United States Government Accountability Office
Washington, DC 20548

September 9, 2010

Mrs. Erica Heyse
National Director
Congressional Award Foundation

Subject: *Management Report: Opportunities for Improvements in the Congressional Award Foundation's Internal Controls and Accounting Procedures*

Dear Mrs. Heyse:

In May 2010, we issued our opinion on the fiscal years 2009 and 2008 financial statements of the Congressional Award Foundation (the Foundation).[1] We also reported on our evaluation of the Foundation's compliance with provisions of selected laws and regulations for the fiscal year ended September 30, 2009, and our consideration of the Foundation's internal control over financial reporting.

The Foundation was formed in 1979 under the Congressional Award Act and is a private, nonprofit, tax-exempt organization under section 501(c)(3) of the Internal Revenue Code. It was established to promote initiative, achievement, and excellence among young people in the areas of public service, personal development, physical fitness, and expedition. During fiscal year 2009, there were approximately 27,700 participants registered in the Foundation's award program. Although the organization does not receive government funding, we are responsible for conducting audits of the Foundation's financial statements annually in accordance with section 107 of the Congressional Award Act, as amended (2 U.S.C. § 807).

During our audit of the Foundation's fiscal years 2009 and 2008 financial statements, we identified a material weakness[2] in the Foundation's internal control over financial reporting. The purpose of this report is to present (1) additional detail on the material weakness we previously identified concerning the Foundation's internal control over financial reporting, (2) other issues identified during our audit of the Foundation's

[1]GAO, Financial Audit: Congressional Award Foundation's Fiscal Years 2009 and 2008 Financial Statements, GAO-10-646 (Washington, D.C.: May 14, 2010).

[2]A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

fiscal years 2009 and 2008 financial statements regarding certain internal controls and accounting procedures, and (3) recommended actions to address the material weakness and other issues we identified. Specifically, we are making 16 recommendations for strengthening the Foundation's internal controls and accounting procedures.

Results in Brief

During our audit of the Foundation's fiscal years 2009 and 2008 financial statements, we identified a material weakness in the Foundation's internal control over financial reporting. Specifically, we found that the Foundation lacked sufficient and appropriate policies, procedures, and resources to prepare the financial statements and accompanying notes accurately, completely, and in accordance with U.S. generally accepted accounting principles (GAAP). This resulted in the need for material audit adjustments to the Foundation's fiscal year 2009 financial statements to achieve a fair presentation.

In addition, we identified six other internal control issues that we do not consider to be material weaknesses or significant deficiencies,[3] but which we nonetheless believe could adversely affect the Foundation's ability to meet its internal control objectives and increase the risk that the Foundation would not prevent or timely detect and correct errors or inconsistencies in financial reporting. These issues, all of which warrant management's attention and action, concern the Foundation's:

- lack of supporting documentation for a large adjusting journal entry;
- deficiencies in its bank reconciliation process, including lack of documentation of the process, resolution of reconciling items, and timely review;
- reliance on the National Director's use of her personal credit card to transact Foundation business, and lack of independent co-signer on checks payable to the National Director;
- lack of effective access controls over its check stock;
- lack of evidence of date of cash deposit review; and
- insufficient policies and procedures for recording, reconciling, and monitoring contributions receivables.

At the end of our discussion of each of these issues in the following sections, we present our recommendations for strengthening the Foundation's internal controls and accounting procedures. These recommendations are intended to improve

[3]A significant deficiency is a control deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

management's oversight and controls and minimize the risk of misappropriation of assets and misstatements in the Foundation's accounts and financial statements.

In its comments, the Foundation agreed with our recommendations and described actions it had taken to address the control issues described in this report. At the end of our discussion of each issue in this report, we have summarized the Foundation's related comments and provided our evaluation. We have reprinted the Foundation's comments in enclosure I.

Scope and Methodology

This report addresses issues we identified during our audit of the Foundation's fiscal years 2009 and 2008 financial statements. In planning and performing our audit of the Foundation's fiscals years 2009 and 2008 financial statements, we considered the Foundation's internal control over financial reporting for the purpose of determining our procedures for auditing the financial statements, not to express an opinion on the effectiveness of internal control. Accordingly, we did not express an opinion on the Foundation's internal control over financial reporting.

