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Report to the Congress

April 1991

FINANCIAL AUDIT

Congressional Award Foundation Financial Statements for 1989

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GAO

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

Comptroller General
of the United States

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April 30, 1991

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

In compliance with Public Law 99-161, we have audited the statement of financial position of the Congressional Award Foundation as of December 31, 1989, and the related statement of revenue and expenses and changes in unrestricted fund balance for the year then ended. We completed our audit on June 22, 1990. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Congressional Award Foundation as of December 31, 1989, and the results of its operations and the change in its fund balance for the year then ended, in conformity with generally accepted accounting principles.

As discussed in note 7 to the financial statements, the Congressional Award Foundation changed its method of accounting for lease obligations. The Foundation now classifies leases based on generally accepted accounting principles.

In our previous report for the year ended December 31, 1987 (GAO/AFMD-89-14), we expressed doubt about the Foundation's ability to continue as a going concern. At that time, the Foundation had $300,000 in long-term debts and a negative unrestricted fund balance of $322,995. At December 31, 1989, long-term debts were about $16,700, and the negative unrestricted fund balance was reduced to $31,481. This positive change was achieved primarily by reducing operating expenses for items such as salaries and rent and by obtaining forgiveness on notes payable totaling $300,000. We believe the improvement in the Foundation's financial condition has mitigated concern about this issue.

Our previous report also contained 12 recommendations for improving the operation of the Congressional Award Program, which is administered by the Foundation. In our July 1990 testimony (GAO/T-AFMD-90-24), we stated that management has made significant progress in addressing these recommendations. Based on our current review, we believe that the actions taken have been instrumental in improving the financial condition of the Foundation and its image as a fiscally responsible entity.

Our report on the internal control structure and compliance with laws and regulations, together with the Foundation's financial statements and accompanying notes for the year ended December 31, 1989, is included in this report. We found that the Foundation had inadequate control over fixed assets and lacked written accounting policies and procedures. We also found that the Foundation has taken steps to eliminate the effects of a prior year noncompliance with the statutory requirement that expenditures be made only with available resources.

We are sending copies of this report to the Chairman of the Senate Committee on Governmental Affairs, the Chairman of the House Committee on Education and Labor, and the Chairman of the Congressional Award Board. Copies will be made available to others upon request.

James H. Thompson for

Charles A. Bowsher
Comptroller General
of the United States

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Report on Internal Control Structure and Compliance With Laws and Regulations

We have audited the financial statements of the Congressional Award Foundation for the year ended December 31, 1989, and have issued our opinion thereon. This report pertains only to our study and evaluation of the Foundation's internal control structure for the year then ended. The report on our last study and evaluation of the Foundation's internal control structure for the year ended December 31, 1987, is presented in GAO/AFMD-89-14, dated November 14, 1988.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Congressional Award Foundation for the year ended December 31, 1989, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurances about the adequacy of the overall internal control structure.

The Foundation's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we made a study and evaluation of the internal control structure of the Congressional Award Foundation. That study and evaluation was limited to a preliminary review of the structure to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation did not extend beyond this preliminary review phase because we found it more efficient to expand our substantive testing due to the low volume of transactions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. As discussed below, we identified two matters in which the design or operation of the internal control structure did not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period. We extended our audit tests sufficiently to conclude that these material weaknesses would not require qualification of our opinion on the Foundation's financial statements for the year ended December 31, 1989.

Lack of Control Over Fixed Assets

The Congressional Award Foundation did not adequately control its fixed assets valued at $84,555 primarily because it lacked documented policies and procedures for safeguarding and valuing them. As a result, it was difficult to locate and identify the Foundation's fixed assets and verify the values assigned to them.

Policies and procedures need to be established so that assets can be safeguarded from loss, misuse, or diversion and so that transactions are recorded in accordance with management's criteria. The Foundation did not have (1) policies and procedures for capitalizing and depreciating fixed assets, (2) a listing of fixed assets and where they were located, and (3) cost information for some items or guidance for determining their value. Further, it had no policies and procedures to identify items under certain lease agreements as fixed assets.

