meets all internal needs for costs and other financial data to plan, program, budget, control, and report on the agency's operations. The accounting system also must be capable of producing the financial information needed to keep the Congress fully informed on the agency's financial status and operations. It should provide the data needed by other organizations of the executive branch, particularly OMB and the Department of the Treasury.

EEOC's accounting system should conform to the principles, standards, and related requirements prescribed by the Comptroller General pursuant to 31 U.S.C. 66a. The general guidance for agency accounting systems is set forth in the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies. For example, title 2 of the manual cautions about the need for the system to produce complete and reliable records and points out that some of the more important system objectives are to provide assurance that:

--All obligations and costs are kept within the limits of congressional appropriations and other authorizations and restrictions.

--All funds, property, and other assets are safequarded against waste, loss, misuse, or misappropriation.

--All revenues and expenditures applicable to agency operations are properly recorded and accounted for.

--All financial, statistical, and other reports are accurate and reliable.

The Comptroller General approved an accounting system design for EEOC in 1973. However, the system currently operated by the agency differs materially from the approved one. The new system was under consideration for approval at the time of the Chairman's request for our audit.

OBJECTIVES, SCOPE, AND METHODOLOGY

We reviewed EEOC's accounting system to determine if the system is being operated as designed and in accordance with GAO standards. Our objectives were to assess the reliability of data produced by the accounting system; evaluate the current system of internal controls; determine if required accounting procedures, such as periodic validations of unliquidated obligations, are being carried out; and make a determination on the legality of certain agency practices. Our work was performed in accordance with the current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." In our review, we:

--Used an internal control review guide to identify a number of control weaknesses requiring management's attention.

--Examined agency reports generated manually and by the mechanized accounting system showing such items as transactions not reflected in periodic reports and fund balances.

--Interviewed agency officials to determine current practices under which accounting operations are performed.

--Examined a sample of travel advances to 178 individuals to determine if receivables are accurately reported and if adequate actions are being taken to collect balances due.

--Reviewed obligation records of four EEOC district offices to determine procedures used to record and submit obligations to headquarters and reconcile budget allowance balances.

Our examination of unsettled travel advances was based on two separate samples. The first sample of 78 cases was selected at random within various classes of EEOC employees and others traveling on EEOC funds, such as State and local government employees and consultants. These included 23 consultants, 12 State and local government employees, and 43 past or present EEOC employees. The remaining 100 cases were selected at random from a report showing 2,300 individuals with unsettled travel advances. Manual travel records could not be found for 7 of the first 100 selected, so we selected 7 replacements by continuing to use the numbers in our random number table. The 100 cases reviewed included 78 past or present EEOC employees and 22 State and local government employees.

Our work was performed at EEOC headquarters and at the Dallas, Atlanta, Denver, and Seattle district offices. We did not review EEOC's payroll records which are processed in Kansas City or, because of the extent of the accounting problems, attempt to establish correct fund balances. Our findings relate to financial management problems of EEOC and not to the agency's programs or overall objectives.

The next three chapters discuss longstanding accounting problems at EEOC. The agency has reviewed those chapters and agrees with the contents. Chapter 5 discusses legal issues related to fiscal practices we noted.

CHAPTER 2

ACCOUNTING RECORDS AND REPORTS

ARE UNRELIABLE

An agency's accounting records should provide the basis for accurate reports on fund utilization to management and to external sources, such as the Department of the Treasury. The records should also provide management with the financial data it needs to make decisions on authorized programs and activities. At EEOC, however, transactions have not been recorded promptly or accurately in the centralized accounting records and reconciliation procedures to identify and correct data inaccuracies have not been followed. Also, the agency allowed a sizable backlog of transactions rejected by computer edits to develop before it began action to resolve them.

Recognizing the inadequacies of the data recorded for fiscal 1980 and 1981, and attempting to more accurately report on its fund status to the Treasury, agency officials made millions of dollars in manual adjustments--some of which are unsupported or otherwise improper. We could not establish the accurate fund status for those fiscal years, primarily because of unexplained differences between the general ledger and the detailed subsidiary accounts. These differences could not be resolved due to lack of an audit trail.

Most of the problems we noted date back several years and will require considerable management attention and priority to correct. Unresolved problems will continue to adversely affect the accuracy of current and future accounting reports. Recognizing this, the agency delayed the closing of its records for fiscal 1981 until January 15, 1982, while it tried to resolve its accounting records problem. This delay meant that monthly reports for fiscal 1982 were not produced until March 3, 1982. Consequently, the agency fell months behind in establishing control over its appropriation for the current fiscal year.

ACCOUNTING RECORD DIFFERENCES ARE NOT PROPERLY RECONCILED

After receiving its annual appropriation, EEOC issues obligation authority in the form of a budget allowance to its program offices in headquarters and district offices located throughout the United States. EEOC procedures provide for these offices to maintain records of obligations so that their balances can be reconciled with the balances reported by the central accounting system. Differences found in the reconciliation process point to possible problems with data recorded in the central records, such as the omission of transactions or errors in recording.

We found that some EEOC offices either failed to prepare the reconciling reports or prepared them incorrectly. Furthermore, we were informed that prior to April 1981, monthly reconciliation reports sent in from program and field offices were virtually ignored by headquarters. As a result, reported differences remained unresolved and were carried forward on subsequent reports. We also found that monthly reconciliations for 1980 funds were not required by headquarters after the last month of fiscal 1980. This meant that obligation differences reported at yearend remained unresolved. Program analysts in the field offices told us the reconciliation problem was made worse because headquarters (1) changed the amounts of reported obligations or (2) charged their offices with new obligations without explanation or without sending supporting documentation.

Inaccuracies in the records and amounts are illustrated by the findings of our review of fiscal 1980 obligation records for EEOC's Office of Audit. We selected this Office for our tests because it maintained detailed obligation records, prepared monthly reconciliations, and had a relatively small budget. As of May 31, 1981, the central accounting system reported $9,379.69 as the 1980 obligations for the Office, while internal audit reported $7,280.64. Using monthly reconciliations prepared by the Office of Audit, we found the differences to be attributed to:

--$1,477.94 in duplicate obligations erroneously included in the centralized system,

--$1,122.61 in 1980 obligations not in the centralized system as of May 31, 1981,

--$836 in canceled obligations still reported in the centralized accounting system,

--$448.44 in liquidated obligations not reported as obligations by internal audit,

--$406.65 in 1980 obligations incorrectly charged to internal audit,

--$356 in fiscal 1979 obligations incorrectly reported in the centralized accounting system as 1980 obligations,

--$410.95 in obligation decreases or increases not reflected in the centralized accounting system, or differences that could not be accounted for.

Differences of this nature and magnitude in one small office demonstrate the degree of the problems existing in the centralized accounting system.

Differences were also found between amounts of obligations recorded for the EEOC field offices we reviewed. To illustrate:

--Seattle district office's reconciliation report for fiscal 1981 obligations as of May 31, 1981, showed over $188,000 of fiscal 1981 funds obligated on the district office's accounting records but not appearing in the mechanized accounting records. Of this amount, $141,000 had been identified on prior months' reconciliation reports. Twelve of these obligations amounting to about $5,100 had appeared on three or more of the previous monthly reconciliation reports.

--In the Denver district office, we found that some of the obligations entered on the accounting transaction sheets for December 1980 and January 1981 were not entered in the computerized system as of June 30, 1981, even though other obligations submitted at the same time had been entered. Also, in January 1981, three obligations were charged to the Denver district office that should have been charged to another office. One of the three erroneous entries took 3 months to correct and the remaining two had not been corrected 7 months later.

--The Dallas district office had a number of significant deficiencies in its records; sometimes obligations were not recorded or were recorded twice. Also, the office had not correctly reconciled its obligation balances with those recorded in the central system. Although it reported that obligations were in balance, we noted the wrong figure was used in arriving at this position.

We also noted other problems with the Seattle district office's reconciliation procedure. It reconciled obligations shown on the mechanized accounting records as the office's total obligations to date. This meant that not all of the district's obligations were reflected in the reconciliation report. As an example, a district official said that even though obligations for GSA's self-service store purchases were recorded in the district's accounting records, they would not be included in reconciliations because some of these obligations were not forwarded to headquarters for entry in the centralized accounting records.