While our full scope and methodology used in carrying out our fiscal years 2009 and 2008 audit is detailed in our May 2010 report, in summary, to fulfill our responsibilities as auditor of the financial statements of the Congressional Award Foundation, we examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessed the accounting principles used and significant estimates made by Foundation management; evaluated the overall presentation of the financial statements and notes; obtained an understanding of the Foundation and its operations, including its internal control over financial reporting; assessed the risk that a material misstatement exists in the financial statements; tested relevant internal controls for the purposes of planning and performing our other audit procedures; tested compliance with selected provisions of the Congressional Award Act, as amended; and performed such other procedures as we considered necessary in the circumstances. We conducted our audit of the Foundation's fiscal years 2009 and 2008 financial statements in accordance with U.S. generally accepted government auditing standards. We believe that our audit provided a reasonable basis for our conclusions in this report.

Recording Financial Transactions

During our fiscal year 2009 audit, we found that the Foundation lacked sufficient and appropriate policies and procedures, and resources to prepare the Foundation's financial statements and accompanying notes accurately, and in accordance with GAAP. These control deficiencies, which we concluded represented a material weakness in the Foundation's internal control over financial reporting as of September 30, 2009, resulted in the Foundation improperly recording transactions that had a material impact on the draft financial statements that were provided to us for audit. Specifically, total operating revenues and other support were overstated by nearly $89,000, and total operating expenses were overstated by nearly $49,000. This in turn, resulted in the Foundation overstating its net assets by over $40,000. Consequently, we suggested and the Foundation made material adjustments in finalizing its fiscal year 2009 financial statements to achieve a fair presentation.

For example, during our audit, we found that the Foundation incorrectly recognized contribution revenues of over $81,000 and associated expenses of nearly $37,000 in fiscal year 2009 for a fund-raising event that did not take place until fiscal year 2010. In addition, the Foundation incorrectly recognized in fiscal year 2009 $13,000 of in-kind[4] revenues and almost $9,000 of prepaid expenses[5] as current-year expenses related to the event. The revenue associated with this fund-raising event, although promised in fiscal year 2009, should not have been recognized until fiscal year 2010 because the contributions were conditional upon the fund-raising event taking place. Likewise, the expenses associated with the event should have been recognized in fiscal year 2010 when the event took place. The deposit payments, which represented paid for but not yet received goods and services, should have been recognized as prepaid expenses in fiscal year 2009 and then expensed in fiscal year 2010 upon delivery of these goods and services.

As another example, during our testing of in-kind contributions, we found that the Foundation recorded an in-kind contribution in fiscal year 2009 for professional legal services of almost $10,000, of which only about $600 related to fiscal year 2009. In addition, we found a $20,000 in-kind contribution for donated legal services for the second half of fiscal year 2009 that was not recorded. The Foundation also did not record in its draft fiscal year 2009 financial statements an in-kind contribution in the amount of about $4,000 for donated airline tickets because it did not know the value of the tickets at the time the draft financial statements were prepared.

Finally, during our testing of the Foundation's expenses we found that the Foundation's general ledger account for accounts payable, which normally would have a credit balance, had a debit balance several times throughout the fiscal year. This was attributable in part to the fact that when certain expenses were paid, the Foundation reflected this as a reduction to accounts payable yet it had never initially recorded the payable and the associated expense. These errors resulted in accounts payable and expenses both being understated by about $3,000 as of September 30, 2009. We also found an expense of over $3,000 that was classified in the wrong expense account.

These errors occurred because the Foundation had insufficient policies and procedures, a lack of expertise in accounting and reporting for nonprofit organizations, inadequate training for its personnel, and an ineffective management

[4]An in-kind contribution is a noncash gift such as goods or services donated to a nonprofit organization. These in-kind items should be reported as contributions and measured at fair value when originally received by a nonprofit organization.

[5]A prepaid expense is a type of current asset which is expected to be consumed during the normal operating cycle of the business such as insurance, deposits for fundraising events, and operating supplies.

review process of the financial statements to identify and correct misstatements. Specifically, the Foundation's accounting policies and procedures were not comprehensive. Additionally, the Foundation's three staff members that handle financial matters did not have a background in nonprofit accounting. Also, the Foundation did not provide nonprofit accounting training aimed at developing its staff's skills and knowledge. Finally, management's review of the financial statements did not identify the errors contained in the draft financial statements.

