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United States General Accounting Office
Washington, DC 20548

July 26, 2002

Mr. William E. Kelley
National Director
Congressional Award Foundation

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

Dear Mr. Kelley:

In May 2002, we issued our report¹ expressing an opinion on the Congressional Award Foundation's fiscal year 2001 and 2000 financial statements and on management's assertions regarding the foundation's internal controls as of September 30, 2001. We also reported on the results of our tests of the foundation's compliance with selected provisions of laws and regulations during fiscal year 2001.

The purpose of this report is to advise you of additional matters identified during our fiscal year 2001 audit regarding accounting procedures and internal control weaknesses, and to recommend improvements to address these weaknesses. These matters are not considered material in relation to the financial statements; however, they warrant management's consideration.

Results in Brief

The Congressional Award Foundation has several internal control weaknesses related to processing transactions, maintaining supporting documents, and required reporting. Specifically, we found the following:

- lack of approval for payments to vendors,
- inaccurate classification of transactions in the general ledger,
- lack of supporting documents for adjusting journal entries made by the foundation's accounting firm,
- incomplete personnel files, and
- lack of annual reporting to the Congress for fiscal year 2000.

¹U.S. General Accounting Office, *Financial Audit: Congressional Award Foundation's Fiscal Years 2001 and 2000 Financial Statements*, GAO-02-672 (Washington D.C.: May 15, 2002).

The leadership of the Congressional Award Foundation changed near the end of fiscal year 2001, and this transition may have contributed to the control weaknesses we found during our audit. Since this transition, the foundation has established the executive position of the Director of Finance and Administration to oversee daily financial and administrative operations. The Director of Finance and Administration has told us that he is addressing the weaknesses we noted during our audit.

The foundation agreed with our findings and recommendations. We will follow up on these matters during our audit of the fiscal year 2002 financial statements.

Scope and Methodology

As part of our financial statement audit of the Congressional Award Foundation, we obtained an understanding of the foundation's internal control related to the recording and processing of transactions and we tested compliance with selected provisions of the Congressional Award Act, as amended. In conducting this part of our audit, we interviewed key foundation staff members, reviewed applicable policies and procedures, and examined relevant documents and records. In conducting the audit, we also tested relevant internal control over financial reporting, including the safeguarding of assets.

We did not evaluate internal controls relevant to operating objectives, such as controls relevant to ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation 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 conducted our audit pursuant to the Congressional Award Act, as amended (2 U.S.C. 807), and in accordance with U.S. generally accepted government auditing standards. Our work was performed from January 2002 through April 12, 2002. We received comments on a draft of this report from the foundation's Director of Finance and Administration and incorporated his comments regarding actions under way and planned within the relevant sections of this report.

Lack of Approval for Payments to Vendors

During our fiscal year 2001 audit, we found that for 7 of the 68 sampled transactions the foundation's supporting records did not clearly document approval of payments to vendors. The foundation's financial policy requires that all payments be reviewed and approved by an executive officer of the foundation and that all checks over \$2,500 have a secondary approval by the National Director. Without clear review and approval of payments, the foundation increases the risk of payment errors.

The Director of Finance and Administration informed us that he is planning to implement the use of a check request form that will clearly document approval of payments. Those who submit requests for payments will be required to use this form, which will contain a description of the goods or services requested and supporting

documents. This will provide management with a formal method of review and approval for payment to vendors. If properly implemented and applied, we agree that the use of this form as standard procedure for approval of payment will address the problem we noted with a lack of clearly documented approvals.

Inaccurate Classification of Transactions in the General Ledger

As a result of our testing of expense transactions in fiscal year 2001, we found that 5 of the 68 sampled transactions were misclassified in the general ledger. Staff who were not trained in accounting posted these transactions, and the postings were not reviewed or monitored by a supervisor. After discussion with the Director of Finance and Administration, it was agreed that three of these transactions affected the accuracy of certain expense items and should be reclassified to ensure the accuracy of the financial statements.

GAO's *Standards for Internal Control in the Federal Government*² requires that in the management of human capital, "management should ensure that skill needs are continually assessed" and "training should be aimed at developing and retaining employee skill levels to meet changing organizational needs." Finally, it states, "qualified and continuous supervision should be provided to ensure internal control objectives are achieved." Inadequate training and supervision of staff with financial recording responsibilities increases the foundation's risk that significant errors will be made.

The Director of Finance and Administration told us that staff with transaction posting responsibilities will attend relevant accounting classes. The Director also said that he will begin reviewing the postings of transactions to the general ledger. This training and supervisory review, if properly implemented, will decrease the risk of general ledger misclassifications and errors.

Lack of Supporting Documents for Adjusting Journal Entries Made by the Foundation's Accounting Firm

During our audit, we noted that the foundation lacked supporting documentation for eight adjusting journal entries posted by the accounting firm that was contracted to perform monthly closing procedures and to compile the financial statements for the foundation. In discussion with the foundation's management, we learned that a previous policy had required that the foundation's accounting firm get authorization from the foundation before performing any accounting services. This policy was established to keep the firm's billable hours to a minimum but led to the lack of on-site supporting documents for the adjusting journal entries. Without proper documentation, audit results cannot be verified.