We noted almost $1,000 in fiscal 1981 GSA purchases that the Seattle regional office had not reported to EEOC headquarters. A district official said that in fiscal 1980, headquarters changed the amounts of some GSA obligations without providing the district with documentation to support the changes. As a result, the district could not determine the status of its fiscal 1980 unliquidated GSA obligations. If the fiscal 1981 GSA obligations were not sent to headquarters, the official continued, the obligations could not be changed and the yearend reconciliation of GSA obligations might be easier. However, the official acknowledged that until this reconciliation took place, the Commission's mechanized accounting records would not accurately measure all of the district's GSA self-service store obligations in fiscal 1981.

ALL TRANSACTIONS ARE NOT PROMPTLY AND CORRECTLY RECORDED

No accounting system can produce accurate reports if transactions are left unrecorded. As of July 1981, we noted that EEOC had a backlog of over 4,000 transactions, with an estimated value of over $9.6 million, that had been rejected by the centralized system. After we brought the seriousness of this problem to management's attention, efforts were made to substantially reduce the backlog by the time EEOC closed its books for fiscal 1981.

The unresolved backlog of unrecorded transactions had resulted from automated edits in EEOC's mechanized system to check on the accuracy and completeness of accounting transactions to be recorded. The computer edits are designed to prevent incorrect data from entering the system and to help prevent spending in excess of budget authority. For example, the system will not accept an obligation that exceeds the balance of an organization's budget nor will it generate a payment if the payment amount exceeds the amount obligated. When transactions are rejected by the system, personnel must determine the reasons for the rejections and reinput valid transactions. The accounting system's operational manuals state that errors must be corrected promptly and reinput if the system is expected to produce accurate reports. The manuals caution that monthly reports should not be generated until errors are corrected and the data reinput.

EEOC's management chose to ignore these instructions and produced monthly reports without resolving the errors detected by computer edits. The error file grew from 360 rejected transactions at the time the fiscal 1980 yearend reports were prepared on November 12, 1980, to 4,130 rejected transactions on July 16, 1981. The effect on reported fund balances of not researching, resolving, and reinputting these rejected entries is unknown.

The growth of the error file was caused partly by a shift in document coding responsibilities to the field offices. On October 1, 1979, after receiving only a day's training on coding procedures, the field offices assumed the responsibility to code obligation documents they originated onto coding sheets for input to the accounting system. This affected the timeliness and accuracy of the coding sheets. On many occasions, attempts to pay vendors were rejected by the computer because the coding for obligation documents had not been received from the field. Without coding, the computer cannot match payments with obligations.

Another problem preventing prompt payment of vendor invoices has been the inaccuracy of coding sheets produced by headquarters. Some employees have had extremely high error rates coupled with very low productivity levels. During one period, for instance, 60 percent of one employee's work was below satisfactory for the related job classification and grade level.

Also contributing to the growth of the error file was the lack of a cleanup cycle. In the past, time was allowed for correction of transaction errors before periodic reports were produced. As a result, emphasis was continuously placed on resolving computer errors. This procedure was then changed and reports were generated even though unrecorded transactions existed. Since the unrecorded transactions were not reflected, reports were inaccurate. When transaction errors were corrected, they were not always adjusted to the proper period and past reports remained inaccurate.

In our interim report we noted that EEOC did not, until recently, emphasize efforts to correct the backlog of rejected transactions. Little corrective action was taken until September 1981, when the accounting branch attempted to resolve as many errors as possible by the fiscal 1981 yearend. This effort continued until the fiscal 1981 records were closed on January 15, 1982.

EEOC's Office of Audit reported on March 12, 1982, that the methods used to resolve the backlog of errors may have caused additional reporting problems. According to that report, as of July 16, 1981, 1,676 rejected entries required research, correction, and reentry into the central accounting system. This had been reduced to 226 rejected entries when the records were closed. However, many of the rejected transactions cleared were forced into the system via a special system feature which allows entries to bypass computer edits. Further, had the 226 uncorrected errors been resolved, the net effect would have been a reduction in obligations by as much as $74,161.

MILLIONS IN ADJUSTMENTS WERE MADE TO YEAREND REPORTS

EEOC officials recognized that, because of the large number of rejected transactions not processed and other problems with the centralized account records, reports generated by the automated system were inadequate for external reporting and other management purposes. In an attempt to more accurately report fund balances, they made millions of dollars in manual adjustments when preparing yearend reports for fiscal 1980 and 1981. We found some of these adjustments to be unsupported or otherwise improper and noted that when fiscal 1981 records were finally closed in January 1982, the balances reported did not agree with amounts earlier reported to the Treasury and OMB.

Using the worksheets EEOC officials prepared, we established that some improper adjustments were made that contributed to inaccuracies in amounts being reported. For example, in fiscal 1980, adjustments were made for some errors that had been corrected and posted to the records before the close of the fiscal year, resulting in a double counting of amounts for those transactions. Also, we found in examining receivables owed the agency that some general ledger balances for past years were omitted in computing yearend fiscal 1981 reported balances. We also noted errors in arithmetic. Most important, however, we question the methodology used to adjust accounts for rejected transactions.

EEOC accounting staff acknowledged that some general ledger balances were adjusted to reflect the effects of rejected transactions without adequate research to determine if rejected transactions were, in fact, valid transactions. They said the manual adjustments were necessary, however, because to meet due dates management decided to prepare the yearend reports for fiscal 1981 about 2 months before closing 1981 records for that year. We recognized that these adjustments were made in an attempt to more accurately report fund balances. However, the fiscal 1981 fund balances as reported in the closed records do not agree with balances earlier reported to the Treasury and OMB.

We also noted that in an attempt to bring EEOC's and the Treasury's disbursement totals into agreement, an adjustment totaling about $1.2 million was made, increasing the disbursement amount reported in the central accounting system for fiscal 1981. In turn, unliquidated obligations were reduced by about $1.2 million without establishing the specific items being reduced.

The Office of Audit's March 1982 report noted that balances reported to OMB and the Treasury differed substantially from fund balances reflected in the closed records. For example, obligations shown in the external reports were more than $200,000 over the obligation amount in the central accounting system. In addition, undelivered orders and accounts payable were reported to be over $2.4 million and $181,000, respectively, more than the totals in the closed accounting records. Because of other accounting problems found, the accuracy of neither figure could be attested to. In support of this position, the Office of Audit report says many of the fiscal 1981 obligation and deobligation transactions were not recorded as of January 20, 1982, and therefore were not included in the yearend reports. For example, an analysis of six reconciliations submitted in February 1982 by allowance holders responsible for $15,798,699 of financial resources disclosed that obligation and deobligation transactions totaling $309,041 and $377,020, respectively, had not been recorded in the centralized accounting system.

LARGE DIFFERENCES IN RECORDS AND REPORTS ARE NOT RECONCILABLE IN ABSENCE OF AUDIT TRAILS

Totals for such items as receivables, payables, and obligations, as recorded in general ledger control accounts, should agree with detailed subsidiary records showing individual items making up the totals. At EEOC, this is not the case. We noted large unexplained differences that could not be resolved due to the absence of an audit trail. These differences prevented the Commission from being able to support by individual documents the totals shown on external reports.

We noted unexplained differences when totals by budget allowance holders for such items as receivables and payables were compared to general ledger control accounts. Accounting personnel informed us that they were aware of the problem and that it had been brought to the attention of the system accountant.

Throughout our review, we noted a number of unexplained discrepancies in the accounting system. For example, total fiscal 1980 obligations as reported to external sources could not be verified to individual obligating documents making up the total. We were told by EEOC's system accountant that differences have existed since closed obligating documents were purged in July 1980. By adding fiscal 1980 open and closed obligations, we attempted to determine items making up total fiscal 1980 obligations. We found that the total of the purged report and the open report did not agree with the approximately $124 million reported in total fiscal 1980 obligations. Our review of the two reports showed that many obligations were listed on both open and closed reports--often in different amounts. Since different amounts were often reported for the same document number, we could not determine how the total obligation amount was computed.

Differences in balances as reported in detailed and control accounts are a serious problem causing inaccurate reporting. EEOC must determine the operational problems creating these differences, adjust balances into accurate agreement, and prevent similar problems from occurring in the future.

AGENCY ACTIONS TO IMPROVE ACCURACY OF DATA IN REPORTS AND RECORDS

In December 1981 comments on our interim report, the Acting Chairman of the Commission listed a number of specific actions planned or taken to improve the accuracy of the agency's accounting records. In summary, the more important actions were:

--A training session was held for EEOC employees responsible for preparing input documents for transactions to be recorded on the central accounting system. Responsibility for coding disbursements was assigned to other staff in order to expedite the preparation of input documents.