The *Standards for Internal Control in the Federal Government*[6] require that management develop the detailed policies, procedures, and practices to fit their organization's operations. The Standards also require that transactions and other events be accurately and timely recorded to maintain their relevance and value to management in controlling operations and making decisions. This includes determining the appropriate fiscal year in which assets, liabilities, revenues, and expenses are recognized under GAAP. The Standards also require management's commitment to its personnel's competence through adequate training so that staff will be able to meet their job responsibilities during the normal course of business. In addition, the Standards require management reviews and supervisory activities.

Without sufficient resources and appropriate policies and procedures, Foundation management is unable to provide reasonable assurance that it can prepare financial statements free from material misstatements and that its financial activities are reported completely, accurately, and in conformity with GAAP. Having staff with insufficient knowledge of accounting for nonprofit organizations recording financial transactions, and not having an effective management review process, increase the Foundation's risk that significant errors will occur and not be detected and corrected promptly.

<u>Recommendations</u>

We recommend that the Foundation

- conduct a review of its current accounting policies and procedures and update them as necessary,

- establish and document policies and procedures to ensure that staff receive training aimed at developing knowledge and skills in accounting and financial reporting for nonprofit organizations, and

- institute a management review process for the Foundation's draft financial statements that is effective in identifying material misstatements.

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[6]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

Foundation Comments and Our Evaluation

The Foundation agreed with our recommendations. The Foundation stated that it plans to review and update its accounting policies and procedures to include detailed steps to assist the Foundation's staff with accounting responsibilities. The Foundation also stated that it plans to document in its policies and procedures a requirement for staff to receive training in nonprofit financial reporting and accounting. The Foundation stated that it purchased the nonprofit financial accounting manual to be used by the Foundation personnel to assist them in correctly recording transactions. In addition, the Foundation elected two Certified Pubic Accountants to the Board of Directors in July 2010. These two individuals will be expected to assist the Foundation in developing its policies and procedures, address nonprofit accounting issues, and institute an effective management review process of the Foundation's draft financial statements. We will evaluate the effectiveness of the Foundation's corrective actions during our fiscal year 2010 financial audit.

Support for Adjusting Journal Entries

During our fiscal year 2009 audit, we found that the Foundation did not always have appropriate supporting documentation for financial adjusting journal entries. Specifically, we found that the Foundation's Controller made an adjusting entry in the general ledger cash and contributions receivable accounts in the amount of about $25,000 related to donations without supporting documentation. The Controller found the cash account in the general ledger was nearly $25,000 lower than the bank's balance and as a result, recorded an adjustment to reconcile the difference. However, the Controller recorded the adjustment with no supporting documentation and without sufficient investigation to ensure the bank's balance was accurate. Further, while Foundation management discussed this issue, management did not review and approve this adjustment.

This occurred because the Foundation lacked policies and procedures that delineate appropriate documentation and review requirements. Specifically, the Foundation's existing policies and procedures did not address procedures for recording adjusting journal entries, nor did they require adjusting journal entries to be reviewed and approved by Foundation management.

The *Standards for Internal Control in the Federal Government* require that internal control procedures, transactions, and other significant events be clearly documented and readily available for examination. The Standards also require that all documentation and records should be properly managed and maintained. In addition, the Standards require regular management and supervisory activities such as reviewing and approving adjusting entries.

Although we subsequently determined that the adjustment in question was appropriate, the Foundation increased its risk of loss of cash since it did not investigate the discrepancies between the general ledger balance and the bank balance to ensure that the difference was not the result of bank errors. Also, without procedures to ensure adjustments are properly supported, documented, reviewed, and approved, the Foundation increases the risk that amounts may not be properly recorded.

Recommendation

We recommend that the Foundation expand its policies and procedures to ensure all adjusting entries are properly documented, supported, reviewed, and approved by management.

Foundation Comments and Our Evaluation

The Foundation agreed with our recommendation. The Foundation stated that updates to the accounting policies and procedures were expanded and implemented to ensure that any adjusting journal entries made throughout the year by the Controller (exclusive of standard adjustments for activities such as payroll) are appropriately documented, supported, reviewed, and approved by the National Director and the Director of Operations. The Foundation indicated that as part of the new process, the Controller is to submit a memorandum outlining the amount of the adjustment, the reason for the adjustment, and include all supporting documentation. End of year adjusting journal entries will continue to be approved by the Treasurer. We will evaluate the effectiveness of the Foundation's corrective actions during our fiscal year 2010 financial audit.

