



Accounting and Information
Management Division

B-280506

July 31, 1998

Ms. Kendall S. Hartman
National Director
Congressional Award Foundation

Subject: Congressional Award Foundation: Continuing Attention Needed to Improve Internal Controls

Dear Ms. Hartman:

In May 1998, we issued a report expressing our opinion on the Congressional Award Foundation's fiscal year 1997 financial statements and on management's assertions regarding the Foundation's system of internal controls as of September 30, 1997 (GAO/AIMD-98-153, May 15, 1998). We also reported on the results of our tests of the Foundation's compliance with selected provisions of relevant laws and regulations during fiscal year 1997. We conducted our audit pursuant to the Congressional Award Act, as amended (2 U.S.C. 807), and in accordance with generally accepted government auditing standards.

In conducting our fiscal year 1997 audit, we found that the Foundation had made progress in addressing each of the six accounting and internal control weaknesses we identified during our fiscal year 1996 audit (GAO/AIMD-97-126R, July 30, 1997). The Foundation had successfully addressed one weakness by documenting and carrying out a systematic methodology for assigning and allocating expenses by functional categories. The Foundation needed this systematic methodology for assigning and allocating expenses to support required financial disclosures. For each of the other weaknesses—managing receivables, monitoring restricted contributions, supporting accounting adjustments, following up on bank reconciliations, and adequately supporting transactions—the Foundation had made varying degrees of progress in strengthening its internal control policies and procedures. However, to complete our suggested improvements and further strengthen internal controls, the Foundation still needs to design and carry out certain internal control policies and procedures and/or formalize such policies and procedures through appropriate documentation.

The purpose of this letter is to (1) emphasize the need to establish and document certain internal control policies and procedures suggested as a result of our fiscal year 1996 audit and (2) advise you of additional matters identified during our fiscal year 1997 audit that relate to those previously identified weaknesses. Although our fiscal year 1996 suggestions for strengthening the Foundation's internal controls are based on internal control standards for documentation, recording transactions, and executing transactions, these matters are not considered significant deficiencies in the design and operation of the Foundation's overall system of internal controls. Nevertheless, they warrant management's attention.

In commenting on a draft of this letter, you agreed with our conclusions and suggestions and stated your intention to implement our suggestions. Specifically, you told us you are currently developing procedures for accounts receivable, your first priority, and are considering obtaining professional assistance in documenting internal control policies and procedures, especially as they relate to financial accounting. We will review the Foundation's status in addressing these matters during our fiscal year 1998 financial audit.

MANAGING RECEIVABLES

Management needs to monitor accounts receivable records regularly and consistently to help ensure the receivables' reliability and identify overdue receivables for follow-up. To accomplish this, the Foundation's receivable records should provide management with accurate and reliable information on the value and status of individual account receivables.

During our fiscal year 1996 audit, we found that the Foundation's policies and procedures did not specify the form and content of the subsidiary receivable records. Also, they did not provide sufficient guidance on monitoring accounts receivable and following up on those considered overdue. In response to our earlier suggestions to improve receivables management, the Foundation had agreed to (1) establish receivable records that contain the information needed to manage individual receivables and assess their collectibility, (2) periodically reconcile these records with detailed receivable-related information maintained in other Foundation records, and (3) age outstanding receivables to support proper accounting and financial reporting.

During our fiscal year 1997 audit, we found that the Foundation had assessed the collectibility of its fiscal year-end accounts receivable. However, it had not yet included information such as invoice numbers in its subsidiary accounts receivable records, which would facilitate follow-up on outstanding receivables. Nor had it initiated procedures to reconcile receivable subsidiary data, such as application and registration fees receivable, to other pertinent information, such

as the number and source of program applications and registrations contained in the Foundation's other records.

The lack of subsidiary account data and these internal controls contributed to errors in the Foundation's fiscal year 1997 accounting records. Our tests showed that before the end of the fiscal year, the Foundation had received and processed the payments for more than \$2,500 in receivables that still appeared in the accounts receivable balance for its year-end financial statements. As a result, the Foundation had to adjust its reported accounts receivable balance for its year-end financial statements.

While the errors are not material, their nature emphasizes the fact that the Foundation still needs to improve its subsidiary accounts receivable data and internal control policies and procedures for monitoring accounts receivable. Without effective policies and procedures over accounts receivable recordkeeping and monitoring, Foundation management will continue to find it difficult to ensure the reliability of its reporting over receivables. Furthermore, it will be difficult for the Foundation to accurately identify overdue receivables and pursue their collection. Accordingly, we suggest that the Foundation's management establish effective recordkeeping and monitoring controls over its accounts receivable.

MONITORING THE STATUS OF RESTRICTED CONTRIBUTIONS

During our fiscal year 1996 audit, we found that the Foundation's supporting records did not clearly document the restricted status of several large contributions. Clear and accurate documentation on the specific nature and extent of donor-imposed restrictions is essential to ensuring that those restrictions are properly satisfied and that related transactions are properly accounted for and reported. Therefore, we suggested that the Foundation develop formal policies and procedures for monitoring the restrictive status of contributions.

During fiscal year 1997, the Foundation improved its tracking of restricted contributions by creating separate funds and related general ledger accounts. However, it did not develop and implement the policies and procedures needed to help ensure that donor-imposed restrictions are identified and properly satisfied. Specifically, the Foundation did not establish a contributions database containing specific donor comments on the nature and extent of any restrictions. Moreover, at the time of our audit, the Foundation had not yet identified and set up procedures for handling restricted contributions and for monitoring their status.