--Extensive effort was devoted to researching and correcting rejected transactions that formed the backlog.

--A cleanup cycle was made mandatory before any monthly or other periodic financial report is produced so that greater accuracy can be achieved.

--A decision was made to delay the closing of 1981 records until outstanding error transactions could be resolved. Office directors were required to certify that all fiscal 1981 obligation documents had been forwarded as of September 30, 1981, for recording in the central records.

As previously noted, the agency did delay the closing of fiscal 1981 records by about 3 months until January 15, 1982. As a result of this long delay, monthly reports for fiscal 1982 were not produced until March 3, 1982. Consequently, the agency fell months behind in its reports as it attempted to establish control over its appropriation for the current fiscal year.

We noted, however, that the agency was making considerable progress toward producing more reliable records for fiscal 1982. Computer exceptions were being resolved and all valid transactions inputted before monthly reports were produced. Recently, monthly reports for March 1982 were produced by the central system. Reported obligation amounts for fiscal 1982 must, however, be reconciled with obligations reported by program and field offices to ensure accuracy. Financial management staff have been directed to promptly resolve errors reported during the reconciliation of obligation balances. Office directors will be notified when problems are found in their accounting records.

CONCLUSIONS

EEOC faces a formidable task in correcting the operational deficiencies that allowed the unreliable records to develop. The task must be accomplished, however, because the current accounting problems can have a devastating effect on the agency's operations in future years, especially when fund availability becomes an issue. Understatement of fund availability could lead to the unnecessary cancellation of programed activities, slippage of required programs, and even job losses for agency employees. On the other hand, overstatement of fund availability could result in the agency violating the Anti-Deficiency Act by spending more money than the Congress provided.

EEOC has made a good start--it has devoted resources toward identifying and correcting record inaccuracies and has taken action to enforce compliance with procedures that are essential for production of reliable records and reports. Current procedures, if properly implemented and performed, should result in accurate reporting. Therefore, the Commission should continually emphasize to its employees the importance of following established procedures such as promptly and accurately reentering rejected transactions and complying with reconciliation procedures. Controls should be established to ensure that required procedures are followed.

Ideally, EEOC's financial records and reports for prior years would be corrected to show the accurate status of fund utilization. However, to accomplish this would require a massive undertaking, which would produce little, if any, savings. Therefore, efforts should be devoted to procedures we are recommending in subsequent chapters, such as validating all unliquidated obligations, establishing accurate balances for receivables, and reviewing yearend obligations. Implementation of these recommendations will substantially correct past inaccuracies and enable accurate reports and records for fiscal 1982 and beyond.

RECOMMENDATIONS

We recommend that the Chairman, EEOC:

--Direct EEOC employees to follow established procedures such as recording transactions promptly and complying with reconciling procedures to identify inaccuracies in recorded data.

--Direct EEOC's Office of Audit to periodically review financial activities with emphasis on determining if promised corrective actions are completed and if procedures for recording data and reconciling records are being followed.

--Submit revised fiscal 1981 yearend reports to the Treasury and OMB after the corrective actions promised by the Acting Chairman and recommended in this report are implemented.

CHAPTER 3

RECEIVABLES ARE NOT PROPERLY

RECORDED, CONTROLLED, OR COLLECTED

EEOC reported over $2.6 million in receivables due the agency at the end of fiscal 1981. In reviewing the outstanding receivables, we noted that:

--Receivables had been substantially misstated in EEOC's records. A large difference exists between the amounts reported to the Treasury at the end of fiscal 1981 and those shown in the agency's records.

--Travel advances valued at over $1.1 million had not been collected or settled for extensive periods. Final resolution of some outstanding advances will be difficult since 57 percent of the sampled persons with advances have different balances in the manual and mechanized records, and a few individuals have left the agency.

--Aggressive action had not been taken to collect receivables due the agency. The fiscal 1981 yearend reports show that over $1.5 million of recorded receivables are over a year old.

RECEIVABLES ARE MISSTATED IN RECORDS

Receivables represent a portion of an agency's assets. Upon collection--and with proper authorization--receivables provide funds for operating costs. At the end of fiscal 1981, EEOC records showed over $2.6 million in receivables it should be attempting to collect. However, this amount was incorrect. It overstated amounts owed by some and omitted amounts owed by others raising serious questions about how much is owed the agency.

The overstatements occurred because more than $1.4 million of the agency's accounts receivable, or about 93 percent of the total, are over a year old. Since the agency does not use allowance accounts for uncollectible debts, has not actively pursued collection, and has not recently written receivables off as uncollectible, the value of the reported accounts receivable appears to be significantly overstated.

One area in which the receivables were understated relates to costs questioned by EEOC's Office of Audit in its review of contracts. When audits indicate that Federal money has been inappropriately or excessively paid under the contracts, action should be taken to promptly recover the amounts. To recover such costs (1) the auditors report their findings, (2) managers review the findings and decide whether related expenditures were indeed improper and should be disallowed, (3) managers notify the contractors of the decision to seek recovery, and (4) accounting personnel record the amounts as receivables in accounting records.

We were told by EEOC's Director of Audit that about 40 contract audits performed by his staff had questioned over $1.1 million in charges. EEOC's management, however, had not taken action on such costs; hence, the amounts were not recorded as receivables in EEOC's records. Also, about 400 contracts had not been audited for reasons discussed in chapter 4. A substantial amount of recovery--as much as $15 million--appears possible under those contracts. The failure to promptly audit contracts and to resolve items reported as questionable casts further doubt on the accuracy of receivables as reported in the official records.

Understatements also resulted from agreements valued at about $1.2 million awarded to intermediary, nonprofit legal associations. The funds were used for loans to private attorneys handling title VII discrimination cases and for the intermediaries' costs in administering the loans. As we discuss in chapter 5, EEOC's management had questionable authority for such agreements. The related disbursements constituted either loans or grants--when cases were lost the lawyers kept the money; when cases were won they returned it. In either event, the related disbursements by EEOC represent receivables that must be accounted for until funds are returned or earned by the lawyers.

EEOC's Office of Audit took a similar position when it reviewed payments under the agreements governing disbursement of the money. It reported that the Commission had not set up receivables to control the loans to the private attorneys. Since attorneys who win their cases must repay the loans to EEOC, the Office concluded that the Commission must anticipate repayment and record and control the funds as accounts receivable due from the individual attorneys.

We noted the following problems in controlling and accounting for these funds:

--The detailed record of receivables used in preparing fiscal 1981 external reports showed $505,406.21 due from the various legal associations. We noted two of seven contracts were not included and the funds were accounted for in the system only as money owed by the nonprofit legal associations.

--The fiscal 1981 "Statement of Financial Condition" reported only $344,800.94 as loans receivable. This amount apparently represented the contracts funded with fiscal 1979 funds only.

--EEOC's Office of General Counsel, which maintains the supporting legal documents, reported the loans as valued at $804,907.74, almost $300,000 more than the amount shown in the records and over $460,000 more than reported to the Treasury.

The collectibility and true value of these receivables is in question since the attorneys are required to repay the funds only if they win the funded cases. However, EEOC must control and account for these funds by accurately and consistently recording all receivables and reducing the reported value to the best estimate of amounts actually collectible by use of an offsetting allowance amount.

TRAVEL ADVANCES ARE NOT COLLECTED OR SETTLED

The nature of EEOC's work requires many of its employees, consultants, and contract employees to travel frequently. When traveling on official Government business, such individuals are authorized advance payment for estimated travel costs. At the end of fiscal 1981, EEOC reported over $1.1 million in outstanding travel advances. Aggressive action to clear up those advances is required by EEOC procedures.

EEOC's travel procedures provide that advances for specific trips be returned promptly if the travel is canceled, or that vouchers be submitted within 5 working days after trips are completed. The procedures also give specific instructions for settling blanket/annual travel advances for those employees who are required to travel frequently or continuously in their performance of official Government functions. These advances should be settled by filing vouchers every 30 days, a procedure that helps to identify individuals who have excessive advances. Many EEOC employees apparently do not comply with these procedures and adequate emphasis is not placed on forcing compliance.