Review of Bank Reconciliations

During our fiscal year 2009 audit, we found that the Foundation's process for reconciling its cash balance with its bank statement was not formally documented and was not effective in ensuring that differences were fully investigated and resolved. Specifically, we found that the cash balance in the Foundation's general ledger was understated by over $3,600 at September 30, 2009, because the Foundation staff did not perform the necessary follow-up to determine the ultimate disposition of outstanding checks that had not yet cleared the bank at the time of the reconciliation. In addition, we found no indication that the National Director questioned these unresolved discrepancies during her review of the staff's monthly reconciliations, and we did not find evidence of her review and approval of the bank reconciliations.

The Foundation staff did not investigate and timely resolve discrepancies identified because the Foundation lacked documented policies and procedures over the bank reconciliation process, including providing for a thorough investigation and timely resolution of any differences identified in the course of performing bank reconciliations.

The *Standards for Internal Control in the Federal Government* require that transactions and other events be accurately and timely recorded to maintain their relevance and value to management in controlling operations and making decisions.

Furthermore, the Standards require regular management and supervisory activities such as reviewing and approving bank reconciliations.

Without timely resolution of outstanding checks, the Foundation's reconciliations are not fully effective and useful, and the Foundation increases the risk that business decisions may be based on an inaccurate cash balance.

Recommendations

We recommend that the Foundation

- document in its policies and procedures requirements for a timely investigation and resolution of reconciling items, such as outstanding checks, in its bank reconciliation process; and

- include requirements in its policies and procedures for management to review, sign, and date bank reconciliations indicating management's review for accuracy and completeness.

Foundation Comments and Our Evaluation

The Foundation agreed with our recommendations. The Foundation stated that it planned to expand its policies and procedures to include detailed steps on the bank reconciliation and ensure a thorough monthly bank reconciliation is performed. The Foundation also stated that it included in its policies and procedures requirements to have management review, sign, and date the bank reconciliation indicating their review for accuracy and completeness. In addition, the Foundation stated that it had established and implemented policies and procedures to ensure the timely investigation and resolution of reconciling items, including a policy to resolve checks outstanding for over 6 months. We will evaluate the effectiveness of the Foundation's corrective actions during our fiscal year 2010 financial audit.

Use of Personal Credit Cards and Check Signing Procedures

During our fiscal year 2009 audit, we found that the Foundation allowed the National Director to use her own personal credit card to transact various types of Foundation business and to be one of the check co-signers for reimbursable expenses to herself. Specifically, we found that the National Director charged on her personal credit card, and later requested reimbursement for, over $50,000 of the Foundation's business expenses. In all cases, we found that the charges were for legitimate business expenses, some of which were associated with planned fund-raising events, which had been discussed with and approved by the Foundation's Board of Directors. Foundation officials told us that the Foundation has not secured its own corporate credit card due to the recent economic downturn and the tightening of underwriting rules for obtaining a business card.

In addition, we found that the Foundation's practice of allowing the National Director to co-sign checks to herself did not fulfill the intent of its own policies and procedures and did not provide sufficient control over payments. Foundation policies and procedures required that checks over $2,500 be signed by the National Director and co-signed by the Treasurer, which allows for two independent signers. However, because the National Director used her personal credit card for reimbursable business expenses, we found that some of the checks she co-signed were to reimburse herself. Specifically, we found five individual, legitimate business expenses charged on her personal credit card totaling almost $30,000, for which she later requested and received reimbursement under her authority as National Director. In these instances, only the Treasurer was an independent signer.

By operating under a practice of relying on the National Director's personal assets to transact business, the Foundation is not operating within its means and in a manner that maintains an appropriate separation between Foundation and employee resources. This heightens the risk of it incurring inappropriate charges and could affect the Foundation's operations in the event that the Foundation doesn't have access to personal credit cards in the future.

In addition, the Foundation was insufficiently segregating check-signing duties by having the National Director co-sign checks over $2,500 for her reimbursable business expenses, and not providing for two independent check signers. The *Standards for Internal Control in the Federal Government* require segregation of duties to reduce the risk of unauthorized expenditures. This includes separating the responsibilities for authorizing transactions from check-signing duties. Segregation of duties often can be difficult in organizations with a small staff. However, without segregation of duties to help ensure two independent co-signers for all checks over $2,500, the Foundation increases its risk of unauthorized expenditures. The Foundation told us that it plans to either have another Board of Directors member review and authorize payment for expenses incurred by the National Director or obtain approval for expenses incurred by the National Director over $2,500 by the Board of Directors during the Foundation's budgeting process.

