GAO

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

Accounting and Information
Management Division

B-272944

September 25, 1996

Ms. Kendall S. Hartman
National Director
Congressional Award Foundation

Dear Ms. Hartman:

We recently issued our opinion on (1) the Congressional Award Foundation's (Foundation) fiscal year 1995 financial statements and (2) the Foundation management's assertions regarding its system of internal controls as of September 30, 1995. We also reported on the Foundation's compliance with selected provisions of relevant laws and regulations during fiscal year 1995 (GAO/AIMD-96-147, September 24, 1996).

The purpose of this letter is to advise you of matters identified during our audit concerning policies and procedures relating to (1) separation of duties, (2) documentation of transactions and balances, and (3) reconciliations, and to provide our suggestions for improvement. Although these matters are not considered material in relation to the Foundation's fiscal year 1995 financial statements, we believe that by acting to address them, the Foundation will improve internal controls over these areas. We provided you with a draft of this letter and discussed its contents with you. We note your agreement with our findings and intention to implement our suggestions.

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.

POLICIES AND PROCEDURES FOR PROPERTY RECORDS COULD BE IMPROVED

Asset balances reported in the general ledger should be supported by detailed subsidiary records which itemize the assets represented by the balance. Periodically, these subsidiary records should be reconciled to the related general ledger balance and any differences resolved to ensure that the balances reflected in these two reports are in agreement. The property balance these reports reflect should also be the basis for calculating depreciation. The Foundation utilizes three records of capitalized property assets: (1) the general ledger, (2) the depreciation schedule, which also serves as subsidiary detail, and (3) a list of property inventory.

During our 1995 audit, we found that the item descriptions appearing in the subsidiary/depreciation schedule did not always include the details (such as serial numbers) needed to permit specific identification of capitalized property items. The Foundation's list of property inventory did include this detail. However, it did not always agree with the individual asset descriptions or acquisition cost amounts appearing in the subsidiary/depreciation schedule nor agree in total with the general ledger. In addition, we found that actual property was not periodically inventoried and the result reconciled to related property subsidiary records.

While the Foundation's accounting policies and procedures require that a master list be maintained of all property assets, these policies do not (1) specify that this list agree with the general ledger and subsidiary/depreciation schedule, (2) require that periodic reconciliations between these records be performed to identify and resolve any disagreements, or (3) require that periodic physical inventories be taken to ensure that these records represent property actually on hand. This makes it difficult for the Foundation to accurately calculate depreciation expense on its inventory of depreciable assets, or to compute the amount of accumulated depreciation on disposed equipment.

We suggest that the Foundation expand its accounting policies and procedures to specify that detailed property subsidiary and inventory records be periodically reconciled to related depreciation records and the general ledger to ensure that these records agree. To simplify the process, the property inventory list and subsidiary/depreciation schedule could be combined into a single report, thus eliminating the need to reconcile them. In addition, the Foundation's accounting policies and procedures should require that actual property on hand be inventoried periodically and the result reconciled to the subsidiary records to ensure that they agree.

PROCEDURES FOR MANAGING ACCOUNTS RECEIVABLE COULD BE ENHANCED

Management should monitor accounts receivable on an ongoing basis in order to identify and follow up on overdue receivables. To facilitate this, subsidiary records of receivables should provide management the information needed to readily identify and appropriately respond to overdue receivables. The age of a receivable, as measured from the date it was established, can be an important indicator of its collectibility.

During our 1995 audit, we found that the Foundation's accounts receivable subsidiary records did not include the dates when the receivables were established. The Foundation's accounting policies and procedures do not specify the form and content of receivable subsidiary records, nor do they provide guidance on how these records are to be monitored and overdue receivables investigated and resolved. Although the Foundation does have this information on file for most receivables, it is not readily available for use in managing them. This makes it difficult for management to readily (1) identify overdue receivables and pursue collection efforts, (2) determine the need to record a valuation allowance, or (3) write off uncollectible receivables, as appropriate.

We suggest that Foundation management expand its accounting policies and procedures to require that receivable subsidiary records (1) reflect all pertinent information necessary to assess the collectibility of each receivable, including the date it was established, and (2) include an aging of receivables to highlight those receivables that are overdue so that appropriate allowances may be established and uncollectible amounts written off.

