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# Enhancing Internal Controls Through Budgeting



Since fraud seems to be making the news more frequently these days, many organizations are spending more time and energy assessing and strengthening their internal controls—before problems and headlines arise.

Internal controls are processes that are designed and implemented to provide reasonable assurance regarding achievement of various management objectives. Additionally, they can help the organization improve the overall efficiency and effectiveness of operations. One approach to internal controls utilizes preventative measures specifically designed to thwart fraudulent activities. A review of an organization's approval and authorization procedures, for example, can help ensure the reliability of financial reports, compliance with state and federal laws and regulations, and the proper safeguarding of assets.

The other approach used to bolster internal controls utilizes detective measures to identify fraud or abuse, as well as instances where operational results didn't meet management's expectations. These measures typically consist of reconciliations, reviews, and analysis of financial and performance data, which can be performed by staff, external monitors, and/or auditors. Detective measures give organizations the ability to investigate instances where preventative controls failed and to plan corrective actions for preventing future occurrences.

The level of emphasis placed on detective controls can vary among organizations, but

one thing is certain, implementing effective budgeting procedures can be one of the most valuable internal control measures an organization can use for detecting problems.

For workforce boards, budgeting has its own unique challenges. Following is an overview of key items to consider when reviewing your workforce board's budget development process.

## **Budgets that Perform**

Budgets should be designed to be used as a benchmark against which results are measured. This means that they must be prepared by funding source and adapted as needed to accommodate changes in funding and anticipated expenditures. Any change in funding must be presented in the organization's budget. Whether staffing levels will be modified or new contracts awarded, determining what impact the additional anticipated expenditures will have on the budget becomes increasingly difficult, because the same cost allocation methodologies used in practice must be applied to planned expenditures. Therefore, as budgets are developed and subsequently modified, it is imperative that staff keep adequate records of the assumptions and calculations used.

"Taylor, Lombardi, Hall & Wydra (TLHW) assisted us with designing and implementing a new streamlined budget process, which resulted in a budget that presents more meaningful information in an easily understood format," says Stacy Campbell-Domineck, executive director of Polk Works.

## **Tracking Funding**

Workforce boards must give particular attention to the period of availability of each award when preparing the budget. Expenditures must be planned to maximize the use of available funds. This has become an increasingly important issue to workforce boards, as many have seen drastic cuts in funding levels in recent years.

## **Solid Input**

Don't forget that inaccurate assumptions can lead to an inaccurate budget. Therefore, it is imperative that the budget development



process includes input from management, fiscal, and programmatic staff to ensure all planned expenditures are identified and summarized accurately.

## Regular Review

Fortunately, the effort invested during the budget development process yields huge dividends when it comes to management oversight—if put to good use. Once a budget is completed, workforce board staff, as well as the board's various committees, have an essential tool for assessing and managing the operations of the organization. Budget-to-actual reports should be generated on a monthly basis, and then reconciled to financial statements. Any significant line-item or funding source variances should be identified and researched by the appropriate staff.

Variances can occur for a variety of reasons, including benign factors such as timing issues related to contractor and vendor payments. In other cases, the variance may be indicative of cost allocation issues, a material accounting error, or even fraud. The important thing is that fiscal and programmatic staff work together to make sure that expenditures are summarized accurately and that a narrative detailing the circumstances of each material variance is included with the report. Such summaries become the basis for which action plans can be solicited from the appropriate parties.

"The assistance we received from TLHW substantially improved our budget process and reports," says Terry Williams, vice president of Business Administration for Florida's Pasco Hernando Workforce Board. "Now we have the ability to better-assess variances and manage our board operations."

Outside review is particularly helpful in identifying opportunities for improving budget-variance reporting. Such reviews are among the continuous improvement services provided by TLHW, which has assisted several workforce development boards in this way, helping organizations to develop, refine, and monitor its budget development and reporting processes.

Today's workforce boards vary widely in many ways, but improved budgeting processes can benefit all organizations, and help set a course for future success.

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Taylor, Lombardi, Hall & Wydra, P.A., is a firm of independent Certified Public Accountants, located in the Orlando, FL area. For the past 15 years, TLHW has provided monitoring, continuous improvement, and technical assistance services to Workforce Boards and non-profit organizations—including conducting various process reviews for workforce boards. For more information about TLHW, please contact the firm at (407) 539-2066 or visit [www.tlh-cpa.com](http://www.tlh-cpa.com). 