

GAO

Testimony



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The Congressional Award Program

Statement of  
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Before the  
Subcommittee on Select Education  
Committee on Education and Labor  
House of Representatives



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Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you today to present the preliminary results of our audit of the Congressional Award Foundation which was required by Public Law 99-161, as amended. Our audit began in February 1990 and is now nearly complete. A report on the results of our audit is being prepared, and should be issued to the Congress and provided to the program's board of directors by October 1990. We will also advise you on the status of action taken by program officials in response to 12 recommendations contained in our November 14, 1988, report (GAO/AFMD-89-14), and to offer our views on proposed changes to existing legislation.

We found that the financial condition of the Foundation, although still precarious, has improved from 1987, which was the year of operation we last audited. Most notable is the reduction in debt and operating expenses. However, weaknesses in internal accounting controls continue to exist. At the end of the period covered by our current audit- December 1989, the Foundation continued to be in noncompliance with a provision of law which requires that expenditures be made only when resources are available. By June 1990, however, the Foundation has achieved compliance with this provision.

In our view, program officials have adequately responded to 7 of the 12 recommendations contained in our November 1988 report. They have taken some action on 4 others while one other has not yet been addressed. The actions taken represent positive steps toward improving program operations.

Staff from the House and Senate have been meeting to develop amendments to the legislation which authorizes the Congressional Award Program. We were provided with a draft of proposed changes and asked to comment on any of the proposals where we might have suggestions to offer. My statement this morning complies with that request.

#### BACKGROUND

The Congress established the Congressional Award Program in 1979 to promote initiative, achievement, and excellence among youths through the dedication of time to public service, personal development, and physical activities. The program is managed by the Congressional Award Board which established a nonprofit corporation to carry out the program's daily operations. That corporation, the Congressional Award Foundation, serves as the national office for local and state-wide councils. Until passage of an appropriation in December 1987, the program was financed entirely from private sources.

Youths aged 14 through 23 can participate in the program. Depending on their age and the amount of time they spend on qualifying activities, they can earn bronze, silver, or gold Congressional Award medals.

Most substantive efforts to enable youths to fulfill award requirements occur at the local level. Adult volunteers who serve as activity advisors certify that youths have spent the hours required to qualify for a medal. Council staff, comprised almost entirely of volunteers, confirm that youths' activities meet the program standards, verify that applications are complete, and forward them to the Foundation for approval. Youths who do not live in areas served by a council can participate in the program by submitting their medal applications directly to the Foundation. Scholarships can also be offered to medal recipients, as provided in the authorizing legislation.

#### PRELIMINARY RESULTS OF OUR FINANCIAL AUDIT

We have nearly concluded our audit of the financial statements of the Congressional Award Foundation for 1989. Although we have not finished the report, we have tentatively concluded that the financial statements, as adjusted per our audit work, fairly present the Congressional Award Foundation's financial position for calendar year 1989. We are also preparing reports on internal accounting controls and compliance with laws

and regulations which will discuss some material internal accounting control weaknesses, such as inadequate safeguarding of assets and lack of adequate accounting records, and noncompliance with one provision of law that expenditures not exceed available resources.

We have compared the preliminary figures for 1989 with those for 1987, the last year we audited. In 1987, the Foundation experienced a loss of \$166,000. The loss was reduced to approximately \$820 in 1989 as a result of a reduction of about \$222,000 in expenses, and despite a decline in revenue of nearly \$57,000. This improvement resulted from a concerted effort by current management to operate in a prudent manner. Another significant improvement is the reduction of liabilities. At the end of 1987, liabilities were in excess of \$360,000. Preliminary figures for 1989 show liabilities at about \$67,000. Events subsequent to our audit period show a further reduction. As of June 1990, all prior year debts were either forgiven or paid, and resources were available to pay current expenses.

In our previous report, we stated that the Foundation's financial condition raised substantial doubt about its ability to continue as a going concern. While we may not make the same statement in our upcoming report, the Foundation continues to operate with such minimal funds that program expansion has been

hampered. Without increased financial resources, prospects for future operation are limited.