GAO's *Standards for Internal Control in the Federal Government* requires that "all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination." Without documented

²U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington D.C.: November 1999).

support, the foundation increases the risk that recorded amounts may not be accurate, properly classified, or reliably reported.

Since our audit, the Director of Finance and Administration has authorized the firm to perform any necessary accounting services and to provide the necessary documentation to support our audit of the foundation's financial statements. As part of our fiscal year 2002 financial statement audit, we will follow up to confirm that all supporting documents for adjustments are available at the foundation.

Incomplete Personnel Files

In our audit of payroll, we found that 3 of the 13 personnel files were missing official foundation documents. For example, the three files did not contain letters to the employees offering employment at the foundation at a stated salary. Instead, facsimile correspondences between the foundation and its payroll service provider were provided to us as supporting documents. We were told that foundation staff not trained as personnel specialists maintained personnel files and that the work was not monitored or reviewed.

We refer again to our *Standards for Internal Control in the Federal Government*, which requires that "qualified and continuous supervision should be provided to ensure that internal control objectives are achieved" and that "all documentation and records should be properly managed and maintained." Without proper controls over documentation in personnel files, the foundation increases the risk that personnel decisions will be based on incomplete or inaccurate information.

The Director of Finance and Administration told us that previously there was not a human resources position at the foundation. Because of this situation, there was no one to oversee the work of this staff. Now, the Director will be responsible for all human resources operations at the foundation, including the maintenance of personnel files. He has directed that all files of foundation personnel be reviewed for completeness to ensure that the information they contain is current and correct.

Lack of Annual Report to the Congress for Fiscal Year 2000

Public Law 96-114, as amended, requires that the Congressional Award Board prepare and submit an annual report to the Congress before June 1 of each year summarizing the activities of the Congressional Award Program during the previous year. Therefore, the foundation's fiscal year 2000 report was due before June 1, 2001. Among other things, the law specifies that the annual report contain the following items:

- specific information regarding the methods used to raise funds for the Congressional Award Program and a list of the sources of all money raised by the board;
- detailed information regarding the expenditures made by the board, including the percentage of funds that are used for administrative expenses;
- description of the programs formulated by the Director to carry out the policies of the Congressional Award Program, including an explanation of the operation of such programs and a list of their sponsors;

- detailed list of the administrative expenditures made by the board, including the amounts expended for salaries, travel expenses, and reimbursed expenses;
- list of individuals given awards under the program and their places of residence; and
- other information as the board may consider significant.

Submission of the report not only fulfills the statutory requirement, but also serves to inform the Congress of the program's activities and assist the Congress in its oversight responsibilities.

For fiscal year 2000, there is no specific evidence to show that the annual report was submitted. In our follow-up, we were told that the previous foundation management may have published the report in June 2001, but no such report could be found. We are aware that the June 2001 date occurred before the transition to the current foundation leadership. Because of the transition in leadership from fiscal year 2001 to 2002, foundation officials have told us they do not plan to retroactively publish a report for fiscal year 2000. However, the current foundation management has met the June 2002 date and has published the fiscal year 2001 report.

Conclusions

With the creation of the position of Director of Finance and Administration, the Congressional Award Foundation has in place the executive leadership to address the internal control weaknesses we found in our fiscal year 2001 audit. In response to our findings, the current Director has begun taking appropriate actions. If properly implemented and applied, we believe that these actions, together with successful implementation of our recommendations, will effectively address our concerns and strengthen internal controls at the foundation. As part of our fiscal year 2002 audit we will follow up on these matters to confirm that they have been successfully addressed.

Recommendations

We recommend that the Director of Finance and Administration take the following actions:

- implement the use of the check request form and require that requests for payments are clearly documented on this form,
- arrange for training in relevant accounting procedures for staff responsible for the posting of transactions in the general ledger and provide supervision of staff to ensure that transactions are posted correctly,
- adjust policies governing the work of the foundation's accounting firm to provide for the firm to maintain on site all documentation necessary to support the foundation's financial results, and
- provide continuing oversight of the maintenance of personnel files to ensure that information in personnel files is current and correct.

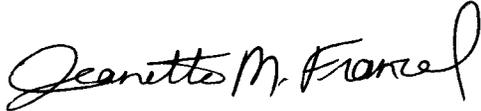
Agency Comments

The foundations Director of Finance and Administration agreed with our findings and recommendations and described actions under way and planned to address them.

This report is intended for use by Congressional Award Foundation management and its Board of Directors. This report is a matter of public record, and its distribution is not limited. Consequently, copies are available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

We acknowledge and appreciate the cooperation and assistance provided by foundation management and staff members during our audit of the foundation's fiscal year 2001 financial statements. If you have any questions regarding this report, please contact me at (202) 512-9406 or Julie T. Philips, Assistant Director, at (202) 512-5121. You can also reach us by e-mail at franzelj@gao.gov or phillipsj@gao.gov. Key contributors to this report were Greg Ziombra and Doug Delacruz.

Sincerely yours,



Jeanette Franzel
Director
Financial Management and Assurance

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