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A publication dedicated to providing ideas and education to tax exempt organizations

Implementing Effective Spreadsheet Controls

By: Dan Whelan

The use of spreadsheets has been an integral element in the financial reporting of not-for-profit organizations for many years. The sophistication of such programs grows with each subsequent update, adding capabilities that increase the ease of maintaining key information and making operational decisions. But as the complexity of programs such as Microsoft® Excel increases, so do the dangers of spreadsheet errors that could have a significant effect on your financial information.

Maintaining reliable financial information is always critical for a not-for-profit organization, but that task has become even more important in the midst of the recent recession. While spreadsheet software does make reporting and maintaining information easier and more cost effective, steps must be taken to help ensure that an accurate representation of the financial standing of the organization is provided (which means the spreadsheets supporting these financials must be safeguarded).

Even a small error in a relatively simple spreadsheet can impact the operation of a spreadsheet and cause significant damage to financial information. Depending on the size and complexity of the document, errors may be hard to detect and rectify. It is beneficial for management to review controls that have been put in place to protect against errors, as it is the lack of such controls that often lead to errors.

In order to put sufficient controls in place, management must first understand the role and complexity of the spreadsheets being used within the organization. Spreadsheets can be used to produce financial information, track grant or donor activity, monitor the progress of operational tasks and develop information to help decision-making. Depending on the organization, spreadsheets can range in complexity from simply logging information to performing complicated calculations.

No matter what the task and function of the spreadsheets are, many of the basic risks are consistent and inherent with the software. The simplicity in modifying and updating files is often a contributing factor to errors and miscalculations. Some of the more common issues involve human error, such as:

- Formula and data entry mistakes
- Cell formatting and range definition mistakes (or errors)
- Data exporting problems
- Cell referencing problems

The Sarbanes-Oxley Act established the importance of spreadsheet controls and emphasized that a process must be implemented to help ensure that accurate financial information is presented. While not-for-profit organizations are not subject to Sarbanes-Oxley, many lessons learned from the act provide a blueprint for adopting best practices for improving the control environment.

Steps to protecting data stored within Excel spreadsheets:

Develop an inventory of existing spreadsheets - The initial step is to develop a library of the existing financial spreadsheets that exist within your organization. Identify what department developed the document and how the information relates to the overall financial information for the organization.

Determine the variables of your spreadsheets – Evaluate and record the specific purpose of each of your spreadsheets as well as their level of complexity.

Decide the level of control required for each spreadsheet – Odds are, you are going to have a range of different spreadsheets that have various functions, from fairly simple to complex in nature. There are a multitude of controls that can be applied to each of your spreadsheets to help deter risk, depending on their function and complexity. It is important to apply the appropriate level of controls to your information. Those controls include:

- Applying version control
- Limiting access to files (keep complex spreadsheets on a restricted drive)
- Securing data by locking cells and properly storing spreadsheets

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Budgeting Strategies for Not-for-Profit Organizations

Managing finances efficiently and effectively has always been critical for not-for-profit organizations, but it has become even more important in the current turbulent economy. To that end, there are several solutions available in today's marketplace that could assist in executing the budgeting process and help maximize value to constituents. These tools and best practices could help your organization save money and time that could be better dedicated to achieving your goals and advancing your mission.

RSM McGladrey recently hosted a webinar, titled [Better Budgeting for Not-for-Profits: Best Practices, Tools and Technology Updates](#) to present several approaches to budgeting and planning, and available software solutions that could be beneficial for organizations.

Typical budget cycles

Most of our clients have an annual budgeting cycle, consisting of a "board approved budget" where there is increasing involvement from the finance committee. These often have 3-4 month cycles and are unfortunately not always completed before the beginning of the fiscal year.

Some of our clients undergo a mid-year budget review, either a formal or informal process to assess progress against the budget and if any mid-course corrections need to be made. Some clients are transitioning to periodic re-forecasts on a quarterly or sometimes more frequent basis. In the tight economy, finance committees are looking for more continual forecasts than were required in the past.

Revenue and expense

When we look at the budgeting cycle, there are really two key components, the revenue and expense elements. Depending on the type of funding that the organization receives, several specific drivers exist in the revenue budgeting process.

The budget of an organization that relies on contributions is driven by factors such as major donors, campaigns, events, direct marketing and ePhilanthropy. The drivers for a grant and project based organization involve proposal and opportunity pipeline management and contract budgeting and tracking. Key drivers for fee-for-service organizations include variables such as members, patients and clients, fee parameters and business rules, as well as assumptions about growth rates.

Expense budgeting parameters depend on whether the expenses are for labor or other uses. Other Than Personnel Services (OTPS) should relate back to the qualitative plan that you have established, taking your strategies, goals, objectives and tactics into consideration to determine the resources that you need to accomplish your mission. A difficulty that many organizations face is properly targeting expenses to certain programs, departments or both. After deciding where your expenses fall, you must then determine your specific drivers,

parameters and business rules, and assumptions based on factors such as growth or decline rates, spreading methods and seasonality factors.