RESPONSE TO GAO RECOMMENDATIONS

Appendix I to my statement contains a list of the 12 recommendations contained in our November 1988 report. Since that report was issued, program officials have reasonably addressed 7 of the 12 recommendations. Noteworthy efforts by program officials to remedy material weaknesses disclosed in our 1988 report include:

- the Foundation paid off or obtained forgiveness of all prior years' debts as of June 1990, and resources are available to pay current expenses,
- since her arrival in July 1989, the National Director has made significant changes to reduce operating expenses,
- inactive Board members have been replaced, and for the first time in several years, the Board had a quorum at its March 1990 meeting, and
- as of June 1990, over \$118,000 in contributions has been generated, and the Board has prepared a new written appeal for potential donors.

As shown in Appendix I to this statement, there are four recommendations that have not been completely addressed and one on which no action has been taken. Recommendations #2 and #4 which cite noncompliance with bylaw provisions could be satisfied by having minutes of committee meetings maintained. We were advised that informal notes have been taken for past committee meetings, and assured that more formal minutes would be taken at future meetings. While a statement of the Foundation's role has been prepared by the Foundation Director in response to recommendation #3, it has not been approved by the Board and is not being used. The Board has reduced the number of its committees from four to two since our last audit, but has not yet established a written mission statement for one of the two existing committees in accordance with recommendation #5.

Program officials advised us of two reasons for not taking action on recommendation #1 to expand program publicity. First, they believe that it is primarily the responsibility of the local councils to publicize the program. Second, they cited a lack of funds to hire a staff member to handle publicity as a reason why no action has been taken. We continue to believe, however, that program expansion will be difficult to achieve without publicity targeted to reach potential program participants.

In summary, program officials have made significant progress in addressing our recommendations. These actions have been

instrumental in improving the financial condition of the Foundation and its image as a fiscally responsible entity. We believe that program officials should give priority to acting on the recommendations not fully addressed as one means of continuing to improve program operations.

#### PROPOSED LEGISLATIVE CHANGES

Bipartisan congressional staff have been meeting to discuss the Congressional Award Program. Based on these discussions, they have prepared proposed legislative changes to the program and have asked for our comments on them. We have reviewed the proposed legislative changes dated June 28, 1990, and have the following comments to offer for your consideration.

We suggest that a copy of the audited financial statements with accompanying auditors' reports be included in the annual report submitted by the Board to the Congress under Section 3(e) of the current law. We note that the program staff historically has had great difficulty in meeting the current March 1 reporting deadline. In recognition of this fact, the draft proposal would extend the report date to April 1. However, in view of our proposal to include audited financial statements and auditors' reports in the annual report, we suggest that the report date be extended to June.



The draft proposals would amend Section 8 of the current law to require that GAO conduct annual rather than biennial audits. In recent years, we have recommended legislation requiring the audited entity to prepare financial statements in accordance with generally accepted accounting principles, and to engage an independent external auditor to conduct the financial statement audits. In such cases we have further recommended that the legislation authorize GAO to review such audits and to conduct the audits when the Comptroller General deems it necessary, or upon congressional request. We favor such an approach here and would not object to an additional provision requiring that GAO conduct the audit when the cost of a private audit would present a financial hardship to the program.

The draft proposals would also amend Section 8 to require a program evaluation covering fiscal year 1993. We believe that it might be more appropriate not to specify a time for the program evaluation, but instead to provide that such an evaluation can be made on an "as needed" basis. This would allow flexibility to assure that an evaluation would be done only when meaningful. A program evaluation could be done at your request, or on our determination that such a review is warranted.

Section 9 of the current law would be amended by the proposed changes to authorize such funds as are necessary to pay for travel expenses associated with the annual gold medal awards

ceremony in the District of Columbia. It would also authorize such funds as are necessary to provide all bronze, silver, and gold medals. The draft proposal does not specify whose travel will be paid for in connection with the gold medal awards ceremony, and whether in addition to transportation, it also includes accommodations, meals, entertainment, and other related ceremony costs. Further, it does not put a ceiling on the amount to be spent in connection with the providing of medals and the ceremony. The draft proposal should clearly identify whose expenses can be reimbursed and the maximum amount to be available each year for the medals and the gold medal awards ceremony.

