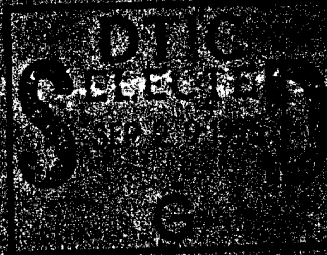
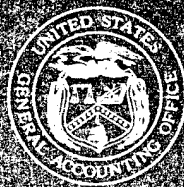


GAO

June 1992

CONGRESSIONAL AWARD FOUNDATION

Internal Controls Must Be Strengthened To Ensure Financial Success



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Accounting and Financial
Management Division

B-229163

June 23, 1992

The Honorable John Glenn
Chairman, Committee on
Governmental Affairs
United States Senate

The Honorable Major R. Owens
Chairman, Subcommittee on
Select Education
Committee on Education and Labor
House of Representatives

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Jun 92
Congressional
Award
Foundation:
Internal Controls
Must be
strengthened to
ensure financial
success

In response to your May 7, 1992, joint letter, we are providing information on the Congressional Award Foundation. Specifically, you asked that we provide our assessment of three issues related to the financial condition and management of the Foundation—the accuracy of the Foundation’s 1991 financial statements, the effectiveness of the Foundation’s financial management, and the Foundation’s ability to operate in a financially sound manner.

During the first 4 months of calendar year 1992, the Foundation received increased contributions, which improved its financial position and ability to meet obligations in a timely manner. However, the Foundation continues to experience several lingering internal control problems, including problems in preparing its financial statements. The Foundation’s ability to operate in a financially sound manner depends, in part, on its ability to strengthen its internal controls, specifically by hiring or otherwise acquiring access to staff with increased financial management expertise.

The Congressional Award Foundation was established in 1979 under Public Law 96-114 and is a private, nonprofit, tax-exempt organization established to promote initiative, achievement, and excellence among youth in areas of public service, personal development, and physical fitness. Public Law 101-525 reauthorized the Foundation’s existence through September 1992. The Foundation is administered by a board of directors, which currently consists of 34 members.

At the time of your request, we were in the midst of completing our audit of the Congressional Award Foundation’s 1990 financial statements and had not yet begun an audit of the 1991 statements. To respond to your request, we delayed completing our audit of the 1990 statements and instead



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performed certain procedures related to the statements included in the Foundation's 1991 annual report.

We interviewed Foundation officials and accounting staff, analyzed information contained in the financial statements, and reviewed supporting documentation, such as written policies and procedures, bank deposits, bank statements, invoices, and canceled checks. We performed our work from May 1992 through June 1992 in accordance with generally accepted government auditing standards. We discussed the results of our work with responsible Foundation officials and have incorporated their comments where appropriate. We did not, however, verify the accuracy of all financial statement amounts.

Accuracy of the Foundation's 1991 Financial Statements

The Foundation's 1991 financial statements contained several inaccuracies. In particular, the Foundation's fund balance on one statement was materially incorrect, and the statements did not adequately disclose certain financial transactions. Some examples follow.

- In its Statement of Revenue and Expenses and Change in Fund Balance for the year ended December 31, 1991, the Foundation incorrectly reported a positive fund balance of more than \$32,000. In its Statement of Financial Position, however, the Foundation correctly reported that it finished 1991 with a negative fund balance of more than \$19,000. Foundation officials told us this inconsistency was caused by a mathematical error.
- The Statement of Financial Position showed a loan payable of \$50,000, but did not disclose the source, terms, or purpose of the loan. The loan was an interest-free loan from a relative of a Board member. Generally accepted accounting principles require that the statements disclose the terms of the loan and its related-party nature.
- Restricted and unrestricted funds were not properly segregated in conformity with generally accepted accounting principles. Such segregation identifies any limits on use of funds for carrying out the Foundation's objectives and operations.
- The Foundation did not disclose that in 1991 it was late in filing required information with the Internal Revenue Service and in paying federal withholding taxes. The Internal Revenue Service assessed the Foundation penalties for similar problems in 1990.

Effectiveness of the Foundation's Financial Management

The Foundation has continued to experience several lingering internal control problems which could detract from its ability to effectively and efficiently carry out its program responsibilities. We believe that the Foundation's ability to correct these problems depends on its ability to hire or otherwise acquire access to staff with increased financial management expertise.

Inadequate Segregation of Duties

The Foundation did not have adequate internal controls over the receipt and handling of contribution funds. As a result, the Foundation was subject to the risk that contribution funds might be misappropriated or lost.

Duties involving the receipt of funds must be segregated to reduce the opportunities which allow a person to perpetrate and conceal errors or irregularities in the normal course of his or her duties. Duties should be assigned so that the same person is not responsible for receiving funds and for maintaining and accounting for them. In May 1991, we met with Foundation officials and made suggestions to change the procedures over the receipt of funds. Specifically, we suggested that one person open the mail and prepare an adding machine tape of all funds and another prepare the bank deposits. Control over the funds would be further strengthened by comparing the adding machine tape and the accounting records prepared by the people.