<u>Recommendations</u>

We recommend that the Foundation

- reassess its current practice of relying on the use of the National Director's personal credit card to transact Foundation business,
- take steps to obtain a business credit card to support its business operations as determined by the Foundation's business needs,
- institute policies and procedures on the use of that business credit card once acquired, and

- expand its policies and procedures for reviewing and authorizing payment for expenses incurred by the National Director to require another individual from the Board of Directors to co-sign checks over $2,500 payable to the National Director.

Foundation Comments and Our Evaluation

The Foundation agreed with our recommendations. The Foundation stated that it plans to reassess its use of the National Director's personal credit card to transact Foundation business and that it is researching opportunities to acquire a business credit card under the guidance of its legal counsel. Additionally, the Foundation stated that it plans to expand its policies and procedures to include detailed steps for reviewing and authorizing payments for expenses incurred by the National Director to ensure proper segregation of duties is maintained and that it plans to either have another Board of Director member review and co-sign checks over $2,500 payable to the National Director or obtain approval for expenses incurred by the National Director over $2,500 by the Board of Directors during the budgeting process. We will evaluate the effectiveness of the Foundation's corrective actions during our fiscal year 2010 financial audit.

Access to Check Stock

During our fiscal year 2009 audit, we identified deficiencies in the Foundation's physical controls over its check stock that increased the risk of loss or misappropriation of Foundation assets. Specifically, we found that while the Foundation's check stock was located in a locked filing cabinet drawer, the keys to this drawer were accessible to all employees. The Foundation's policies and procedures did not specify the need for physical safeguards over the check stock and that check stock access should be limited to those requiring such access in accordance with their assigned duties.

The *Standards for Internal Control in the Federal Government* require that management identify risks and establish physical controls to secure and safeguard assets that might be vulnerable to risk of loss or unauthorized use. Without effective controls over such sensitive assets, the Foundation increases the risk of misappropriation and unauthorized use or disposition of Foundation checks.

Recommendations

We recommend that the Foundation

- include in its policies and procedures requirements for physically safeguarding assets and limiting access to only authorized staff, and

- identify a secure location to store its check stock which is known and accessible only to senior management and staff responsible for handling the Foundation's disbursements.

Foundation Comments and Our Evaluation

The Foundation agreed with our recommendations. The Foundation stated that it has established and implemented new policies and procedures regarding physical access to vulnerable assets. The Foundation stated that it has also identified a secure location to store its check stock that is known and accessible only to senior management and staff responsible for handling disbursements. We will evaluate the effectiveness of the Foundation's corrective actions during our fiscal year 2010 financial audit.

Review of Cash Deposits

During our fiscal year 2009 audit, we found that the National Director's review and approval of the Foundation's cash deposits was not documented. Such documentation is important to show that the review was done prior to deposit of the funds in the Foundation's bank account. We found that while the Foundation had procedures requiring staff to process the mail and identify incoming checks and cash, record deposits in the general ledger, and prepare a deposit ticket, management's supervisory review of the cash deposits was not fully documented. Specifically, we found the National Director initialed but did not date her approval of cash deposits. Consequently, the Foundation had no evidence that the review was performed in time to identify and correct errors prior to deposit. The National Director told us that she was not aware of a requirement to date her review of the cash deposits.

As documented in the Foundation's policies and procedures, the National Director is required to review and approve the cash deposit packages, and document such approval, prior to deposit with the Foundation's bank. In addition, the *Standards for Internal Control in the Federal Government* require that internal control activities be clearly documented. An example of such appropriate documentation would include evidence of supervisory review with signature and date.

Without evidence of the date of the National Director's review of cash deposits, there is no assurance that her review was conducted in accordance with the Foundation's own policies and procedures and is thus effective in preventing errors prior to the bank deposits being made.

Recommendation

We recommend that the Foundation enhance its policies and procedures over the bank deposit process by requiring that the National Director sign and date the deposits.

Foundation Comments and Our Evaluation

The Foundation agreed with our recommendation. The Foundation stated that new policies and procedures were established and implemented and that the National Director has now begun to date her review of the deposits to formally document her timely review and approval. We will evaluate the effectiveness of the Foundation's corrective actions during our fiscal year 2010 financial audit.