The importance of prompt settlement of outstanding advances is also set out in GAO's Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 25.6). As stated in the manual, agency accounting systems should include procedures for periodic review and analysis of outstanding travel advances. All advances determined to be in excess of immediate needs should be promptly recovered to keep outstanding balances to a minimum. To accomplish this, demand letters should be sent at 30-day intervals with warnings that outstanding amounts will be offset against employees' pay. We found no indication of this being done. We were told that the last attempt to clear travel advances was initiated in mid-1980 and stopped shortly thereafter.

We selected 178 outstanding travel advances for examination to determine why amounts had been outstanding for excessive periods. Our review showed that:

--Travel advance balances recorded in individual travel folders (manual records) disagreed with balances shown in the centralized accounting system for 102, or 57 percent, of the 178 advances we reviewed. EEOC officials told us balances reported in the centralized system were inaccurate, yet no attempt had been made to reconcile the two records.

Some of the differences were attributed to delays in processing, uncorrected system problems, and failure to correct computer exceptions.

--Unsettled amounts existed for travel advances dating back to 1977, but the records reflected no recent collection efforts to clear the balances. During the long period of no collection attempts, we noted that in some cases vouchers apparently had not been filed after travel was performed. When vouchers were filed and expenditures questioned by voucher examiners, we noted the questioned items were often not collected or resolved.

--Seven individuals left the agency without settling their outstanding travel advances. According to EEOC's records, one of these individuals--a regional director--left the agency with an unsettled advance of over $700. Another former employee never settled a $500 travel advance obtained in 1977, even though the employee had filed at least eight travel vouchers since that time.

--Individuals often received travel advances while they still owed balances from previous advances. In our interim report, we noted that an EEOC Denver office employee had over $2,570 in outstanding travel advances at the time our report was issued. According to EEOC's records, since July 1980 the employee had received 26 separate travel advances and had submitted only five travel vouchers. Even though we reported this condition in our interim report, the employee received yet another $250 advance after our report without settling past advances.

We also noted that the settlement of outstanding advances was hampered because EEOC's offices were not provided the data necessary to settle travel advances. To illustrate, both Seattle's district office and EEOC headquarters in Washington, D.C., gave advances to some EEOC employees. At the time of our review, that Seattle office maintained travel records for each employee, but many travel documents processed by headquarters had not been sent to Seattle so that the employees' records could be reconciled with those in the central system. For example, few copies of certified travel vouchers, or Statements of Differences, which identify discrepancies between travel vouchers submitted and amounts certified, had been provided to Seattle by EEOC headquarters. Employee travel records maintained in the district office usually contained only travel authorizations, travel advance requests, and travel vouchers prepared for submission to headquarters. As a result, the district office could not adequately control advances.

Similar problems were found in the other district offices we visited. Officials in the Denver district office informed us that responsibility for travel is split between the district office and headquarters, since both offices authorize travel orders and make travel advances to district employees. One official in that office informed us that he was not aware of the $2,570 unsettled travel advances of one of his employees. The employee had received most of the advances at EEOC headquarters, and the Denver district office's records showed the employee as owing only $33.25.

EFFECTIVE COLLECTION ACTION IS NOT TAKEN

In addition to outstanding travel advances, other debts are owed to EEOC which should be collected. As an example, some contractors owe amounts to EEOC for overpayments received from the Commission. The receivables from these debts have not been handled in accordance with recognized practices. No aggressive action was being taken to collect them.

The requirement for prompt and aggressive action to collect receivables due the Government is mandated by the Joint Standards of the Federal Claims Collection Act of 1966 (4 C.F.R. 101-105). As specified in the standards, the head of Federal agencies or their designees should require that (1) three written demands be made at 30-day intervals, (2) collections be made by offset where feasible, (3) debtors be personally interviewed, (4) the possibility of compromise be explored, and (5) other persistent actions to achieve collection be attempted. We found no evidence that these actions are being taken at EEOC.

EEOC officials acknowledged that in the past, actions were not taken to collect receivables owed the agency. They said receivables were simply left on the records without aggressive action to collect; they could recall none ever written off as uncollectible. We were informed that EEOC had no individual designated as claims collection officer and that written collection procedures were outdated and under revision. A draft of revised collection procedures existed but was awaiting final approval.

The lack of emphasis on debt collection has resulted in the current backlog of uncollected receivables. Valid debts should be collected in accordance with Federal claims collection standards to the extent possible and records adjusted to report only valid, collectible balances. Future receivables should be pursued aggressively, as required by the collection standards.

AGENCY ACTIONS TO GAIN CONTROL OVER RECEIVABLES

In response to our interim report, EEOC recently advised individuals with outstanding travel advances to settle the advances by filing travel vouchers or by returning the money. Work has also begun to identify recipients of the loan funds in order to accurately establish receivables for these funds. Clearance procedures for employees will be reemphasized and new procedures will be prepared to speed up collection of receivables.

RECOMMENDATIONS

We recommend that in addition to agency actions already completed, the Chairman, EEOC:

--Designate an individual as claims collection officer and establish written collection procedures.

--Collect all existing and future receivables in accordance with the Federal Claims Collection Act and adjust records to accurately report all valid receivables.

--Establish clear responsiblity and procedures to control travel advances and, when appropriate, use payroll deductions to collect outstanding advances.

--Establish clearance procedures that prevent employees from leaving the Commission with unsettled advances and take appropriate action to recover funds owed by former EEOC employees or others.

--Determine reasons for differences in travel advance balances as reported in the centralized accounting system and in individual travel records and bring the two records into agreement.

--Determine the validity of questionable contract charges reported by EEOC's Office of Audit. When appropriate, establish the amounts as receivables and initiate aggressive collection action.

CHAPTER 4

MAJOR WEAKNESSES EXIST

IN INTERNAL CONTROL SYSTEM

EEOC needs to establish and maintain a system of internal controls to safeguard assets and ensure that funds are spent in accordance with congressional authorizations. We noted that EEOC's system of internal controls could not be relied on to accomplish these objectives because:

--Duties had not been adequately segregated in order to minimize errors and irregularities.

--Key budget and accounting personnel had not been sufficiently trained and were not adequately supervised.

--Internal audit coverage of financial operations had been severely limited because of the too few auditors available to perform reviews of accounting and other agency operations.

--Controls over disbursements were weak, resulting in late payments and loss of early payment discounts.

--Imprest funds were authorized excessive balances and subjected to unnecessary risks.

The importance of a strong internal control system has been universally recognized. Increased attention has been placed on strengthening Federal agencies' internal control systems to reduce risk to agency assets. In addition to a proposed Financial Integrity Act (S. 864) and other legislation under consideration in the Congress, the Office of Management and Budget recently directed via Circular A-123 that all executive departments and agencies, including EEOC, appoint an official or a committee to oversee the internal control system at each agency. The appointed official or committee must perform a vulnerability assessment to identify areas within the agency susceptible to misuse of agency assets.

DUTIES ARE NOT PROPERLY SEGREGATED OR ASSIGNED

A basic principle of good internal control systems requires that critical functions be divided between two or more people, a technique referred to as segregation of duties. The purpose of this is to reduce the likelihood of fraudulent, wasteful, or abusive activities by preventing one individual from controlling all phases of a transaction. Duties within small accounting operations, such as EEOC's, must be carefully assigned to reduce to the extent possible the vulnerability to illegal acts. This principle was not adhered to at EEOC and the following problems were noted:

--Cash and checks were not received by a designated collection agent. Instead, receipts were handled by persons who were also responsible for such functions as preparing interagency billings, making deposits, and certifying payments.

--Collections were not logged in when received, were not properly safeguarded upon receipt, and were accessible to the imprest fund cashiers. This practice is risky, since receipts can be used to cover shortages in imprest funds.

--One accounting official was responsible for recording transactions in the accounting system, maintaining the general ledger, correcting transactions rejected by the accounting system, and certifying disbursements. Clearly, the combination of these functions creates the possibility of both performing and covering up an illegal act.

--Responsible personnel informed us that obligations have been entered into the accounting system by persons outside the function assigned this responsibility, thus bypassing controls for the segregation of duties.

Our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 11.2) requires that functions such as authorizing, approving, recording, receiving, paying, reviewing, and auditing should be, to the extent possible, assigned to different people. However, EEOC had not assigned duties in accordance with the manual. For example, the Commission had designated four individuals as certifying officers and had two unfilled positions which, in the past, had also been filled by authorized certifying officers. In small accounting operations such as EEOC's, authorizing four to six separate certifying officers is excessive and weakens internal controls. In addition, one of the certifying officers had accounting duties which were incompatible with the role of a certifying officer.