During the last 10 years, the Foundation has had at least three office relocations and has sold or otherwise disposed of some fixed assets. The Foundation has not maintained adequate control over fixed assets during such transactions.

To compensate for the lack of controls over fixed assets, we expanded our tests of fixed assets. We observed items at all known locations. We also researched past years' data to obtain acquisition costs and used supplier information to value items that had been donated or whose cost was not recorded in available records. Using the Foundation's records and the methodology used in prior years, we calculated depreciation on fixed assets. As a result, the Foundation adjusted its accounting records to properly disclose the value of its fixed assets and related accounts.

Therefore, the weaknesses reported above did not affect our opinion on the Foundation's financial statements for the year ended December 31, 1989.

Lack of Written Accounting Policies and Procedures

Because of the lack of written accounting policies and procedures, numerous avoidable errors were found in the Foundation's financial statements. Eighty-five adjustments to the financial records were required before the financial statements were fairly presented.

In May 1989, the person maintaining the Foundation's financial records resigned. For the remainder of the year, an executive assistant handled accounting matters. Because written accounting policies or procedures were not available to guide this individual, routine reconciliations were not performed, and several transactions were misclassified. We found classification errors totaling $7,576 in the Foundation's 1989 financial records.

After the year ended, a temporary bookkeeper was hired to prepare the financial records for our audit. However, we still found numerous errors in the financial records because (1) there were no written accounting policies and procedures for the bookkeeper to use and (2) recordkeeping had been inconsistent throughout the year.

Compliance With Laws and Regulations

As part of our audit work, we also tested the Foundation's compliance with laws and regulations for the year ended December 31, 1989. Our last report on the Foundation's compliance with laws and regulations was for the year ended December 31, 1987 (GAO/AFMD-89-14, dated November 14, 1988).

The management of the Foundation is responsible for its compliance with laws and regulations applicable to the Foundation. As part of obtaining reasonable assurance as to whether the financial statements were free of material misstatement, we selected and tested transactions and records to determine the Foundation's compliance with certain provisions of the following laws and regulations, which, if not complied with, could have a material effect on the Foundation's financial statements. However, it should be noted that our objective was not to provide an opinion on the overall compliance with such provisions.

We tested for compliance with

- Public Law 96-114, as amended, and
- Internal Revenue Service regulations on employee withholding and filing requirements for tax-exempt entities.

Because of the limited purpose for which our tests of compliance were made, the laws and regulations tested did not cover all legal requirements with which the Foundation has to comply.

The results of our tests for 1989 indicate that with respect to the items tested, the Foundation complied in all material respects with those provisions of laws and regulations that could have a material effect on the financial statements. With respect to transactions not tested, nothing came to our attention that caused us to believe that the Foundation had not complied, in all material respects, with those provisions. Also, as discussed below, the Foundation has taken steps to eliminate the effects of a prior year noncompliance.

Long-Term Debts Have Been Reduced

In our previous report dated November 14, 1988, we found that the Foundation had not complied with the provision of Public Law 96-114 which requires expenditures be made only with available resources. We pointed out that because there were insufficient resources to meet its needs, the Foundation borrowed funds to cover operating expenses, and this debt remained outstanding. The Foundation was unable to pay all its bills, and the fund was in a deficit position. Subsequent to our previous report, the Foundation took steps which have substantially improved, but not fully corrected, the situation. The Foundation no longer has $300,000 in notes payable, and, although it has outstanding bills for goods and services, the Foundation's negative unrestricted fund balance was reduced from $322,995 at December 31, 1987, to $31,481 at December 31, 1989.

Conclusions

The Foundation lacked written accounting policies and procedures needed to account for and control its fixed assets and to establish and maintain its financial records. Establishing and implementing written accounting policies and procedures would strengthen internal accounting controls, help assure Foundation management that financial information is reliable, and provide for the adequate valuation of and control over fixed assets. In addition, accurate financial records would assist management in complying with the previously cited provision of law regarding expenditure of funds.

Recommendation

We recommend that the Foundation establish and implement written accounting policies and procedures for its financial operations which contain, in part, a requirement to maintain a list of fixed assets by type, cost, identification number, and location. Such policies and procedures should also help ensure accurate accounting records related to cash balances and payables, which could assist management in complying with the provision of law restricting its expenditure of funds to available resources.