Accounting for Contributions Receivables

During our fiscal year 2009 audit, we found several issues which affected the timely and accurate reporting of contributions receivable. Specifically, we found that the Foundation's subsidiary ledger for its contributions receivable, which consists of a spreadsheet detailing each receivable, did not match the total in its general ledger account for contributions receivable as of September 30, 2009. This occurred because the subsidiary ledger was not being consistently updated and reviewed. In addition, we found no evidence that the Foundation was, on a monthly basis, reconciling pledges received per the subsidiary ledger to those recorded in the general ledger as required by Foundation policy, and thus ensuring that all differences were fully investigated and resolved. Finally, we found that the Foundation was not routinely monitoring its outstanding receivables to appropriately assess their collectibility. For example, we found that one of the Foundation's pledges in the amount of $10,000 which was recorded as a receivable on September 30, 2008, in the general ledger was no longer collectible. When we tried to confirm the pledge, the donor indicated that it no longer intended to honor its pledge to the Foundation. As a result, the contributions receivable account was overstated by $10,000.

These conditions occurred because the Foundation did not have effective policies and procedures for recording, reconciling, and monitoring its receivables to ensure timely and accurate reporting. Specifically, the Foundation did not have documented policies and procedures requiring timely and consistent recording of pledges on the subsidiary ledger and the general ledger and a formal reconciliation process of the two ledgers. The National Director told us that the subsidiary ledger was originally designed as a management tool to track corporate donors. As such, it was not designed to track receivables. She indicated that the Foundation did not systematically record a pledge in the subsidiary ledger and generate an invoice for all donations. Also, she told us that she did not always provide the subsidiary ledger to the accounting staff responsible for recording the pledges in the general ledger on a timely basis, which may have resulted in discrepancies between the two ledgers. In addition, although the Foundation's policies and procedures require that the Controller and the National Director meet on a monthly basis to ensure that all pledges received and recorded in the general ledger and subsidiary ledger balance to each other, we found no record of these meetings and related supporting documentation. Finally, the Foundation did not have documented policies and procedures for monitoring the status of its outstanding receivables and for periodically assessing their collectibility through means such as considering the age of the receivables or confirming donor pledges.

The *Standards for Internal Control in the Federal Government* require that transactions and other events be accurately and timely recorded to maintain their relevance and value to management in controlling operations and making decisions. Reconciliations should also be performed to ensure that all transactions are completely and accurately recorded. GAAP requires organizations to record a loss when all or a portion of a receivable is estimated to be uncollectible.

Without comprehensive and effective documented policies and procedures to record, reconcile, and monitor receivables, the Foundation increases its risk that recorded amounts may not be accurately and timely reported. In addition, the Foundation may not be accurately accounting for, following up on, and assessing the collectibility of outstanding receivables.

Recommendations

We recommend that the Foundation

- establish formal policies and procedures to ensure pledges are timely and consistently recorded on the subsidiary ledger and the general ledger as contributions receivable,
- include in its policies and procedures requirements to document the monthly reconciliation between the subsidiary ledger and the general ledger for contributions receivable and resolve any discrepancies identified, and
- expand its policies and procedures to require routine monitoring and assessing the collectibility of outstanding receivables.

Foundation Comments and Our Evaluation

The Foundation agreed with our recommendations. The Foundation stated that it has established policies and procedures to ensure receivables are properly recorded, reconciled, and monitored. The Foundation stated that it has included in its policies and procedures requirements to document the monthly reconciliation between the subsidiary ledger and the general ledger for contributions receivable, resolve any discrepancies identified, and routinely monitor and assess the collectibility of outstanding receivables. We will evaluate the effectiveness of the Foundation's corrective actions during our fiscal year 2010 financial audit.

This report is intended for use by Congressional Award Foundation management and its Board of Directors. This report is a matter of public record, and its distribution is not limited. Consequently, copies are available to others upon request. In addition, this report will be available at no charge on GAO's Web site at http://www.gao.gov.

We acknowledge and appreciate the cooperation and assistance provided by the Foundation's management and staff during our audit of the Foundation's fiscal years

2009 and 2008 financial statements. If you have any questions about this report or need assistance in addressing these issues, please contact me at (202) 512-3406 or sebastians@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are: Julie Phillips, Assistant Director; Edmund Fernandez; Sophie Simonard; and Bethany Smith.