ACCOUNTING PERSONNEL ARE NOT ADEQUATELY SUPERVISED OR TRAINED

Our Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO 8.8) cautions agencies that competent leadership and a capable staff are required to maintain a satisfactory accounting system. A breakdown in operations will occur when personnel are not adequately trained to perform their duties and are not properly supervised to ensure that those duties are performed. We noted problems in both supervision and training at EEOC.

One problem we noted relating to supervision was that key positions in EEOC finance and budget operations remained vacant for extended periods. For example, the positions of budget officer and accounting officer were only recently filled after being vacant for about 6 months and 11 months, respectively.

The training problems we noted relate to formal and on-the-job programs needed to develop competency in key functions such as preparing input documents for recording obligations. Recording obligations is one of the most important functions performed by EEOC's accounting personnel. Without proper input of all obligations, control over funds will be lost and other problems, such as late payment of vendor invoices, will occur. At EEOC, the responsibility to post obligating documents on coding sheets for keypunch and input to the accounting system has been assigned to program analysts in headquarters and field offices. This responsibility was assigned in 1979 after a 1-day training class given at headquarters. After this operational change, the error file grew significantly.

At one time during fiscal 1982, 4 of 22 program analyst positions in the field offices were unfilled and accounting duties were apparently being performed by other staff. For instance, the Dallas district office had a vacancy in the program analyst position for 7 months. During this period, a clerk typist was performing accounting duties. When the position was filled, the new program analyst had no opportunity to learn the job from the past employee.

Many of EEOC's major problems can be attributed to inadequate technical knowledge, inadequate supervision, or a general lack of concern for producing accurate financial reports. Additional financial training must be provided or operational procedures currently used to input obligations must be changed.

INTERNAL AUDIT STAFF IS NOT LARGE ENOUGH FOR ACTIVITIES

Internal audits have long been recognized as a vital part of an agency's system of internal controls. In fact, section 113 of the Accounting and Auditing Act of 1950 requires agency heads to establish accounting and internal financial controls, including internal audit. EEOC has an Office of Audit, but this office has not been sufficiently staffed to carry out its responsibilities.

In October 1981, the Office of Audit was staffed with only four auditors; in earlier years, it had been staffed with only two. Yet, the office was responsible for audits of the agency's contracts. Inadequate staffing had led to (1) a backlog of over 400 unaudited contracts and (2) the failure to review EEOC's accounting operations.

The director of EEOC's Office of Audit informed us that in July 1981, the Office was asked to begin auditing the backlog of over 400 open contracts. Recently, the Office issued to EEOC's Acting Chairman a report--based on auditing about 6 percent of the open contracts--estimating that overpayments on all unaudited contracts could be as high as $15 million. According to the director, considerable effort will be needed to audit such a sizable backlog. At the current staffing level, the audits would take about 8 years.

After our interim report, EEOC decided to hire two additional internal auditors, bringing the total audit staff to six. As of February 1982, only one of the two added positions had been filled. Even with the increase, we doubt that the staff is adequate to audit EEOC's internal operations and reduce the sizable backlog of unaudited contracts.

BETTER PAYMENT PROCEDURES ARE NEEDED

Our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 24.2) states that vouchers to pay bills should be preaudited to check and verify the accuracy of the data, including amounts shown. The preaudits should ensure that duplicate payments are not made, that the payment is properly authorized, and that the payment is being made for goods and services received in accordance with the terms of the agreement.

We noted that EEOC had not formalized procedures for preauditing vouchers and was following procedures developed by a fiscal specialist. These unapproved procedures generally appear to contain adequate quidance for voucher examiners. However, many vouchers have been submitted for processing that do not contain evidence of (1) an obligation being recorded for the amount of the voucher, (2) a vendor's request for payment, or (3) actual delivery of the goods and services.

Because of a lack of adequate documentation, some payments were excessively delayed. Others were delayed because of improperly prepared vouchers or staffing shortages. A shortage of personnel to type disbursement vouchers has often created backlogs of unpaid vouchers. During our review we noted one period of about a month when no typist was available to type vouchers valued at about $1.4 million. Even though this backlog was later reduced, other backlogs occurred as typing problems continued. Delays in payment mean lost discounts. Even though we noted individual examples of discounts lost, we were unable to determine the extent of the problem, since the agency keeps no record of lost discounts.

Recognized delays in paying invoices during 1980 caused EEOC to establish a special task force to process vouchers for payment. We were told the task force submitted vouchers for certification without checking for prior payment and allegedly worked with voucher packages that were not always complete; sometimes they lacked evidence of delivery or other data essential for certification. We were unable to determine the extent of problems resulting from task force payments because we could not identify specific payments authorized by the task force.

IMPREST FUNDS ARE NOT CONTROLLED TO PREVENT ABUSES AND LOSSES

EEOC operates about 45 imprest funds for small purchases or emergency disbursements. We noted several deficient controls related to these funds that were causing excessive balances to be maintained and providing the environment for possible losses.

Written instructions for operating the imprest funds have not been issued. Such instructions should set forth procedures to control, safeguard, and manage the funds. The publication of written guidelines is required by our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 27), the Treasury Fiscal Requirements Manual, and the Treasury's Manual of Procedures and Instructions for Cashiers. We noted that draft instructions had existed since May 1979, but the failure of EEOC to adopt these procedures had allowed the funds to operate without uniformity.

We were informed the authorized total of the imprest funds, as of February 25, 1982, was $34,426.11. However, actual fund balances amounted to $37,037.79--an excess of $2,611.68. The overage was the result of six field offices failing to reduce their fund balance to authorized amounts.

Most of the imprest funds were authorized excessive cash balances. As specified in the Treasury Fiscal Requirements Manual, the imprest funds at EEOC headquarters should be limited to a week's requirement, and those in the field offices should be limited to a month's requirement. In October 1979, the imprest funds in 22 field offices were authorized to $1,000. However, according to EEOC's financial records, total reimbursements for all of fiscal 1979 in 12 of the offices was less than $1,000. After a number of audit reports and Treasury recommendations were issued concerning the excessive balances, action was taken to reduce authorized levels for 17 of the funds. In one case, an imprest fund authorization was reduced to $150, or by 85 percent. However, 6 months after the 17 offices were instructed to lower their funds, 6 of them had failed to comply, causing the overage we referred to earlier. The headquarters imprest fund also continued to be maintained at an excessive level.

It is generally recognized that poor management of imprest funds increases risk of loss, theft, or misuse. According to EEOC's finance branch records, imprest fund losses of about $1,800.00 were reported during the time we were performing this review. One of the losses is considered a possible theft and was reported to the Secret Service as we concluded our review. Losses of this type can be reduced by proper management of imprest funds, including maintaining balances only to meet actual needs.

AGENCY ACTIONS TO ELIMINATE WEAKNESSES

As a result of our interim report, EEOC took a number of positive actions to correct the weaknesses we reported. To date, the Commission has filled the vacant positions of budget and accounting officers and appointed a new acting director of the Office of Program Planning and Evaluation, the office responsible for both the accounting and budget functions. The number of certifying officers has been reduced and plans are being made to hire additional accountants and reorganize accounting operations to establish better segregation of duties. The Commission plans to substantially increase its internal audit staff and create as director a Senior Executive Service position reporting directly to the Chairman. A committee has also been established to develop a plan for a vulnerability assessment of the Commission's internal control system.

The Acting Chairman also said that the staff had been instructed to preaudit the accuracy of all data on vouchers before payment. A directive to this effect was to be issued no later than March 1982, but to date has not been issued. The sizable backlog of unpaid vouchers awaiting typing was processed and paid; however, a shortage of typists continues.

RECOMMENDATIONS

We recommend that the Chairman, EEOC direct prompt completion of the corrective actions in process, which are:

--Assignment of duties so that no individual controls all phases of an activity or transaction.

--Proper training of all personnel responsible for performing financial management functions, such as the input of obligations and reconciliation of obligation balances.

--Use of the increased Office of Audit staff to perform periodic reviews of the agency's financial operations as necessary to provide assurance that accounting functions are properly conducted.

--Issuance of formal preaudit voucher and imprest fund operation procedures.

--Reduction of all imprest funds to authorized limits based on demonstrated need.

