

After the Audit: Building a Better Process for Your Nonprofit Next Year

TURN THIS YEAR'S AUDIT PAIN INTO NEXT YEAR'S PLAN





Requirements to Qualify for Attendance Monitoring and CPE Tracking

- To qualify for the maximum CPE credit, participants must respond to 3 out of 5 polling questions.
- To qualify for the maximum CPE credit, participants must stay on for 50 minutes.
- If you have technical difficulties responding to the polls, please send an email to ElevateLearn@armanino.com
 - Include the session name, session date, and your poll response.
 - Have a question or comment for the faculty? Submit it via chat.

CPE Information

Program Level: **BASIC**
Recommended CPE: **1**
Target Audience: **Nonprofit Executives and Finance Professionals**
Method of Delivery: **Group Internet Based**
Program Prerequisite: **NONE**
Advanced Preparation: **NONE**



Learning Objectives

After this course, you will be able to:



Explain the purpose and process of nonprofit financial statement audits, including their role in compliance, donor confidence, grant eligibility, and meeting external deadlines.



Identify common audit challenges in nonprofit financial reporting, including restricted fund tracking, fair value measurements, grant compliance, and functional expense allocation.



Assess how technology and AI impact nonprofit financial reporting and audit complexity.



Apply best practices to improve audit readiness, including documentation preparation, auditor engagement, and governance involvement.



Develop a post-audit action plan that enhances internal controls, supports year-end close efficiency, and strengthens future audit preparedness.



THIS COURSE COVERS

Agenda

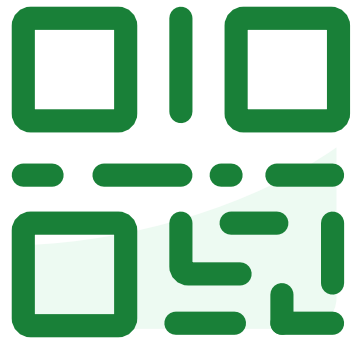
- Why Financial Statement Audits Matter for Nonprofits
- How the Audit Cycle *Should* Look
- Common Challenges in Nonprofit Audits
- Technology and AI in Nonprofit Financial Reporting
- Best Practices for Audit Readiness
- Post-Audit Action Plan
- Q&A



POLLING QUESTION

Poll #1

Do not edit
How to change the design



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Today's Presenters



Stacie Cornwell

Armanino
Partner, Audit and Attest
National Nonprofit Industry Leader



Jeff Owens

Armanino
Partner, Audit and Attest



WHO WE ARE

Firm Overview

armanino | **Employees 2700+** | **Team Members in 41 States** | **Firm Ranking 20th Largest**



Canada
Vancouver

India
Ahmedabad
Hyderabad

- | | | | |
|--|------------------------------|---|----------------------------------|
| California
San Ramon
Century City
El Segundo
Irvine
Los Angeles
San Francisco
San Jose
Woodland Hills | Florida
Boca Raton | Missouri
St. Louis
St. Charles | Tennessee
Nashville |
| Colorado
Denver | Idaho
Boise | New York
New York City
Garden City | Texas
Austin
Dallas |
| | Illinois
Chicago | Pennsylvania
Philadelphia
Scranton | Utah
Salt Lake City |
| | | | Washington
Bellevue |



POLLING QUESTION

Poll #2



AUDIT ESSENTIALS FOR NONPROFITS

Why Financial Statement Audits Matter for Nonprofits



WHY AUDITS MATTER

Why Financial Statement Audits Matter – A CFO's Perspective

- Enhancing Donor & Grantor Confidence
- Supporting Compliance & Governance
- Improving Financial Reporting & Controls
- Driving Operational Efficiency
- Strategic Value Beyond Compliance



The Bigger Picture: Impact on Funding

Nonprofit Shutdown, Compliance Scrutiny

[District of Minnesota | Federal Jury Finds Feeding Our Future Mastermind and Co-Defendant Guilty in \\$250 Million Pandemic Fraud Scheme | United States Department of Justice](#)

Loss of Donor Trust, Reputational Damage/Risk

[Unraveling the Wounded Warrior Project Scandal: A Deep Dive](#)

PRESS RELEASE

Federal Jury Finds Feeding Our Future Mastermind and Co-Defendant Guilty in \$250 Million Pandemic Fraud Scheme