The lack of a contributions database and related policies and procedures over restricted contributions could increase the likelihood that donor-imposed restrictions would not be identified and tracked to ensure that they are carried out. For example, our tests of the Foundation's fiscal year 1997 contributions found one contribution, valued at \$1,943, that was erroneously recorded and reported as unrestricted although it was temporarily restricted when received.

In fiscal year 1998, the Foundation began maintaining an electronic database on contributions and pledges. Although the database provides for identifying donor-imposed restrictions, the Foundation has not yet documented its policies and procedures for monitoring donor-restricted contributions. Therefore, we continue to suggest that the Foundation formally document its policies and procedures for handling restricted contributions and for monitoring their status.

REVIEW AND APPROVAL OF FINANCIAL REPORTING ADJUSTMENTS

During our fiscal year 1996 audit, we found that the Foundation had not clearly documented the "worksheet" adjustments needed to prepare its financial statements. Clear documentation is needed to verify that adjustments have been reviewed and approved by management before being included in the Foundation's financial statements and reports. We suggested that the Foundation establish policies and procedures to require that all adjustments recorded in the financial statements be documented and approved.

In preparing its fiscal year 1997 financial statements, the Foundation engaged a public accounting firm to compile its financial statements and to develop the supporting documentation for the necessary worksheet adjustments. In preparing the statements, the firm worked with Foundation management to determine necessary adjustments. While hiring a firm to prepare the statements and provide supporting documentation reduces the risk that worksheet adjustments would not be clearly documented, it is not a substitute for formalizing internal control policies and procedures for management's required review and approval of the adjustments. Therefore, we continue to suggest that Foundation management formally establish explicit policies and procedures to ensure that worksheet adjustments are clearly documented, reviewed, and approved by management before financial statements and reports are issued.

Follow-up on Reconciliations

During our fiscal year 1996 audit, we found that the Foundation did not always promptly investigate and resolve differences between the balances in its checkbook accounts and the corresponding balances reported on its bank statements. Performing regular bank reconciliations and following up on reconciling items provides assurance that errors that occur are promptly

detected, investigated, and resolved. We suggested that the Foundation specify in its policies and procedures that all differences (i.e., reconciling items) identified during a reconciliation be promptly investigated and resolved and require appropriate supervisory review.

As part of our fiscal year 1997 audit, we noted that the Foundation had taken steps to improve its handling of its in-transit deposits, which resulted in fewer reconciling items at fiscal year-end. However, as of September 30, 1997, the Foundation had not established internal control policies and procedures requiring (1) a monthly reconciliation of the Foundation's recorded cash balance with the balance reported by the Bank, (2) the prompt and effective follow-up of any reconciling items identified, and (3) appropriate supervisory review. Therefore, we continue to suggest that Foundation management formally establish reconciliation policies and procedures to ensure that errors that occur are promptly detected, investigated, and resolved.

APPROPRIATE TRANSACTION SUPPORT

An important internal control objective is that transactions be supported by appropriate documentation subject to meaningful supervisory review to ensure that transactions are processed in accordance with management's intent. During our fiscal year 1996 audit, we found several transactions that lacked appropriate documentation or indication of supervisory review. As a result, we suggested that the Foundation formalize its accounting policies and procedures to (1) clearly communicate management's policy regarding the nature and extent of the documentation to be retained in support of transactions and (2) require clear documentation of supervisory approval of all transactions prior to recording them in the accounting records.

While our fiscal year 1997 audit did not identify any unauthorized or unsupported transactions, we did find that the Foundation was sometimes authorizing payments to vendors based on facsimiles of invoices. Because facsimiles do not contain original signatures, it is more difficult to identify duplicates. As a result, management was not able to readily identify a duplicate facsimile invoice and improperly authorized a duplicate \$2,500 payment to a consultant. After we brought the error to management's attention, the Foundation arranged to collect the overpayment in installments and as of May 1998 had collected \$1,500, according to Foundation management. Consequently, we continue to suggest that the Foundation document its policies with respect to supporting transactions and management authorization.

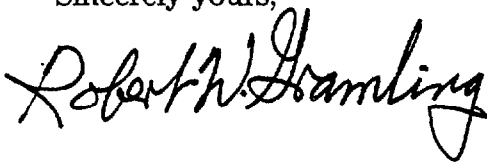
The weaknesses discussed above, while not considered significant deficiencies in the design and operation of the Foundation's system of internal control, emphasize the continuing need for the Foundation to establish and/or formalize

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policies and procedures in the areas noted. Formal policies and procedures would not only communicate management policy more clearly but also provide guidance to assist less experienced staff in performing internal control functions.

We appreciate the cooperation and assistance Foundation management and staff provided during our audit of the Foundation's fiscal year 1997 financial statements. If you have any questions or need assistance in addressing these matters, please contact me at (202) 512-9406 or John J. Reilly, Assistant Director, at (202) 512-9517.

Sincerely yours,

A handwritten signature in black ink that reads "Robert W. Gramling". The signature is written in a cursive style with a large, prominent initial "R".

Robert W. Gramling
Director, Corporate Audits
and Standards

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