CHAPTER 5

POOR FISCAL PRACTICES HAVE RESULTED

IN ADDITIONAL FUND CONTROL PROBLEMS

In 1981, EEOC's Office of Audit reported that the Commission apparently overobligated its fiscal 1980 appropriation by creating obligations for State and local agencies in excess of budget authority. We reviewed the alleged overobligation and determined that a violation of the Anti-Deficiency Act (31 U.S.C. 665) did not occur. However, during our review a number of other violations of law, or questionable uses of appropriated funds, were noted which must be dealt with by EEOC. Specifically:

--Entering, with questionable authority, into agreements whereby money was either loaned or advanced to private attorneys.

--Obligating funds in one fiscal year to cover goods and services that were clearly to satisfy needs of future years; in some cases, using expired instead of current appropriations to cover costs.

--Failing to review the validity of the unliquidated obligations as recorded; in one case, even recording a transaction as an obligation that was known to be invalid.

--Certifying yearend reports for fiscal 1980 and 1981 as accurate under conditions clearly indicating that the reports contained erroneous data; in one case, after specifically being told that the data were inaccurate.

1980 BUDGET AUTHORITY FOR FAIR LABOR CONTRACTS WAS HANDLED IMPROPERLY

For fiscal 1980, the Congress provided EEOC with budget authority--or, as it is sometimes called, obligation authority--not to exceed $15 million for fair employment practice contracts that were to be awarded to State and local governments. The $15 million was in the form of a spending limitation which specified the amount that could be spent for fair employment contracts from EEOC's fiscal 1980 lump-sum appropriation of $119 million. Near the end of that fiscal year, the agency took some actions that have been characterized as possible Anti-Deficiency Act violations by the agency's Office of Audit. We reviewed the actions and found them not to be good management practice; however, in our opinion the act was not violated.

The questionable actions involved modifications to two types of contracts EEOC awarded to State and local governments to resolve fair employment practice complaints received by those activities in fiscal 1980 and earlier years. One type of contract provided for resolution of a specified number of fair employment practice complaints expected to be received in that fiscal year (referred to as new charges contracts). The other type covered the resolution of a specified number of complaints initiated before fiscal 1980 (referred to as backlog contracts). In the early part of fiscal 1980, both types of contracts were awarded to States and local enforcement agencies. These awards, along with commitments to pay some travel expenses, substantially obligated the $15 million appropriated and apportioned.

The contract modifications were executed in September 1980, resulting in contract price increases totaling about $1.2 million on backlog contracts for additional cases resolved in that fiscal year. Decreases were made to the new charges contracts, totaling about $1.1 million for cases not completed. Contracts with several States were involved, but the ones accounting for most of the increases and decreases were modified as follows:

--California's current charge contract was reduced by about $608,300, and its backlog contract for the same year was increased by the same amount.

--Michigan's current charge contract was reduced by about $540,400, and its backlog contract was increased by about $434,000. The remaining $106,400 was used to cover increases in contracts for other State or local governments.

The modifications normally would not have presented problems; however, EEOC had paid the State and local governments for services delivered under both types of contracts through letter-of-credit arrangements, and by the end of August 1980 had allowed most of the money obligated for the contracts to be withdrawn. This was particularly true for the California and Michigan current charge contracts, which were decreased by $1,148,700 for cases that were not resolved in fiscal 1980. Only $189,580 of the amount obligated for the two contracts had not been withdrawn by the two States, and EEOC executed the modifications increasing contract prices before the $959,120 in overdrawn funds was returned by the States.

In a January 1981 report on the modifications, EEOC's Office of Audit reported that an apparent Anti-Deficiency Act violation had occurred. It said the agency had, in effect, used uncollected receivables to increase its budget authority over the $15 million appropriated by the Congress. According to EEOC auditors the Congress had appropriated an amount for the contracts--$15 million--that did not include an allowance for receivables and OMB had apportioned the same amount. They also said that, even when amounts for receivables are included in an agency's budget authority, the obligations must be limited to the lower of the amounts appropriated, apportioned, or actually received by the agency.

EEOC's Office of General Counsel evaluated the auditors' position and acknowledged that the issue of whether the violation had occurred related to the agency's authority to obligate receivables it had not yet collected. The general counsel concluded that, among other things, the receivables could be classified as refunds and therefore could be obligated before they are received by the agency.

We totally disagree with the general counsel's position. In our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 13.2), we acknowledge that refunds can usually be charged to appropriations and used for obligation purposes without further action by the Congress, but a refund generally may not be obligated until it is received by the agency. To take any other position would be inconsistent with the most important feature of the Anti-Deficiency Act--the requirement for fund obligations and expenditures not to exceed amounts available in appropriations or funds provided to agencies.

We also disagree with the EEOC auditors' position that the actions to modify the contracts may have resulted in an Anti-Deficiency Act violation. As we understand it, California and Michigan performed more work on backlog cases and less work on new charges cases than their contracts called for. EEOC should, of course, have monitored contract performance more closely to prevent this or, if it proved necessary or desirable, to modify the contracts earlier. In any event, EEOC determined that both kinds of cases were important and modified its contracts. This made California and Michigan entitled to payment for the backlog work they had performed or actually would perform before the end of fiscal 1980, and no longer entitled to payment for work on new charges contracts not performed and removed from the contracts by the modifications.

It was apparently agreed, before the modifications, that California could not process as many new charges as provided for under the related contract, but could process more backlog cases than its backlog contract called for. EEOC and the State subsequently modified their contracts to reflect this agreement. Involved was a reduction in the number of new charges cases to be processed with a corresponding reduction of about $608,000 in the ceiling price of that contract. Since California was no longer entitled to that amount, EEOC was no longer obligated to the total amount of its $15-million spending limitation for its new charges and backlog contracts. Hence, it modified its backlog contract with California to call for an additional $608,000 of work which, in fact, California had by that time substantially completed. Moreover, California, having drawn down its new charges contracts letter of credit well in excess of performance, now owed EEOC $608,000. We see no problem with EEOC and California offsetting their mutual claims.

Similarly, we see no problem with EEOC and Michigan offsetting their mutual claims. Again, the modification to the new charges contract with Michigan reduced the amount of work called for under the contract and lowered the needed obligated amount by $540,000. This reduced the total amount obligated by EEOC for new charges and backlog contracts below the $15 million maximum authorized from the lump-sum appropriation. EEOC took $434,000 of this freed obligational authority to increase the amount of work called for in Michigan's backlog contract. As a result of the deobligation of the amount for the new charges contract, Michigan owed EEOC $350,820 it had drawn down in advance of needs. EEOC, on the other hand, owed Michigan $83,180 to cover the $434,000 increase to the backlog contract. The modifications reduced EEOC's outstanding obligations to Michigan by $106,000 which had not been drawn down. Thus, the agency could use this amount to cover its increased obligations to other States. Accordingly, as in the California situation, we do not see it as a violation of the Anti-Deficiency Act to offset these amounts without EEOC recovering the overpayment.

While EEOC did not violate the Anti-Deficiency Act, it did not administer these contracts very well. First, it should have taken steps to keep the States from drawing down their letters of credit well in excess of the amounts they had earned on the contracts. EEOC should have monitored more closely contract performance and, at least until there was a contract modification, required the States to perform the work called for in the contracts. Finally, the EEOC officials apparently made the modifications without giving sufficient thought to the potential ramifications. We presume they acted near the end of the fiscal year in a hurried attempt to preserve as much money as possible.

LOAN FUND WAS ESTABLISHED UNDER QUESTIONABLE AUTHORITY

During fiscal 1978 and 1979, EEOC entered into grant agreements with nonprofit organizations in various cities to test the possibility of developing a loan fund program for private attorneys handling cases alleging unlawful employment practices. EEOC does not have expressed authority for such a program, which essentially commits Federal funds to subsidize litigation of private parties seeking redress under Title VII of the Civil Rights Act of 1964. Absent expressed authority, we believe the Commission's authority to establish this program, under which about $1.2 million was disbursed, was questionable.

EEOC executed the agreements in question during the last few days of fiscal 1978 and 1979. The duration generally covered a 1-year period ending the last week of the following fiscal year. The fiscal 1978 grant agreements were with such associations as the Lawyers Committee for Civil Rights and the Women's Law Center, Inc. The fiscal 1979 agreements were with the National Bar Association, the Chicago Lawyers Committee for Civil Rights Under Law, Inc., and Women for Change, Inc. In total, about $1.2 million was disbursed under the loan fund agreements.