Unraveling the Wounded Warrior Project Scandal: A Deep Dive



AUDIT ESSENTIALS FOR NONPROFITS

How the Audit Cycle *Should* Look



The Nonprofit Audit Journey – It's Year Round

NONPROFIT AUDIT JOURNEY





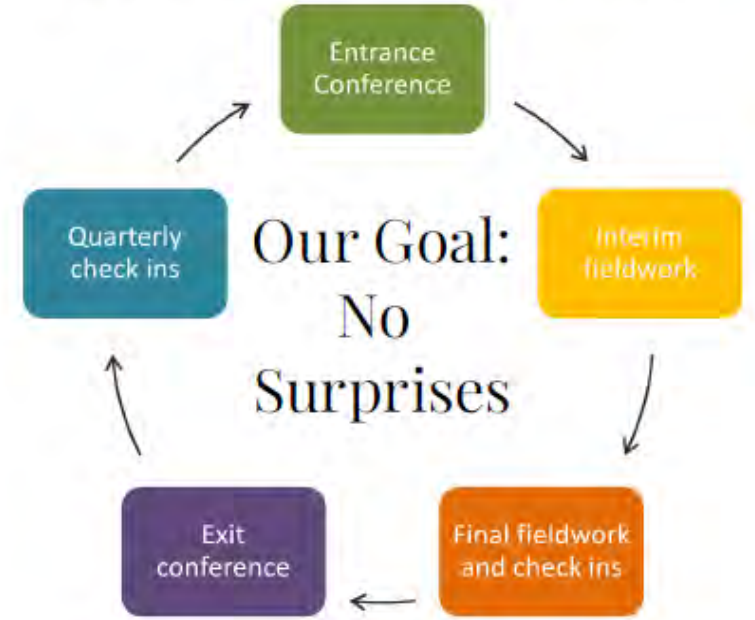
The Audit Roadmap

OVERVIEW

Our Audit Engagement Approach



Cycle Of Communication



Communication of Recommendations

We will provide clear communication surrounding deficiencies and other recommendations to management and the audit committee. However, this will not be the first time you hear of any significant findings. Such matters will be raised as identified during the audit.



Who's Involved & What to Expect

Planning & Risk Assessment

- Review background information and relevant firm data
- Meet with key members of management to understand operations, goals, and potential risk areas
- Review prior audit reports or internal financial statements, if available
- Identify and prioritize relevant risks; develop tailored audit objectives and scope
- Draft and finalize the audit scope and strategy in collaboration with your team

Fieldwork Preparation

- Conduct walkthroughs of key business processes and review supporting documentation
- Develop objectives and testing strategies aligned with compliance requirements and key controls
- Design customized testing programs, determine sample sizes, and outline information needs
- Confirm timing, resource availability, and data access prior to on-site fieldwork
- Identify opportunities to incorporate automation to increase audit efficiency and depth

Testing & Control Evaluation

- Perform testing of controls and/or substantive audit procedures, including:
- Documenting procedures and results in detailed work papers
 - Recording findings in a clear Risk and Control Matrix
 - Drafting preliminary findings, potential control gaps, and observations
 - Discussing results with management in real time to ensure alignment
 - Hosting a closing meeting with relevant stakeholders to share key takeaways and recommendations

Reporting

- Prepare a comprehensive draft report summarizing findings, deficiencies, and actionable recommendations
- Collaborate with management to review the draft and incorporate responses or clarifications
- Finalize and deliver the report to management and, if desired, present to the Audit Committee



Document Retention

Standard Retention Periods

Document Type	Retention Period
Articles of Incorporation, Bylaws	Permanent
IRS Determination Letter & Form 1023	Permanent
Board & Committee Meeting Minutes	Permanent
Audit Reports & Year-End Financials	Permanent
Tax Returns & Worksheets	Permanent
Real Estate Deeds, Mortgages	Permanent
Payroll Records, Personnel Files	7 years after termination
Contracts, Notes, Leases	7 years after expiration
Bank Statements, Reconciliations	3 years
Insurance Policies (expired)	3 years

Digital Records

- Recommend permanent digital retention for key documents
- Don't forget backup and recovery protocols to prevent data loss
- Data privacy and cybersecurity standards

Hard Copies

- Most often required for legal documents (bank loans)
- Policies for secure destruction
- Digitize paper copies!!

Reminder: Align policies with state and other regulation, grant agreements or donor requirements



POLLING QUESTION

Poll #3



AUDIT ESSENTIALS FOR NONPROFITS

Common Challenges in Nonprofit Audits



THE CHALLENGES

Where Nonprofits Have Greater Risk – Accounting and Reporting Complexities

Restricted Fund Tracking

Tracking restricted funds requires precise documentation to ensure compliance with donor-imposed limitations.

Grant Compliance

Nonprofits must adhere to complex grant reporting and usage requirements set by grantors & funders to maintain compliance.

Functional Expense Allocation

Accurate categorization of expenses across program, administrative, and fundraising functions is crucial for audits.

