United States General Accounting Office

GAO

Report to the Congress

July 1994

FINANCIAL AUDIT

Congressional Award Foundation's Financial Statements for 1992, 1991, and 1990

GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

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July 14, 1994

To the President of the Senate and the
Speaker of the House of Representatives

As required by Public Law 101-525, we audited the Congressional Award Foundation's statements of financial position as of December 31, 1992, 1991, and 1990, and the related statements of revenues and expenses and changes in fund balance, and cash flows for the years then ended. We found

- the financial statements were reliable in all material respects;
- internal controls were effective in assuring material compliance with laws and regulations, but were ineffective at December 31, 1992, in assuring that there were no material misstatements in the financial statements and in safeguarding assets, and
- no material noncompliance with laws and regulations we tested.

In our last report,[1] we conveyed that the Foundation's ability to correct lingering internal control problems depended on its ability to hire or otherwise acquire access to more staff with financial management expertise. The Foundation agreed with us and made attempts to achieve this goal. The Foundation secured the pro bono services of a major accounting firm to provide assistance and counsel in financial management matters, whose work began in January 1993 after the end of the period covered by the Foundation's financial statements. We will evaluate the Foundation's progress in resolving internal control problems in future audits.

These weaknesses in internal controls may adversely affect any decision by management which is based, in whole, or in part, on information that may be inaccurate because of the weaknesses. Unaudited information reported by the Foundation, including budget information, also may contain misstatements resulting from these weaknesses.

The following sections provide more detail for each conclusion and discuss the scope of our audits.

[1]Congressional Award Foundation: Internal Controls Must Be Strengthened to Ensure Financial Success (GAO/AFMD-92-80 June 23, 1992).

Opinion on Financial Statements

The financial statements and accompanying notes present fairly, in conformity with generally accepted accounting principles, the Foundation's

- assets, liabilities, and fund balance;
- revenues and expenses; and
- cash flows.

However, misstatements may nevertheless occur in other financial information reported by the Foundation as a result of the internal control weaknesses described later.

Opinion on Internal Controls

The internal controls we evaluated were those designed to

- safeguard assets against loss from unauthorized use or disposition;
- assure the execution of transactions in accordance with laws and regulations; and
- properly record, process, and summarize transactions to permit the preparation of financial statements, and to maintain accountability for assets.

In our last report, we identified internal control weaknesses in three areas. First, 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. Second, the Foundation did not adequately control fixed assets, increasing the risk that the assets could be lost or stolen. Third, 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's risk of disbursing incorrect amounts was unusually high.

Although the Foundation has made some minor improvements to its internal controls as of December 31, 1992, these improvements were not sufficient to assure that transactions were properly processed, recorded, and summarized and that assets were safeguarded. For example, we found that the Foundation developed a master list to account for and to safeguard fixed assets, but did not include asset values on this list and did not consistently match the list to physical inventory counts. As a result, the Foundation could not readily substantiate general ledger amounts for fixed assets.

Further, we found the Foundation did not perform certain routine reconciliations or other procedures that would have detected errors, including incorrect postings to the general ledger accounts. As a result, we had to propose numerous adjustments to the 1990 through 1992 financial statements to correct material misstatements in the Foundation's accounts and financial statements, including 51 corrective adjustments to the 1992 financial statements. In general, these adjustments were necessary in order to reclassify amounts to the appropriate expense accounts or to the correct accounting periods.

These weaknesses in internal controls are conditions in which controls do not reduce to a relatively low level the risk that errors or irregularities in amounts material to the financial statements would be prevented or detected in a timely period by employees in the normal course of performing their assigned functions.

As we suggested in our prior report, we believe the Foundation needs to (1) aggressively pursue access to more staff with financial management expertise and (2) develop, document, and enforce appropriate internal control policies and procedures to obtain reasonable assurance that all transactions are properly recorded, processed, and summarized and that assets are safeguarded. Without improvements to internal controls, the Foundation will remain exposed to risks that financial information will be inaccurate, and assets will not be adequately safeguarded.

Compliance With Laws and Regulations

Our audit tests for compliance with selected provisions of laws and regulations disclosed no material instances of noncompliance. Also, nothing came to our attention in the course of our other audit work to indicate that material noncompliance with such provisions occurred.

Objectives, Scope, and Methodology

Management is responsible for

- preparing annual financial statements in conformity with generally accepted accounting principles;
- establishing and maintaining internal controls and systems to provide reasonable assurance that the internal control objectives mentioned above are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are reliable (free of material misstatement and presented in conformity with generally accepted accounting principles). We are also responsible for evaluating whether internal controls are in place and operating effectively. In addition, we are responsible for testing compliance with selected provisions of laws and regulations.

In order to fulfill these responsibilities, 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 management;
- evaluated the overall presentation of the financial statements;
- evaluated and tested relevant internal controls which encompassed the following areas: treasury, revenues, expenditures, equipment, inventory, and financial reporting; and
- tested compliance with selected provisions of Public Law 96-114, as amended, and federal and state regulations on employee withholding and filing requirements for tax-exempt entities.