Sincerely yours,

Steven J. Sebastian
Director
Financial Management and Assurance
Enclosure – I

Comments from the Congressional Award Foundation

Congressional Award

Public Law 96-114, The Congressional Award Act

August 30, 2010

Mr. Steven Sebastian
Director
Financial Management and Assurance
Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Sebastian:

Thank you for the opportunity to review and comment on the *Management Report: Opportunities for Improvements in the Congressional Award Foundation's Internal Controls and Accounting Procedures*. We are pleased that the GAO found the fiscal year 2009 financial statements to be presented fairly and that there were no reportable instances of noncompliance with laws and regulations.

During the course of the audit, the GAO identified a material weakness in the Foundation's internal control over financial reporting. Actions are being taken to ascertain that all necessary measures are carried out to fulfill fiduciary responsibilities, as discussed below.

As we continue to experience growth in program participation among youth, assessment of our systems and procedures remains an ongoing process to deliver the program in the best possible manner. We appreciate the opportunity to strengthen the Foundation's ability to make this program a national opportunity, especially given the limited resources at hand.

Recording of Financial Transactions

GAO Recommendation: The Foundation should: (1) conduct a review of its current accounting policies and procedures and update them as necessary, (2) establish and document policies and procedures to ensure that staff receive training aimed at developing knowledge and skills in accounting and financial reporting for nonprofit organizations, and, (3) institute a management review process for the Foundation's draft financial statements that is effective in identifying material misstatements.

Congressional Award Foundation Response: The Foundation agrees with the recommendations. The Foundation plans to review and update its policies and procedures to include detailed steps to assist the Foundation's staff with accounting responsibilities. The Foundation also plans to document in its policies and procedures a requirement for staff to receive training in nonprofit financial reporting and accounting. The Foundation has purchased the nonprofit financial accounting manual to be utilized by the Foundation personnel to assist them in correctly

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recording transactions. In addition, the Foundation elected two Certified Pubic Accountants to the Board of Directors in July 2010. These two individuals will be expected to assist the Foundation in developing its policies and procedures, address nonprofit accounting issues, and institute an effective management review process of the Foundation's draft financial statements.

Status:

Updates to the accounting policies and procedures, to include requirements to attend training sessions as appropriate, will be completed by September 2010.

The Foundation purchased the non-profit financial accounting manual in May 2010.

The Foundation will provide, on a monthly basis, draft financial statements to the Audit Committee for review and discussion of the financial position of the organization, as appropriate. This policy will be implemented upon the election of new Audit Committee members on September 28, 2010.

Support for Adjusting Journal Entries

GAO Recommendation: The Foundation should expand its policies and procedures to ensure all adjusting entries are properly documented, supported, reviewed, and approved by management.

Congressional Award Foundation Response: The Foundation agrees with the recommendations. The Foundation expanded its policies and procedures to require that any adjusting journal entries made throughout the year by the Controller (outside of any standard adjustments such as payroll, etc.) be documented, supported, reviewed, and approved by the National Director and the Director of Operations. As part of the new process, the Controller will submit a memo outlining the amount of the adjustment, the reason for the adjustment, and include all supporting documentation. End of year adjusting journal entries will continue to be approved by the Treasurer.

Status:

Updates to the accounting policies and procedures to ensure that any adjusting journal entries are appropriately documented were expanded and implemented in May 2010.

Review of Bank Reconciliations

GAO Recommendation: The Foundation should: (1) document in its policies and procedures requirements for a timely investigation and resolution of reconciling items, such as outstanding checks, in its bank reconciliation process; and (2) include requirements in its policies and procedures for management to review, sign, and date bank reconciliations indicating management's review for accuracy and completeness.

Congressional Award Foundation Response: The Foundation agrees with the recommendations. The Foundation plans to 1) expand its policies and procedures to include detailed steps on the bank reconciliation and review process, 2) ensure a thorough monthly bank reconciliation is performed and, (3) require timely investigation and resolution of reconciling items such as outstanding checks. The Foundation also included in its policies and procedures requirements to have management review, sign, and date the bank reconciliation indicating their review for accuracy and completeness. In addition, the Foundation has established a new policy to resolve checks outstanding for over six months.

Status:

Updates to the accounting policies and procedures to ensure that bank reconciliations are reviewed, signed and dated by management were implemented in June 2010.