However, based on our review of related accounting records for September 1991 through March 1992, the Foundation did not always have evidence that it properly segregated the receipt and handling of contributions. In particular, adding machine tapes were not always initialed to indicate that the person who opened the mail and received contributions was not the same person who prepared the bank deposits.

Inadequate Control Over Fixed Assets

The Foundation did not adequately control fixed assets, increasing the risk that the assets could be lost or stolen. We also identified problems with fixed assets in our reports on the Foundation's 1987 and 1989 financial statements.¹

¹Congressional Award Program: Problems at the National Level Must Be Solved If the Program Is To Progress (GAO/AFMD-89-14, November 14, 1988) and Financial Audit: Congressional Award Foundation Financial Statements for 1989 (GAO/AFMD-91-25, April 30, 1991).

The Foundation has developed written policies and procedures for depreciating fixed assets and now maintains a list of fixed assets. However, the Foundation has not tagged or otherwise identified all of its fixed assets or their locations, thus exposing them to theft or other loss.

Inadequate Control Over Disbursements

The Foundation did not maintain subsidiary records for disbursements, nor do we believe it always conducted sufficient analyses of invoices before paying bills. As a result, the Foundation ran an unusually high risk of making incorrect disbursements. In fact, we found one instance in which the Foundation overpaid 1 month's charges for leased equipment and one instance in which the Foundation paid duplicate invoices for the same service.

As discussed later, these problems were further exacerbated by the Foundation's late payment of many bills, resulting in a number of past due notices and increased paperwork. Foundation officials acknowledged the disbursement problems, but believed that recent improvements in the Foundation's cash flow would help to enable timely bill payment.

Inadequate Financial Management Staffing

For several years, the Foundation has struggled with repeated financial management problems. For example, in our report on the Foundation's 1987 financial statements (GAO/AFMD-89-14), we disclosed two material internal control weaknesses regarding safeguarding of assets and reimbursement of the National Director's expenses. The Foundation has acknowledged problems and has resolved some of them. However, the Foundation has not been able to institutionalize the reforms necessary to ensure contributors and others that Foundation funds are handled and accounted for in a manner that reduces the risk for fraud, waste, and mismanagement.

The key Foundation official responsible for financial management is also responsible for other important but not directly related functions, such as formulating policies, performing fundraising activities, and managing Foundation programs. Foundation officials strongly agree that hiring or otherwise acquiring access to staff with increased financial management expertise would be an important step in the right direction, and told us they are considering a number of options for doing that. Such staff should be responsible for designing, implementing, and evaluating the effectiveness of the Foundation's internal controls, including accounting

for the Foundation's operations and activities and preparing the Foundation's financial statements.

The Foundation's Ability to Operate in a Financially Sound Manner

The Foundation reported that it ended 1991 with a negative fund balance. The Foundation acknowledged to us that it also had serious cash flow problems during the year and that, as a result, it was sometimes as much as 8 months late in paying many of its bills. However, Foundation officials said that increased contributions in 1992 and recent actions by the Board have helped to improve the Foundation's financial position and enabled timely bill payment.

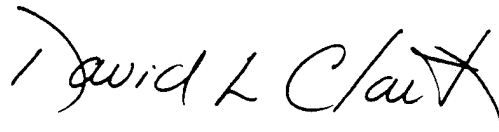
The Foundation received about \$109,000 in contributions during the first 4 months of calendar year 1992, well ahead of the pace set by the \$182,000 it received for calendar year 1991. The Foundation attributed this increase to new, more active Board members and to the Foundation's success in attracting an increased number of new contributors.

In addition, the Board has taken a number of actions to reduce the Foundation's expenditures, thus further improving the Foundation's cash flow. For example, the Board instructed the Foundation to dispose of unneeded supplies and other material, thereby reducing the Foundation's expenditures for storage rental. It also froze and reduced some Foundation salaries indefinitely. Further, the Board began requiring its treasurer to receive weekly reports of receipts and disbursements to better allow the Board to review and control the Foundation's cash flow. We believe that these actions should help to reduce the Foundation's expenditures and to enhance oversight and direction by the Board.

We are resuming our audit of the Foundation's 1990 financial statements and will shortly begin our audit of the 1991 statements. Those audits will address the issues discussed in this letter and contain additional recommendations, if appropriate. Copies of those audits will be made available to you when completed.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from its date. At that time, we will make it available to interested parties.

If you or your staff have any questions or require additional information on the matters discussed in this report, please contact me at (202) 275-9489 or Rosemary Jellish, Assistant Director, at (202) 512-6920.

A handwritten signature in black ink that reads "David L. Clark". The signature is written in a cursive style with a large, stylized 'D' and 'C'.

David L. Clark
Director, Legislative Reviews and
Audit Oversight