The draft proposal would amend Section 10 of the current law to authorize up to \$500,000 over four years to be appropriated for deposit in a trust fund. These appropriated funds would be provided to the Secretary of the Treasury to make a federal contribution of two dollars for each privately donated dollar the Board deposits into the fund. Presumably, the privately donated funds that would be deposited will be those not needed to finance the Board activities as provided elsewhere in the act. Interest earned on the deposits to the fund could be used to pay operating expenses, except those associated with the Gold Medal Awards ceremony.

If private donations are needed to pay current expenses and therefore are not deposited into the fund, there will be no

federal match. Also, if private funds are deposited and later withdrawn from the fund for operational purposes, the corresponding federal contribution is also withdrawn. Since program officials have had limited funds available to them in the last few years, it is uncertain whether private contributions above those needed to pay current expenses will be available for deposit to the trust fund. Therefore, it is questionable whether the intended federal support would be provided.

In reviewing the proposed legislative changes, we noted some technical errors that would need to be addressed. Also, we identified some minor issues, such as unnecessary provisions in the existing legislation, which I have not addressed in my statement. We would be happy to work with congressional staff on these or any other matters as they finalize language on a bill to amend the Congressional Award Act.

This concludes my statement, Mr. Chairman. We will be pleased to respond to any questions you or members of the Subcommittee may have

<u>NO</u>	<u>Recommendation</u>	<u>Status</u>
1.	Expand program publicity and target it to reach potential program participants and supervisors.	Open
2.	Take the actions necessary to ensure that the Board and Foundation are brought into full compliance with authorizing legislation and bylaw provisions and that full compliance is maintained.	Partially Open
3.	Clearly define the Foundation's role in writing. Determine the number and type of staff needed to carry out the Foundation's duties. Identify the other resources needed to fulfill the Foundation's role and select a Director who is capable of leading the Foundation in this role.	Partially Open
4.	Conduct Board meetings in a more systematic manner, such as following <u>Robert's Rules of Order</u> , to ensure that uncompleted or unresolved matters are not overlooked and that the financial condition of the program and committee activities will be routinely discussed. Also, prepare minutes for all Board and committee meetings, in accordance with bylaw provisions.	Partially Open
5.	Determine whether committees formed in the past are still relevant to current Board needs. For those that are, ensure they have written mission statements and redesignate Board members to serve on them.	Partially Open
6.	Develop and implement a plan to pay off all existing debts. The possibility of seeking forgiveness for these debts, making them interest free, and working out long-term repayments should be explored.	Closed
7.	Actively consider and act upon all reasonable opportunities to reduce operating costs, such as (1) selling the Foundation's car unless it can be shown to be cost-effective to keep it and (2) reducing Foundation staff salaries at least until financial resources and program activities begin to show substantial growth.	Closed
8.	Work with the congressional leadership to fill vacant Board positions with qualified, dedicated individuals who will make time available for program work. Assess the performance of current Board members and determine the desirability of their continued participation.	Closed
9.	Require the Board to become more actively involved in fundraising. A concerted effort should be made to develop and implement a plan to successfully raise contributions from private sector organizations.	Closed
10.	Require the Board's Treasurer to more actively carry out the responsibilities specified for that position in the Foundation's bylaws. In the future, the Treasurer should review Foundation expenditures and approve all reimbursements of the Foundation Director's expenses before they are made. Further, the Treasurer should evaluate and recommend to the Board whether any expenses paid for the Director after 1985, such as those cited in chapter 3 of this report, should be repaid to the Foundation.	Closed

11. Ensure that the Foundation issues annual reports with all required information included for 1986 and 1987 and make arrangements for issuing subsequent reports within the legislated deadline. Closed
12. Develop appropriate guidelines for carrying out the scholarship feature of the program and implement them as soon as funds are available to award scholarships. Closed