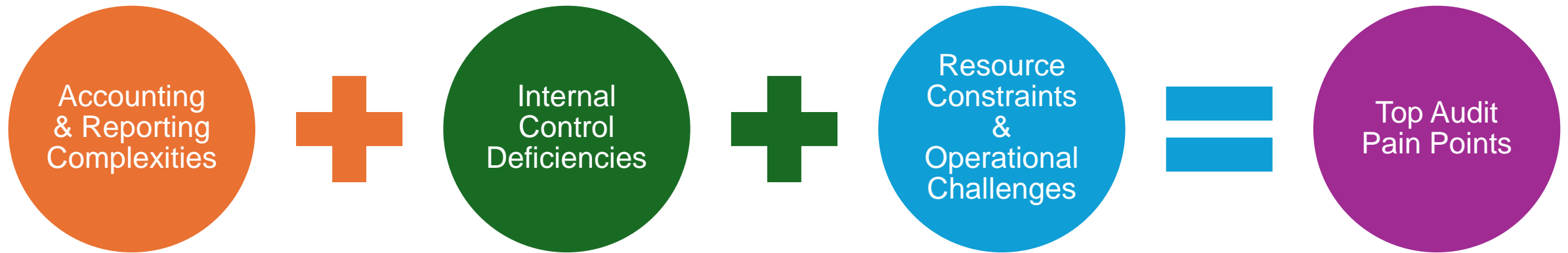
Audit Risks and Mitigation

Challenges can cause audit delays and reputational risks; experienced leaders must ensure smooth audits and stakeholder confidence.





Top Audit Pain Points





Real World Examples

Endowment Language

- Organization began receiving endowed contributions 45-50 years ago
- Endowment language not vetted by an attorney and CPA
- Donor agreement was vague and inconsistent with GAAP
- Specified that endowment gift was an "unrestricted endowment"
- Organization accounted for the corpus and unexpended endowment earnings as unrestricted
- Upon audit, this created a \$45M adjustment and a restatement to prior period issued financials
- Other endowment gifts had to be reviewed going back since the organization's existence

Grant Compliance

- Most common reportable findings
 - Revenue recognition on grants and contracts – Conditional vs. Unconditional
 - Reporting on final actual expenditures vs budget
 - Expenditure allocations
 - Allowable activities/costs
 - Reporting
 - SEFA preparation



POLLING QUESTION

Poll #4



AUDIT ESSENTIALS FOR NONPROFITS

Technology and AI in Nonprofit Financial Reporting



The Changing Landscape: The Conversation Has Changed

Denial & Skepticism

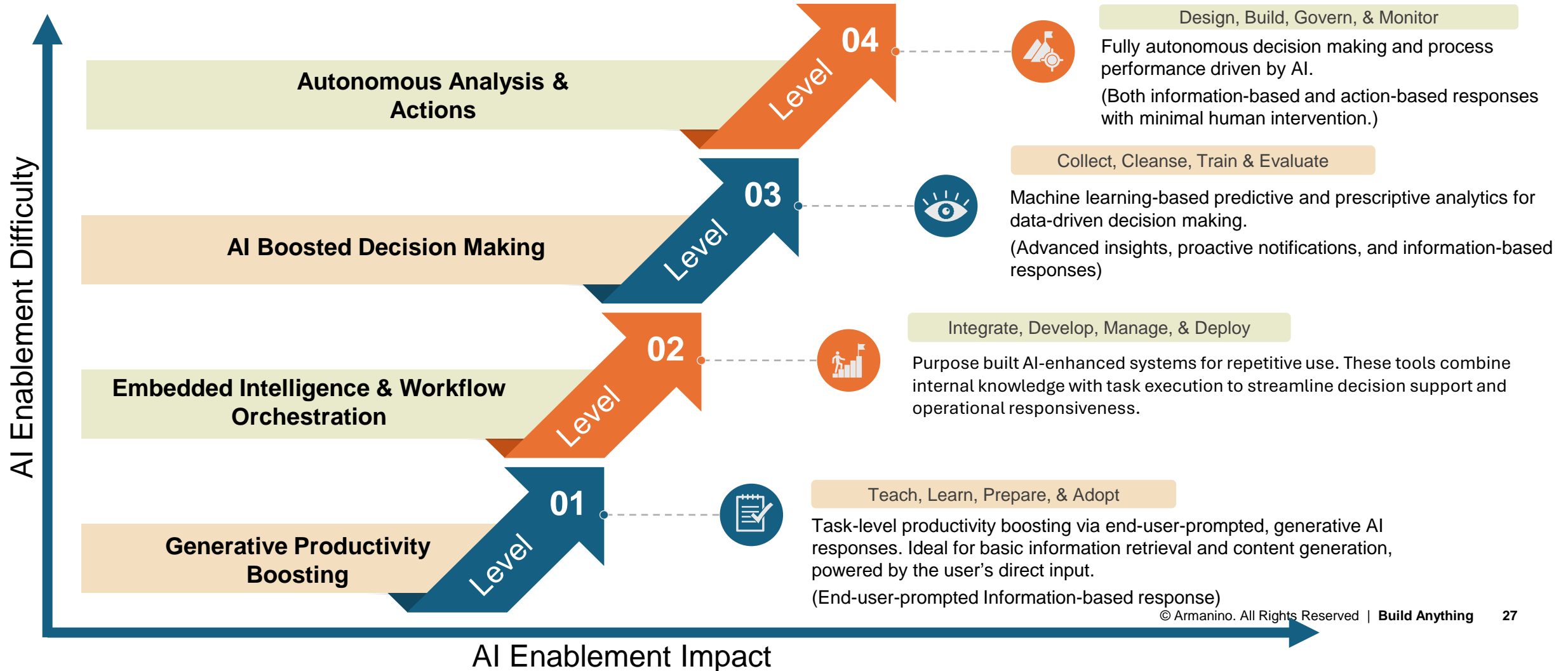
- “Should we be using these tools?”
- “Let’s block ChatGPT.”
- “Is Gen AI another tech fad?”
- “I think we should wait a while...”