Updates to the accounting policies and procedures to ensure the timely resolution of outstanding items were implemented in June 2010.

Expanded procedures regarding the reconciliation of the monthly bank statements will be completed and implemented in September 2010.

Use of Personal Credit Cards and Check Signing Procedures

GAO Recommendation: The Foundation should: (1) reassess its current practice of relying on the use of the National Director's personal credit card to transact Foundation business, (2) take steps to obtain a corporate credit card to support its operations as determined by the Foundation's business needs, and (3) institute policies and procedures on the use of that corporate credit card once acquired. We also recommend the Foundation expand its policies and procedures for reviewing and authorizing payment for expenses incurred by the National Director to require another individual from the Board of Directors to co-sign checks over $2,500 payable to the National Director.

Congressional Award Foundation Response: The Foundation agrees with the recommendations. The Foundation plans to reassess its use of the National Director's personal credit card to transact Foundation business. The Foundation is working with United Bank to obtain a corporate credit card that does not expose the Foundation's officials to "unlimited permanent personal liability." The Foundation plans to expand its policies and procedures to include detailed steps for reviewing and authorizing payments for expenses incurred by the National Director to ensure proper segregation of duties is maintained. In addition, the Foundation plans to either have another Board of Director member review and co-sign checks over $2,500 payable to the National Director or obtain approval for expenses incurred by the National Director over $2,500 by the Board of Directors during the budgeting process.

Status:

The Foundation is researching opportunities to acquire a business credit card under the guidance of our legal counsel to ensure that the Foundation in compliance under its bylaws. The intent is to provide a CD which will act as collateral for the Credit Card. Options will be reviewed by the Board of Directors on September 28, 2010.

Updates to the accounting policies and procedures to ensure that an additional Board Member be appointed to co-sign checks to the National Director will be expanded and implemented in September 2010.

Access to Check Stock

GAO Recommendation: The Foundation should: (1) include in its policies and procedures requirements for physically safeguarding assets and limiting access to only authorized staff, and (2) identify a secure location to store its check stock which is known and accessible only to senior management and staff responsible for handling the Foundation's disbursements.

Congressional Award Foundation Response: The Foundation agrees with the recommendations. The Foundation has expanded its policies and procedures over physical access to vulnerable assets. The Foundation has also already identified a secure location to store its check stock that is known and accessible only to senior management and staff responsible for handling disbursements.

Status:

New policies and procedures were established and implemented in May 2010.

Review of Cash Deposits

GAO Recommendation: The Foundation should enhance its policies and procedures over the bank deposits by requiring that the National Director sign and date deposits.

Congressional Award Foundation Response: The Foundation agrees with the recommendations. The National Director has now begun to date her review of the deposits to formally document her timely review and approval.

Status:

New policies and procedures were established and implemented in April 2010.

Accounting for Contributions Receivables

GAO Recommendation: The Foundation should: (1) establish policies and procedures to ensure pledges are properly, timely and consistently recorded on the subsidiary ledger and the general ledger as contributions receivable; (2) include in its policies and procedures requirements to document the monthly reconciliation between the subsidiary ledger and the general ledger for contributions receivable and resolve any discrepancies identified, and (3) expand its policies and procedures to require routine monitoring and assessing the collectibility of outstanding receivables.

Congressional Award Foundation Response: The Foundation agrees with the recommendations. The Foundation established policies and procedures to ensure receivables are properly recorded, reconciled, and monitored. In addition, the National Director originally created a spreadsheet, now being used as a sub-ledger, as a management tool for her to track donation activity. With some minor modification the spreadsheet will serve more effectively as a sub-ledger for recording, reconciling and monitoring receivables. The Foundation also included in its policies and procedures requirements to document the monthly reconciliation between the subsidiary ledger and the general ledger for contributions receivable, resolve any discrepancies identified, and routinely monitor and assess the collectibility of outstanding receivables.

Status:

New policies and procedures to a) ensure pledges are properly, timely and consistently recorded in the subsidiary ledger and the general ledger as contributions receivable b) document the monthly reconciliation between the subsidiary ledger and the general ledger for contributions receivable and resolve any discrepancies identified and 3) require routine monitoring and assessing the collectibility of outstanding receivables, were established and implemented in May 2010.

If you have any questions, please contact me at (202) 226-0130.

Sincerely,

Erica W. Heyse

Erica Wheelan Heyse
National Director

(196223)

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