Statement of Financial Position

	December 31, 1989
Current Assets	
Cash	$18,987
Travel advances	104
Security deposits	1,043
Total current assets	**20,134**
Fixed Assets	
Office furniture and equipment (note 2)	84,555
Allowance for depreciation	(65,789)
Total fixed assets	**18,766**
Total Assets	**$38,900**
Liabilities and Fund Balance	
Accounts payable	$43,670
Accrued payroll and related taxes	14,456
Deferred revenue (note 3)	542
Capital lease obligations (note 7)	8,771
Accrued interest payable	42
Total liabilities	**67,481**
Restricted funds	2,900
Unrestricted fund balance	(31,481)
Total fund balance	**(28,581)**
Total Liabilities and Fund Balance	**$38,900**

The accompanying notes are an integral part of these financial statements.

Statement of Revenue and Expenses and Changes in Unrestricted Fund Balance

	Year ended December 31, 1989
Operating Revenue	
Contributions (note 5)	$150,720
Interest income	503
Medals-certificates sales	17,230
Registration fee	60
Total operating revenue	**168,513**
Expenses	
Salaries	46,810
Professional fee	36,672
Office rent	24,000
Employee benefits	10,557
Program services	13,894
Telephone	5,689
General insurance	5,647
Printing	4,758
Postage and delivery	3,465
Travel and entertainment	2,540
Office maintenance and repair	2,976
Miscellaneous	3,285
Supplies	1,196
Interest	1,095
Depreciation	5,481
Total expenses	**168,065**
Other Revenue	
Gain on sale of automobile	1,300
Excess of revenue over expenses before extraordinary gain	1,748
Extraordinary gain (note 6)	1,525
Excess of revenue over expenses	3,273
Unrestricted fund balance at beginning of year	(26,902)
Prior period adjustment (note 7)	(7,852)
Unrestricted Fund Balance at End of Year	**$(31,481)**

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

Note 1. Organization

The Congressional Award Foundation was established in 1979 under Public Law 96-114 and is a private, nonprofit, tax-exempt organization established to promote initiative, achievement, and excellence among youth in areas of public service, personal development, and physical and expedition fitness. Under Public Law 101-525, the Foundation's existence has been reauthorized through September 1992.

Note 2. Significant Accounting Policies

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

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

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

Note 3. Deferred Revenue

Deferred revenue consists of $542 restricted for use on the Stanley C. Morris Scholarship Fund.

Note 4. Employee Pension Plan

The Foundation has a defined contribution pension plan for the benefit of its employees. The plan requires that the Foundation make an annual contribution to the plan based upon the compensation of eligible plan participants. The contribution to the pension plan amounted to $3,878 for the year ended December 31, 1989.

Note 5. 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 1989 financial statements as follows:

Equipment	$11,528
Professional services	26,125
Office rent	24,000
Program services	1,054
Total	**$62,707**

Note 6. Forgiveness of Debt

In January 1989, a former Board member forgave $1,525 in interest owed to him by the Foundation. This resulted in an extraordinary gain in the Foundation's income.

Note 7. Capital Lease Obligations

Lease payments on equipment were incorrectly recorded as an operating expense in prior years. In 1989, the Foundation began accounting for these leases as capital leases in accordance with generally accepted accounting principles. A prior period adjustment of $7,852 was made to the fund balance to reflect the change in accounting for the lease payments.

For four leases, the benefits of asset ownership were substantially realized by the Foundation, as lessee. The cost of these assets is depreciated on a straight-line basis. Specifically, capital lease obligations for the current year were:

Mailing machine	$2,258
Scale machine	1,119
Copier	6,818
Facsimile machine	2,118
Total	12,313
Less Allowance for Depreciation	3,922
Net Capital Leases	**$8,391**

At December 31, 1989, future minimum lease payments due under capital leases having a useful life of 1 year or more were estimated as follows:

1990	$4,651
1991	4,010
1992	1,149
1993	75
Total Minimum Future Lease Payments	9,885
Less: Amount Representing Interest	1,114
Present Value of Future Minimum Lease Payments	**$8,771**

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