All of these grant agreements were similar. The typical grant with a participating nonprofit organization was for approximately $150,000. About one-third of this was for administrative costs and the remainder was to be loaned by the participants to attorneys representing private parties in title VII litigation. The loans were to be used by the attorneys to defray certain types of costs they incurred in litigating title VII suits. The loans were to be repaid to EEOC if the party represented by the attorney won the case. However, if the attorney's client lost the case, and therefore was not awarded costs, the attorney would keep the loaned funds.

EEOC's objective was to determine whether the program would enable it, through the use of private attorneys, to provide legal assistance to a greater number of private parties seeking remedies under title VII than would be possible otherwise. The program was also seen as a means to reduce EEOC's backlog of cases. Apparently, the funds were intended to be used by the nonprofit organizations until they established a permanent loan fund program with money from sources other than EEOC.

EEOC officials asked its Office of General Counsel for an opinion on the authority to carry out the program before action was taken to implement it in 1978. The general counsel recognized that EEOC does not have express statutory authority to enter into grant agreements of this sort. Nevertheless, it concluded that EEOC had the implied authority to enter into such grant agreements, since there was no specific statutory prohibition against the type of program being proposed. The general counsel also concluded that the operation of the loan fund was reasonably related and incident to EEOC's mission, because it would increase the effectiveness and size of the private title VII bar, and because it could assure that every party pursuing title VII rights in court would be able to afford counsel. Therefore, the general counsel advised that "the proposed activity being reasonably related to the mission of the agency, not specifically prohibited by statute, nor the subject of a more specific appropriation" was an expenditure properly chargeable to EEOC's general appropriation.

We disagree. The Congress created specific enforcement procedures for EEOC to follow when private parties file charges alleging unlawful employment practices. As stated in the law (42 U.S.C. 2000e-5(f)), the agency has discretionary authority to bring a civil action against the charged party when a charge has been filed with EEOC which cannot be resolved through administrative procedures. The named parties in such a proceeding would be EEOC versus the charged party, and the interests of the charging party would be indirectly served by this suit. When EEOC does not commence such an action, the aggrieved party has the option of instituting judicial proceedings.

The EEOC grant program in effect subsidizes court actions brought directly by private parties. This does not appear to have been contemplated by the Congress when it specified the procedures for handling the charges. Instead, if a particular charge is deemed to have sufficient merit, EEOC is authorized to institute judicial proceedings against the charged party. If not, the aggrieved party has the option of filing a civil action. We see no indication that the Congress contemplated a third alternative for title VII actions.

Moreover, EEOC's subsidizing of litigation brought by private parties is inconsistent with the statutory provisions pertaining to attorney's fees and costs in actions brought under title VII (42 U.S.C. 2000e-5(k)). The statute expressly restricts the award of these fees and costs to prevailing parties. The implementation of the private bar loan program, on the other hand, effectively enabled the agency to award costs to losing parties in title VII cases.

TRANSACTIONS WERE IMPROPERLY CHARGED TO FISCAL YEAR APPROPRIATIONS

It has been consistently held that except when authorized by law, no agency may obligate funds appropriated for one fiscal year to cover expenditures for the needs of another year. At EEOC, we noted several instances where this was done without authority, especially at the end of one year or the beginning of another.

We mentioned this condition in our interim report. For example, we said that EEOC had charged some of its fiscal 1980 travel costs against its 1981 appropriation. We noted that the extent of the problem had not been established, but that the condition was recognized as a problem in the agency. We said we planned to establish the extent of the problem and the reason for the connection.

We have discovered that an inordinate amount of work would be required to establish the full extent of the problem. We did note several instances in which the condition had occurred. Two of these instances involved large amounts of one year's costs being charged to another year's appropriation:

--EEOC awarded a contract on the last full day of fiscal 1979 for rental of equipment for fiscal 1980 and 1981. The contract specifies a rental price of $441,320 for the 2-year period, but states that the fiscal 1979 obligation would not exceed $9,000. It also states that the rental is contingent upon future availability of money, and that the Government would not be held liable for payment if the appropriations were not received. EEOC's accounting office, however, recorded the entire amount of the 1979 contract as an obligation for that year. To complicate matters, another contract was awarded in fiscal 1980 to cover that year's rental costs for the equipment and the accounting office recorded the amount of that contract, $227,700, as an obligation for fiscal 1980. The Commission then charged costs to both contracts and has recorded over $173,000 of the 1980 costs against the 1979 obligation.

--On the last day of fiscal 1979, EEOC recorded $111,459 in obligations on the basis of a purchase order that was to be issued to a vendor for a subscription to periodicals to be delivered in fiscal 1980. The vendor's invoices for payments under the order shows the date of the EEOC purchase as October 31, 1979, one month into fiscal 1980. Moreover, the agency was purchasing periodicals that would not be published until various periods in fiscal 1980. Without question, the need for the periodicals purchased existed in fiscal 1980, not fiscal 1979.

We have pointed out a number of Comptroller General decisions stating that funds obligated for one year cannot be expended to satisfy the needs of another. 1/ In these cases, we have consistently held that contracts executed and supported under authority of fiscal year appropriations can be made only within the period of their obligation availability, and must concern a bona fide need arising within such fiscal year availability. In applying this rule to rental agreements, we have held that rental agreements are a bona fide need only of the fiscal year in which they are performed. Thus, in the first instance cited above, the Commission's award of the contract on the last full day of fiscal 1979 was improper.

Concerning the purchase of goods, such as periodicals, we have held that the application of this rule forbids the incurring of obligations for goods where there is no need for the goods when the obligations are incurred. Therefore, in the second instance cited above, the Commission's award of a contract for unpublished periodicals was also improper.

OBLIGATIONS WERE NOT VALIDATED AND SOME INVALID ONES WERE RECORDED

EEOC had not performed periodic validations of its unliquidated obligations. In some cases, it had even entered some invalid ones in its records. As a result, an undetermined number of invalid obligations have remained on the records for excessive periods in violation of law, and the agency may have unnecessarily prevented the use of needed funds.

The requirement for periodic validation of obligations is pointed out in our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 24.2). As specified in the manual, Federal agencies should review their obligations periodically and at least at fiscal yearend to comply with the law (31 U.S.C. 703 (a)). The purpose of the yearend reviews is to establish whether all obligations reported on yearend closing statements are valid and supported by documentary evidence. Section 1311 of the Supplemental Appropriation Act (31 U.S.C. 200) sets the criteria for the obligations that can be considered valid and recorded. Essentially, the act

1/This position is cited in 42 Comp. Gen. 272 (1962), 36 Comp. Gen. 683 (1957), 20 Comp. Gen. 436 (1941).

provides that no amount shall be recorded unless it is supported by documentary evidence of a binding agreement in writing between the parties thereto.

In our interim report, we noted that EEOC had not attempted to validate its obligations since fiscal 1978. We also noted one apparently invalid obligation that had been recorded at the end of fiscal 1980. The obligation, valued at $1.2 million, was reported to cover reimbursements to the General Services Administration and other expenses, such as postage. However, the obligation was not adequately supported by documentary evidence, and a portion was deobligated in July 1981.

On September 21, 1981, EEOC internal auditors reported that many obligations charged to 1980 funds earmarked for State and local government contracts were apparently invalid. Eighteen posting errors were found that resulted in an overstatement of obligations by more than $55,000. In addition, EEOC's internal auditors recently reported that duplicate obligations were found for fiscal 1981 travel expenses.

In further work in the area, we noted an invalid fiscal 1979 obligation valued at over $500,000 that was being carried in the agency's records at fiscal 1981 yearend. The obligation was created for the purchase of office equipment. Although the order for equipment was canceled in July 1980, the unliquidated obligation has remained on the records.

At fiscal 1980 and 1981 yearend, EEOC reported $27.2 million and $30.1 million in unliquidated obligations. These amounts were reported without qualification, even though problems such as those cited above existed, and periodic reviews had not been performed as required by law to establish validity. This practice is in violation of section 1311 of the Supplemental Appropriation Act.

YEAREND REPORTS WERE CERTIFIED AS CORRECT DESPITE KNOWN INACCURACIES

An EEOC official certified the agency's fiscal 1980 and 1981 yearend reports to the Treasury as being accurate. Since these certifications were apparently made with knowledge of inaccuracies in amounts, especially in the 1980 report, the action may have violated a criminal statute.