CASH RECEIPTS PROCESSING CONTROLS COULD BE IMPROVED

To ensure that proper checks and balances exist, sound internal controls require that key duties involved in processing transactions be separated among different individuals. However, during our 1995 audit, we found that a single individual opens the mail containing the Foundation's cash receipts and prepares, dates, and initials adding machine tapes for all amounts received. This occurs because the Foundation's current cash receipts policies and procedures require that one person perform all of these tasks. This increases the risk that errors or irregularities involving cash receipts may occur prior to their being recorded in the accounting records and deposited in the bank.

We suggest that the Foundation amend its accounting policies and procedures to require that two employees be present when the mail is opened and cash receipts are documented on the adding machine tape.

BANK RECONCILIATION PROCEDURES COULD BE IMPROVED

Conducting bank reconciliations is a key internal control to identify and investigate differences between an entity's cash balance and the corresponding cash balance reported by the bank. Preparing bank reconciliations provides assurance that any errors or irregularities that occur are promptly detected, investigated, and resolved.

During our 1995 audit, we found that the Foundation did not always investigate and resolve differences promptly. While the Foundation's accounting policies and procedures direct that bank reconciliations be performed, they do not describe how the reconciliations are to be performed. For example, the policies and procedures do not specifically require that differences be investigated and resolved, or that completed reconciliations be subject to supervisory review. This reduces the effectiveness of the reconciliations as an internal control and increases the risk that inappropriate transactions would not be promptly detected by management.

We suggest that the Foundation expand its accounting policies and procedures to specify that all outstanding items identified during the course of conducting bank reconciliations be promptly investigated and resolved, and that completed bank reconciliations be subject to appropriate supervisory review.

DOCUMENTATION FOR FINANCIAL REPORTING ADJUSTMENTS COULD BE ENHANCED

To ensure that financial reporting adjustments are reported in conformance with applicable professional standards and management's intent, they should be clearly documented and subject to supervisory review prior to being recorded in an entity's financial reports. The documentation supporting these adjustments should be readily available for review by management and independent verification by auditors.

During our 1995 audit, we found that financial reporting adjustments for purposes of financial statement presentation prepared subsequent to the closing of the general ledger were not clearly documented. This obscured the audit trail between the financial statements and supporting records, and made it more difficult to verify that the adjustments were authorized and appropriate. Foundation policies and procedures do not contain requirements for preparing, documenting, and approving financial reporting adjustments. The absence of this guidance increases the likelihood that financial reporting adjustments will not be appropriately documented and approved.

We suggest that the Foundation amend its accounting policies and procedures to require that all adjustments recorded in the financial statements be documented in writing and approved by management prior to reporting them in the financial statements.

POLICIES AND PROCEDURES OVER DOCUMENTATION AND APPROVAL COULD BE ENHANCED

An important internal control objective is that transactions be supported by appropriate documentation that is subject to meaningful supervisory review to ensure that transactions are processed in accordance with management's intent. Based on this review, management should approve the transactions in writing prior to recording them in the financial records to document that the review has taken place and that the transactions have been authorized.

During our 1995 audit, we found several receipt and expense transactions that did not show evidence of supervisory review or were not supported by appropriate documentation. The Foundation's accounting policies and procedures do not require written approval of transactions nor do they address the nature of supporting documentation to be retained. This can lead to staff members misinterpreting or misunderstanding related management policies and not retaining sufficient documentation for meaningful supervisory review. This also increases the risk of inappropriate transactions being processed and reported.

We suggest that the Foundation expand its written accounting policies and procedures to clearly communicate management's policy regarding the nature and extent of the documentation to be retained in support of transactions and to require clear documentation of supervisory approval of all transactions prior to recording them in the accounting records. In addition to more clearly communicating management policy to staff members, this would also enable the policies and procedures to serve as a form of guidance to assist less experienced staff members in performing internal control functions.

We acknowledge the cooperation and assistance Foundation management and staff provided during the 1995 audit. If you have any questions or need assistance in addressing these matters, please contact me at (202) 512-9406, or Steven J. Sebastian, Assistant Director, at (202) 512-9521.

Sincerely Yours,

Robert W. Gramling

Robert W. Gramling,
Director, Corporate Audits
and Standards

(917791)

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

http://www.gao.gov