We limited our work to accounting and other controls necessary to achieve the objectives outlined in our opinion on internal controls. Because of inherent limitations in any system of internal control, losses, noncompliance, or misstatements may nevertheless occur and not be detected. We also caution that projecting our evaluation of controls pertaining to compliance with laws and regulations to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We performed our audit in accordance with generally accepted government auditing standards. We completed our audit work on December 31, 1993.

Charles A. Bowsher
Comptroller General
of the United States

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Financial Statements

Statements of Financial Position

	December 31, 1992	December 31, 1991	December 31, 1990
Assets			
Current assets			
Cash	$ 53,240	$ 19,948	$ 39,723
Stanley Morris Scholarship Fund	739	716	679
J. Howard Memorial Trust (note 3)	0	3,572	3,391
South Bronx Project	0	9,101	37,537
Total cash	53,979	33,337	81,330
Prepaid expenses	1,451	0	0
Security deposits	950	1,194	1,194
Accounts receivable	15,690	1,748	169
Total current assets	72,070	36,279	82,693
Fixed assets			
Office furniture (note 2)	15,779	15,779	17,473
Equipment (note 2)	33,745	26,540	46,928
Contributed equipment	13,628	13,628	11,528
Allowance for depreciation	(52,052)	(47,380)	(63,236)
Total fixed assets	11,100	8,567	12,693
Total Assets	$ 83,170	$ 44,846	$ 95,386
Liabilities and Fund Balances			
Current liabilities			
Accounts payable	977	11,323	33,107
Lease obligations	1,691	381	4,973
Accrued payroll and related taxes	4,385	5,374	13,237
Deferred revenue (note 4)	51,812	983	775
Loan payable	0	50,000	0
Accrued tax penalties	0	9,402	5,699
Total current liabilities	58,865	77,463	57,791
Noncurrent lease obligations	4,207	694	643
Fund balance			
Restricted funds	0	(5,548)	90,760
Unrestricted funds	20,098	(27,763)	(53,808)
Total fund balance	20,098	(33,311)	36,952
Total Liabilities and Fund Balance	$ 83,170	$ 44,846	$ 95,386

The accompanying notes are an integral part of these statements.

Statements of Revenues, Expenses, and Changes in Fund Balance

	December 31, 1992	December 31, 1991	December 31, 1990
Revenues			
Contributions (note 6)	$327,385	$311,664	$272,827
Administrative processing fees	9,829	14,775	21,197
Registration fees	2,725	2,230	950
Interest income	13,225	5,911	4,755
Shipping reimbursement	348	7	48
Gold Award Ceremony	22,908	18,052	6,959
Program materials	2,024	1,097	0
Promotion	1,174	920	0
Miscellaneous income	20	0	0
Furniture sales	0	45	0
Total revenues	**379,638**	**354,701**	**306,736**
Expenses			
Salaries	139,854	175,226	95,901
Payroll taxes (note 7)	12,808	0	0
Benefits (notes 5 and 7)	13,365	41,233	25,582
Professional fees (note 6)	13,248	53,531	12,943
Travel	1,482	4,039	7,283
Office (note 7)	0	81,713	37,958
Interest	294	386	2,258
Depreciation	4,469	6,225	6,073
Promotion	2,055	863	583
Program services (note 7)	125,186	61,590	50,048
Administrative (note 7)	13,397	0	0
Bad debts	71	158	1,997
Total expenses	**326,229**	**424,964**	**240,626**
Excess of revenues over expenses	53,409	(70,263)	66,110
Fund balances, beginning of year	(33,311)	36,952	(29,070)
Prior year adjustment to the fund balance			(88)
Fund Balances, End of Year	**$ 20,098**	**$(33,311)**	**$ 36,952**

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

	December 31, 1992	December 31, 1991	December 31, 1990
Cash Flows From Operating Activities			
Cash received from contributions	$ 282,179	$ 191,831	$ 238,100
Cash received from councils and independents	39,364	36,321	26,988
Interest received	12,242	5,911	4,266
Cash provided by operating activities	333,785	234,063	269,354
Cash paid to or for employees	(176,968)	(225,591)	(124,181)
Cash paid to vendors	(83,997)	(101,925)	(79,586)
Cash disbursed for operating activities	(260,965)	(327,516)	(203,767)
Net cash flow from operating activities	72,820	(93,453)	65,587
Cash Flow From Investing Activities			
Cash paid to lease or acquire equipment	(2,178)	(4,540)	(3,244)
Cash Flow From Financing Activities			
Payments to settle short-term debt	(50,000)	50,000	0
Net Increase in Cash	20,642	(47,993)	62,343
Cash at beginning of year	33,337	81,330	18,987
Cash at End of Year	$ 53,979	$ 33,337	$ 81,330
Reconciliation of Excess of Revenue Over Expenses to Net Cash Used by Operating Activities			
Excess of revenue over expenses	53,409	(70,263)	66,110
Adjustments to reconcile change in net assets to net cash used by operating activities			
Depreciation expense	4,469	6,225	6,073
Decrease (increase) in deposits	244	0	(151)
Increase in accounts receivable	(13,942)	(1,579)	(169)
Increase in prepaid expenses	(1,451)	0	0
Decrease in accounts payable	(10,346)	(21,784)	(10,563)
Decrease (increase) in accrued liabilities	(10,392)	(4,160)	4,481
Increase in deferred revenue	50,829	208	233
Increase in contributed equipment	0	(2,100)	0
Decrease in travel advances	0	0	104
Noncash adjustments to the program service line item	0	0	(42)
Noncash adjustments to the interest income line item	0	0	(499)
Net Cash Flow from Operating Activities	$ 72,820	$ (93,453)	$ 65,587