Agency officials' certifications are subject to the provisions of the official certificates or writings statute (18 U.S.C. 1018). This statute makes it a crime (punishable by a fine of not more than $500 or imprisonment for not more than 1 year or both) for a person or public officer who is authorized by law to make or give a certificate, to knowingly make and deliver as true a certificate containing any statement known to be false.

Before the 1980 yearend certification, the EEOC official was apparently advised by one of his subordinates of inaccuracies in amounts being certified for that fiscal year. For example, the official was apparently advised that a transaction accounting for $1.2 million of the reported obligated balance was unsupported and, therefore, was an invalid obligation. Also, the official was aware that reviews to establish the validity of obligations had not been performed on the yearend obligation balances being reported for fiscal 1980 and 1981.

The certifications were made by the same EEOC official who apparently insisted on recording the $1.2 million improper transactions in EEOC's records as an obligation. The official is no longer employed by EEOC; consequently, that agency cannot take disciplinary action. However, the agency's current management has asked its Office of General Counsel for a determination as to whether the criminal statute was violated.

AGENCY ACTIONS TO DEAL WITH VIOLATIONS

The Commission promised and has taken a number of actions to correct the violations of law we noted. Recently, the officer who certified the fiscal 1980 and 1981 yearend reports as accurate without qualification was dismissed. The Acting Chairman also asked EEOC's Office of General Counsel to review available evidence and determine if a criminal violation of law may have occurred as a result of the certification process. A program for periodically reviewing unliquidated obligations will be established and the records will be adjusted to report only valid unliquidated obligations.

RECOMMENDATIONS

We recommend that the Chairman, EEOC:

--Recover funds owed EEOC from the loan fund venture and, in the future, prohibit any similar program unless the agency obtains specific congressional authority.

--Review contracts awarded and costs incurred near the end of the past three fiscal years to establish the amount of costs improperly charged against fiscal year appropriations and adjust records as necessary.

--Require a comprehensive review of the validity of all unliquidated obligations now being carried on the agency's records. Such a review must include steps to establish whether goods and services were delivered but not recorded and whether contractual documents are still binding.

--Complete the investigation surrounding the yearend certifications for fiscal 1980 and 1981 and, if conditions warrant, refer the case to the Justice Department.

--Better monitor contracts with State and local enforcement agencies to prevent problems similar to those occurring in fiscal 1980.

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION
WASHINGTON, D.C. 20506

December 14, 1981

OFFICE OF THE CHAIR

The Honorable Orrin G. Hatch
Chairman
Committee on Labor and Human Resources
United States Senate
Washington, D.C. 20510

Dear Senator Hatch:

Thank you for your letter of November 25, 1981 forwarding to me a copy of the interim General Accounting Office (GAO) Report on the financial status of the Equal Employment Opportunity Commission, dated October 30, 1981. I have reviewed it carefully and my staff has reviewed it. As you know, very soon after becoming Acting Chairman, I became aware that there were some problems in our financial operations, and began early to identify the extent of those problems, and to initiate steps for corrective action. I welcomed the GAO investigators, and viewed them as an arm of government to assist us in identifying and resolving whatever problems existed in our control and administration of government funds. Staff at EEOC gave the GAO investigators their full cooperation.

I have directed staff to immediately begin to address all of the deficiencies identified in the interim report. Be assured that I share your commitment to sourd financial management systems and procedures and to internal controls that insure that government funds are administered in accordance with established requirements. Unfortunately, the deficiencies identified by GAO are ones dating back for several years, as the report indicates, and will take time to correct. However, I am monitoring closely and now taking corrective action necessary to get EEOC back on a sound financial management track.

While I recognize that the October 30, 1981, GAO Report is an interim one and that no response is required at this time, I want to share with you as Chairman of our Oversight Committee what has taken place to address the deficiencies. The following preliminary steps have either been taken or will be taken within the timeframe indicated:

1. A new Acting Director has been appointed to head the Office of Program Planning and Evaluation, the office in which the budget and finance functions are placed. The Director is taking an active role in initiating improvement programs, including better organization of files and records to facilitate verifications and checks of financial records.

2. The selection procedure is in process for a Budget Officer and an Accounting Officer. These are vital positions which have been vacant since July and April, respectively. Selections should be made and personnel on board by January 30, 1982, or sooner.

3. Two training programs were held in October in which sessions were included on financial management and procurement. Reinforcement training on financial management and procurement for Office Directors will take place at the January 14-15, 1982, meeting of District Directors. As new staff come on board, priority training in financial management will be given to those having responsibility for such functions. The new accounting and budget officers will be responsible for extensive on-the-job training of present staff in the finance and accounting branches to upgrade skills where necessary.

4. The high error rate in coding financial transactions has been considerably reduced over the past several months due to a recent training program provided for our coders initiated by the new Director, and to assigning the coding of all disbursement to different staff. This is a systemic change and expedites input, reduces the error rate, and eliminates duplicate filing and recall of documents. Progress is being made in entering all of our transactions into the Central Accounting System. Extensive effort is being made to research and correct rejected financial transactions which were reported by GAO as recorded in our error file. We have reduced the 4,130 rejected transactions in the error file as of July 16, 1981 to 1,676 errors as of this date. I expect these 1,676 transactions in the error file to be resolved no later than January 30, 1982.

5. A clean-up cycle will be mandatory before any monthly, or other periodic financial report is produced to increase the accuracy of our financial reports.

6. In order to avoid the adjustment problem made in the closing of our fiscal 1980 financial records, we have delayed such closing of 1981 records until resolution of outstanding error transactions. In a further effort to increase the accuracy of our FY 1981 financial records, Office Directors were required to submit final reconciliations on any remaining FY '81 obligating documents to our Office of Program Planning and Evaluation by October 9, 1981, and to certify that as of September 30, 1981, the reconciliations were complete and that all obligating documents had been forwarded.

7. Errors reported in reconciliation reports will be promptly addressed by OPPE. We will no longer allow the build-up of an error transaction file. The finance and accounting staff has been instructed that it is responsible for prompt verification of errors reported in the reconciliation process by Office Directors, and that timely resolution of the errors and updating of the Central Accounting System to reflect reconciliation reports must take place. Failure by financial management staff to timely verify and update the system will result in disciplinary action.

   We have already initiated a feed-back program to Office Directors so that they are promptly notified when there is a problem to be resolved in their respective office's financial reports or records. This should avoid lingering, unresolved problems, speed up payments, and prevent further deficiencies.

8. The new accounting officer will be expected to begin an active program for validating unliquidated obligations. Such a program should be in full operation by March, 1982.

9. A program to improve the physical facility for filing and storing our financial documents is underway. We are investigating the possibility of putting our financial documents on microfilm to facilitate the retrieval, checking and filing of such documents.

10. Staff has been instructed that the accuracy of all data on vouchers must be pre-audited before payment. A formal pre-audit directive is in draft form, and will be reviewed and processed for clearance for issuance by the Commission no later than March, 1982.

11. The problems associated with taking advantage of discounts is a systemic one involving fund availability, procurement and payments. This problem will be addressed and corrected eliminating the loss of budget authority caused by the untimely payments.

12. A special effort has been initiated and will be intensified to collect outstanding travel advances from current staff and personnel not on EEOC staff. New instructions to staff and Office Directors will go out to speed up the collection activity. Instructions on clearance for resigning or otherwise terminating employees in the travel advance area will be re-emphasized.

13. Actions will be taken within 30 days to assure the separation of duties required to assure appropriate internal controls.

14. With the hiring of a Budget Officer and Accounting Officer, I will require much closer supervision of the systemic financial management process. We will also begin extensive on-the-job training of personnel responsible for and supporting this function.

15. Two additional auditors will be added to the audit staff to assist with the audit function, and I have instructed our internal audit office to develop, with OPPE, a plan for periodic audits of our financial controls.

Our financial management staff and Office Directors clearly understand that we cannot allow these deficiencies to persist any longer, and they understand my commitment to resolving these problems. This agency will continue to cooperate with the GAO investigators as they complete their investigation and finalize their report. Should you have any questions about the corrective actions being taken, I will be happy to provide you with further information.

Sincerely,

J. Clay Smith, Jr.

J. Clay Smith, Jr.
Acting Chairman

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