



United States General Accounting Office  
Washington, DC 20548

Accounting and Information  
Management Division

B-285870

July 28, 2000

Mr. James F. Manning  
National Director  
Congressional Award Foundation

Subject: Congressional Award Foundation: Management Action Still Needed to Establish and Document Control Requirements and Related Procedures

Dear Mr. Manning:

In May 2000, we issued a report<sup>1</sup> expressing our opinion on the Congressional Award Foundation's fiscal year 1999 financial statements and on management's assertions regarding the Foundation's system of internal control as of September 30, 1999. We also reported on the results of our tests of the Foundation's compliance with selected provisions of laws and regulations during fiscal year 1999. 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. The purpose of this management letter is to reemphasize the continuing need for the Foundation's management to strengthen internal controls, especially in the five areas previously reported to you in our July 1999 management letter.<sup>2</sup>

### **Results in Brief**

In conducting our 1999 audit, we found that the Foundation had made progress at the organization and system levels in addressing internal control weaknesses. Specifically, during fiscal year 1999, the Foundation hired a new employee to help draft control objectives and procedures. Also, the Foundation began implementing a new accounting system, which among other things has the capability to flag duplicate facsimile invoices, one area of control weakness previously reported. However, Foundation management has not yet established and documented internal control requirements and related procedures as previously suggested for management and

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<sup>1</sup>*Financial Audit: Congressional Award Foundation's 1999 and 1998 Financial Statements* (GAO/AIMD-00-156, May 15, 2000).

<sup>2</sup>*Congressional Award Foundation: Management Action Needed to Establish Control Requirements and Related Procedures* (GAO/AIMD-99-224R July 15, 1999).

staff to follow (1) in the preparation and approval of financial statements and related adjustments, (2) in following up on reconciliations, and (3) to compensate for inadequate separation of duties inherent in small organizations, like the Foundation. Also, Foundation management has not yet documented, as previously suggested, established internal control requirements and procedures it follows in managing receivables and monitoring restricted contributions, and in controlling facsimile invoices. Without established and documented control requirements and related procedures, the Foundation faces the continuing risk that its processing of transactions and preparation of financial reports may not be consistently performed, monitored, and controlled.

In commenting on a draft of this letter, you agreed with our conclusions and suggestions regarding the need to establish and document internal control requirements and related procedures and expressed your intention to implement our suggestions. In this regard, you informed us that the Foundation has hired an independent public accounting firm to assist in developing and documenting internal control requirements and procedures and in implementing the new accounting system. Moreover, you told us that the Foundation's Board of Directors established an audit committee as we previously suggested to, among other things, oversee and monitor management's progress in establishing, documenting, and implementing control requirements and related procedures.

### **Preparation and Approval of Financial Statements and Related Adjustments**

In July 1999, we reported internal control weaknesses related to the Foundation's preparation and approval of financial statements and related adjustments. We suggested that Foundation management establish and document internal control requirements and procedures to govern (1) the preparation of year-end closing entries, (2) the development of supporting documentation for all closing/adjusting entries, and (3) management review and approval. During our fiscal year 1999 financial statement audit, we found that the Foundation had not yet established such control requirements and related procedures, which in part contributed to errors in both the year-end closing and statement preparation for fiscal year 1999.

For example, we found that in closing the books for fiscal year 1999, management had not booked an accounts payable item, which was in dispute, or identified various errors in year-end adjusting entries and in the preparation of draft financial statements. Near the end of fiscal year 1999, the Foundation received an invoice related to fundraising activities for \$19,624, which management found to be wrong. Foundation management had requested a corrected invoice from the vendor but failed to record the transaction in the Foundation's accounting records prior to closing its books because the responsible employee had left the Foundation in the meantime. As a result, its accounting records at year-end understated its liabilities and expenses. Upon an inquiry from the vendor, Foundation management realized that the transaction had not been booked and identified it to us. Internal control procedures for closing out the Foundation's books and records could have promptly alerted Foundation management of the need to record the payable. Also, Foundation

management failed to identify an \$8,386 error in accrued vacation and, similar to 1998, did not detect errors related to its allocation of certain salary expenses needed for footnote disclosure in the fiscal year 1999 financial statements. The error in accrued vacation occurred because the bookkeeper used sick leave rather than vacation leave to compute the accrued expense. The error in computing the proper allocation of salaries occurred because the accountant used an incorrect percentage factor and made an incorrect assumption about the role of one of the employees. In both cases, internal control procedures for the documentation, review, and approval of adjusting entries could have detected these errors prior to the preparation of the draft financial statements.