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Note 1. Organization

In 1979, the Congressional Award Board, acting under the authority of section 7(i)1 of the Congressional Award Act, as amended, 2 U.S.C. § 806(i)1 (Supp IV 1992), incorporated the Congressional Award Foundation under the District of Columbia Nonprofit Corporation Act, D.C. Code §§ 29-501 et seq. to assist the Board in carrying out the Congressional Award Program. The Foundation was established to promote initiative, achievement, and excellence among youth in areas of public service, personal development, physical fitness, and expedition.

Note 2. Significant Accounting Policies

Basis of accounting--The financial statements are prepared on the accrual basis of accounting. Assets and services that are contributed to the Foundation are included in the financial statements at fair market value as of the date of contribution.

Office furniture and equipment--Stated at cost to the Foundation or, as described above, at fair market value as of the date of contribution.

Depreciation--The Foundation uses the straight-line method of depreciation.

Note 3. Howard Memorial Fund

By Board action, in 1992, the full amount of the Howard Memorial Trust Fund, established in memory of Congressman James J. Howard of New Jersey, was remitted to the New Jersey Congressional Award Council to assist in the further development of the Congressional Award Program in New Jersey.

Note 4. Deferred Revenue

Deferred revenue at year-end consisted of the following:

	1992	1991	1990
Kansas Council Escrow	$18,904		
Stanley C. Morris Fund Interest	337	$314	$286
Field Services Revenue	22,002		
Grant Contribution	10,000		
South Bronx Council	569		
Howard Trust Fund	____	669	489
Total	**$51,812**	**$983**	**$775**

Note 5. Employee Pension Plan

The Foundation sponsored a defined contribution pension plan through August 25, 1991. The plan required that the Foundation make an annual contribution to the plan based upon the compensation of eligible plan participants. Contributions to the pension plan amounted to $4,818 and $1,538 for the years ended December 31, 1991 and 1990, respectively.

Note 6. Contributed Equipment, Office Space, and Services

The Foundation has received noncash contributions, which are accounted for as described in note 2 and are included in the 1990-1992 financial statements as follows:

	1992	1991	1990
Equipment	$ 0	$ 2,100	$ 0
Office space	55,200	55,546	24,818
Professional fees	10,000	47,531	0
Total	**$65,200**	**$105,177**	**$24,818**

Note 7. Changes in Financial Statement Line Items

Rental Expenses

In 1990 and 1991, the office expense category included total rent expenses. In 1992, the office expense category was not used. Instead, rent was pro-rated between program and administrative expenses.

Payroll Taxes

In 1990 and 1991, the Foundation included payroll taxes in the Benefits line item. In 1992, the Foundation disclosed these amounts in the Payroll Taxes line item.

Note 8. Related Party Transactions

Due to the nature of the Foundation, contributions are often solicited or received from members of the Congressional Award Board (Board) or other related parties. The following related party transactions occurred for the years ended December 31, 1992, 1991, and 1990, respectively.

Fairfax County School System

A director of the Board also serves as a member of the Fairfax County School Board. A Fairfax County School donated office space to the Foundation (see note 6). The fair market value of this office space is included in the Contributions and Program and Administrative expenses line items.

Swidler & Berlin

A director of the Board and an attorney with the Swidler & Berlin firm provide pro bono legal services to the Foundation. The value of the legal services (see note 6) is included in the Contributions and Professional Fees line items.

Josten's Foundation Incorporated

Josten's Foundation Incorporated is the sole provider of medals and award certificates to the Foundation. Josten's contributed $2,000 and $5,000 to the Foundation during 1992 and 1991, respectively. These amounts are included in the Contributions line item.

Loans

During 1991, the Foundation obtained two unsecured, interest-free loans of $50,000 and $7,493. The $50,000 was obtained from a relative of a member of the National Board of Directors. The $7,493 was obtained from a member of the National Board of Directors. The $50,000 loan was paid as of May 10, 1992, and the $7,493 loan was paid as of August 7, 1991.

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