For labor expenses, you must first decide whether you are going to budget on a program or department basis. You may need a detailed position control system that utilizes an organizational chart as a model for pay grades and a basis for the position requisition process. Some of the many factors involved with expense budgeting for labor include union considerations, pay grades, timing of pay increases, benefits formulas, incentives and bonuses.

All the data that is collected from revenue and expenses is usually tracked in a fundraising, financial, human resources/ payroll or program (operational) system; but how does it get into the budgeting system? Revenue information is frequently inputted on a manual basis, which could lead to possible errors. Expense data can often be downloaded from HR or payroll systems to load into the budget system, but on an ongoing basis, there may be difficulties capturing timesheets to compare actual expenses to the projected budget. Integrating information between the systems could improve efficiency and produce more reliable budget information.

Budgeting approaches

In organizations that have a centralized approach to budgeting, where a budget or finance department develops the budget and pushes it down, Microsoft® Excel spreadsheets often work well. However, Excel might not be the optimal solution for organizations that take a more decentralized approach where the budget is prepared at the program level through several layers of management in different locations. Such organizations will likely benefit from a more robust software solution that allows for more secure access and consolidations as well as a workflow system that tracks routings and approvals.

Budgeting software

The Corporate Performance Management (CPM) market has seen significant change and growth recently, as new tools and technologies are introduced to ease difficulties and improve efficiencies in the budgeting and strategic planning process. Finding the right solution for your organization can provide the processes and tools necessary to monitor and manage your operations to help accomplish your goals. The benefits a comprehensive budgeting solution provides include:

- Effectively aligning organizational strategy with the execution of operations
- Shortening planning cycles and allowing executives to focus on managing core goals
- Freeing up time and money to explore new areas of growth

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Certain 403(b) Plan Errors are Ineligible for IRS Voluntary Correction Program

by: Becky Miller

In the Spring 2011 edition of the *IRS Employee Plans News*, the service details that it has recently been receiving submissions to its Voluntary Correction Program (VCP) for 403(b) retirement plan failures that are currently not eligible for correction through that program. This does not mean that 403(b) plan sponsors have no means to protect the tax favored status of those plans, but the VCP is not an option at this time.

The 403(b) plan errors that currently cannot be submitted to the IRS under the VCP include cases where either:

- The 403(b) plan's written program did not satisfy the legal requirements under Code section 403(b) and the 403(b) final regulations or the plan failed to adopt a written plan program before Dec. 31, 2009
- The employer did not operate the 403(b) plan according to its written terms

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- Using passwords to access spreadsheets
- Requiring the use of backup files
- Archiving spreadsheets that are no longer in use

Evaluate controls that are already in place – Compare the controls needed for individual spreadsheets to the ones that already exist, identifying any gaps.

Formulate a plan for addressing control gaps – Develop a strategy for implementing the necessary controls that your spreadsheets are lacking. Make sure that everything is in place before providing open access to your information.

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- Delivering timely and accurate information to enhance decision making
- Providing powerful analytical capabilities and the ability to rapidly consolidate information
- Eliminating reliance on spreadsheets and associated formula errors

Most budgeting solutions include standard planning capabilities such as full financial statement planning, headcount planning, consolidations, general ledger and statistical account planning, as well as budget planning and forecasting. Several core functionalities are also built in, including specific budgeting templates and reports, multi-user workflow, increased security, versioning, detailed audit tracking, dashboards and scorecards, and data import functionality.

While implementing a budgeting solution has a significant amount of benefits for organizations, there are challenges

As described in this publication, the IRS is actively working on an expanded correction program for 403(b) plans under the Employee Plans Compliance Resolution System (EPCRS). In addition, in Announcement 2009-89, the IRS noted it will grant 403(b) plan sponsors the equivalent of a "remedial amendment period" while it works on developing a prototype or other form of pre-approved 403(b) plan document. This means that plan sponsors will have some ability to retroactively correct form defects relating to the written plan document requirements under IRC section 403(b).

At press time, the extent of relief that will be available for 403(b) plans or when it will be announced is unknown. All indications are, however, that extensive relief opportunities are likely to be provided.

Develop a test plan – Conduct a trial run of your spreadsheets before making them widely available to ensure they have the proper level of security and that all controls are functioning properly.

Some of the same factors that contribute to spreadsheets being an optimal solution for organizations, including their ease of use, flexibility and open nature, also attribute to some significant downfalls. The consequences of your spreadsheets indicating incorrect financial or operational data could be severe. It is of critical importance for organizations to pinpoint any control deficiencies and implement sufficient security measures to prevent any errors.

involved. In the current uncertain economy, growth (or contraction) has limited the ability to forecast and plan effectively. Some organizations may also lack the time or financial resources to implement the new technology or the ability to transform their volume of data into useful information. There is a natural resistance to change within many organizations. If any of the issues are prevalent within your organization, it may be beneficial to bring in an outside consultant to provide advice on solution options and implementation.

There are a multitude of budgeting solutions available for organizations of all sizes and at many different price points. However, not all solutions will be the right fit for every organization. For a further analysis of specific budgeting tools (including Hyperion, Budget Maestro, Prophix, Microsoft Forecaster and more), as well as insight into what may be the best tools for your organization, [view the full Web seminar](#).



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