### **Follow-up on Reconciliations**

We reported in July 1999, that although bank reconciliations were performed, Foundation management had not established and documented requirements and procedures for (1) following up on outstanding unusual items or (2) reviewing and approving completed reconciliations. Our review of completed reconciliations in fiscal year 1998 found that because the Foundation lacked internal controls in this area, it failed to follow up on a \$1,050 check, outstanding for about 8 months. Not following up on the outstanding check prevented the Foundation from learning that the check had been voided. While our 1999 audit did not identify new errors related to reconciliations, we found that Foundation management had not yet established and/or documented internal control requirements for the prompt follow-up of unusual outstanding items identified as a result of the bank reconciliations. Reconciling its cash balance to the bank's balance monthly is one of the most important internal control techniques the Foundation can perform to minimize risks that assets are not properly safeguarded and transactions are not properly recorded and summarized.

### **Inadequate Separation of Duties**

We discussed in our July 1999 letter that due to its size, the Foundation has inherent weaknesses in its ability to establish internal control procedures that separate duties, so that no one person has access to several key aspects of a transaction or event and the risk of error or fraud is reduced. For example, we noted in our July 1999 letter that the bookkeeper's responsibilities, which included recording revenue and expense transactions in the general ledger and required her to have access to the Foundation's checkbook and register to perform reconciliations, represented inadequate separation of duties. Therefore, we suggested that the Foundation establish and document requirements and procedures for compensating controls.

During our fiscal year 1999 audit, we found that the Foundation had not yet established and/or documented compensating controls in this area. Therefore, we continue to suggest that management establish compensating controls as reported previously. Such controls could require the National Director to review monthly bank statements, canceled checks, and the results of the monthly reconciliation process (also an important control requirement for following up on reconciliations) and/or require the administrative assistant to review the checkbook before and after

(1) authorized disbursements have been made and recorded and (2) the periodic bank reconciliation has been performed.

**Managing Receivables and Monitoring Restricted Contributions and Controlling Facsimile Invoices**

In July 1999, we reported that Foundation management had implemented procedures for (1) managing receivables and monitoring restricted contributions and (2) controlling facsimile invoices but had not yet documented internal control requirements and procedures for staff to follow. Specifically, in managing its receivables and monitoring restricted contributions, the Foundation established subsidiary databases and used the information in the databases to help follow up on overdue receivables; assess the collectability of older accounts receivable; and track the specific nature and extent of donor-imposed restrictions and monitor events associated with their release. Regarding the processing of facsimile invoices, the Foundation initiated additional reviews of vendor files and its list of previous invoices prior to approving facsimile invoices for payment.

While we did not identify any new errors related to managing receivables and monitoring restricted contributions or identify any facsimile invoices during our 1999 audit, we noted that the Foundation had not yet documented control requirements and related procedures for Foundation staff to follow in processing accounts receivable and monitoring restricted contributions and processing invoices received by fax.

GAO's *Standards for Internal Controls in the Federal Government* requires that internal control, transactions, and other significant events need to be clearly documented, and the documentation should be readily available for examination. Such documentation should appear in management directives, administrative policies, or operating manuals.

Without documented control requirements and related procedures, the Foundation increases the risk that recorded amounts may not be accurate, properly classified, or reliably reported. Therefore, we continue to suggest that the Foundation formally document control requirements and related procedures for processing accounts receivable, monitoring restricted contributions, and controlling facsimile invoices.

Because of the continuing need to establish and document internal control requirements and related procedures, we are sending copies of this letter to Thomas D. Campbell, Chairman, Board of Directors, and Debra Lawrence, Foundation Treasurer and member of the Board of Directors, and members of Congress. However, this letter is a matter of public record and as such will be made available to other interested parties upon request.

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We appreciate the cooperation and assistance Foundation management and staff provided during our audit of the Foundation's fiscal year 1999 financial statements. If

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you have any questions regarding this letter, please contact me at (202) 512-9508 or John Reilly, Assistant Director, at (202) 512-9517. Key contributors to this assignment were Charles Ego and Ben Smith.

Sincerely yours,

A handwritten signature in black ink that reads "Linda M. Calbom". The signature is written in a cursive style with a large initial 'L'.

Linda M. Calbom  
Director, Corporate Audits  
and Standards

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