Realization & Optimism

- “How can we use AI to support us today?”
- “People are using it anyway without permission.”
- “This is how we work moving forward?”
- “We can’t afford to wait.”

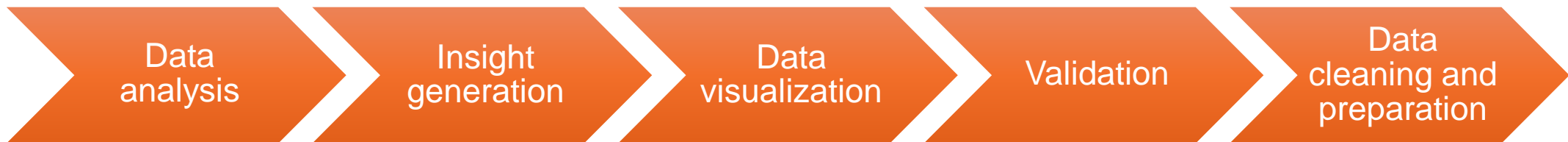
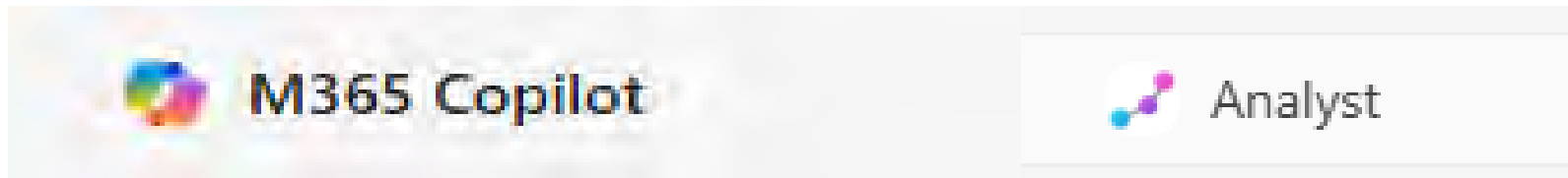


How to Maximize the Impact of Your AI Enablement Journey

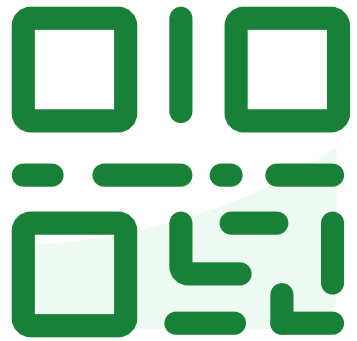




AI and Automation to Prep for an Audit & Financial Reporting



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**In what ways are you using AI right now in your organization?
(Financial reporting, audit prep, etc. or in other ways)**



AUDIT ESSENTIALS FOR NONPROFITS

Best Practices for Audit Readiness



Audit Readiness Essentials



Tip – If you contract with a third party for accounting outsourcing and/or audit prep, remember you are still the management team responsible for those records. Where possible have them create reports, spreadsheets and other documentation in formats that your organization has designated to achieve your internal and external reporting objectives



AUDIT ESSENTIALS FOR NONPROFITS

Post-Audit Action Planning and Best Practices



POST-AUDIT PRACTICES

Post-Audit Action Planning

Remediation Steps and Responsibilities

The action plan should specify remediation steps for each finding with clear assignment of responsibilities and deadlines.

Alignment with Financial Processes

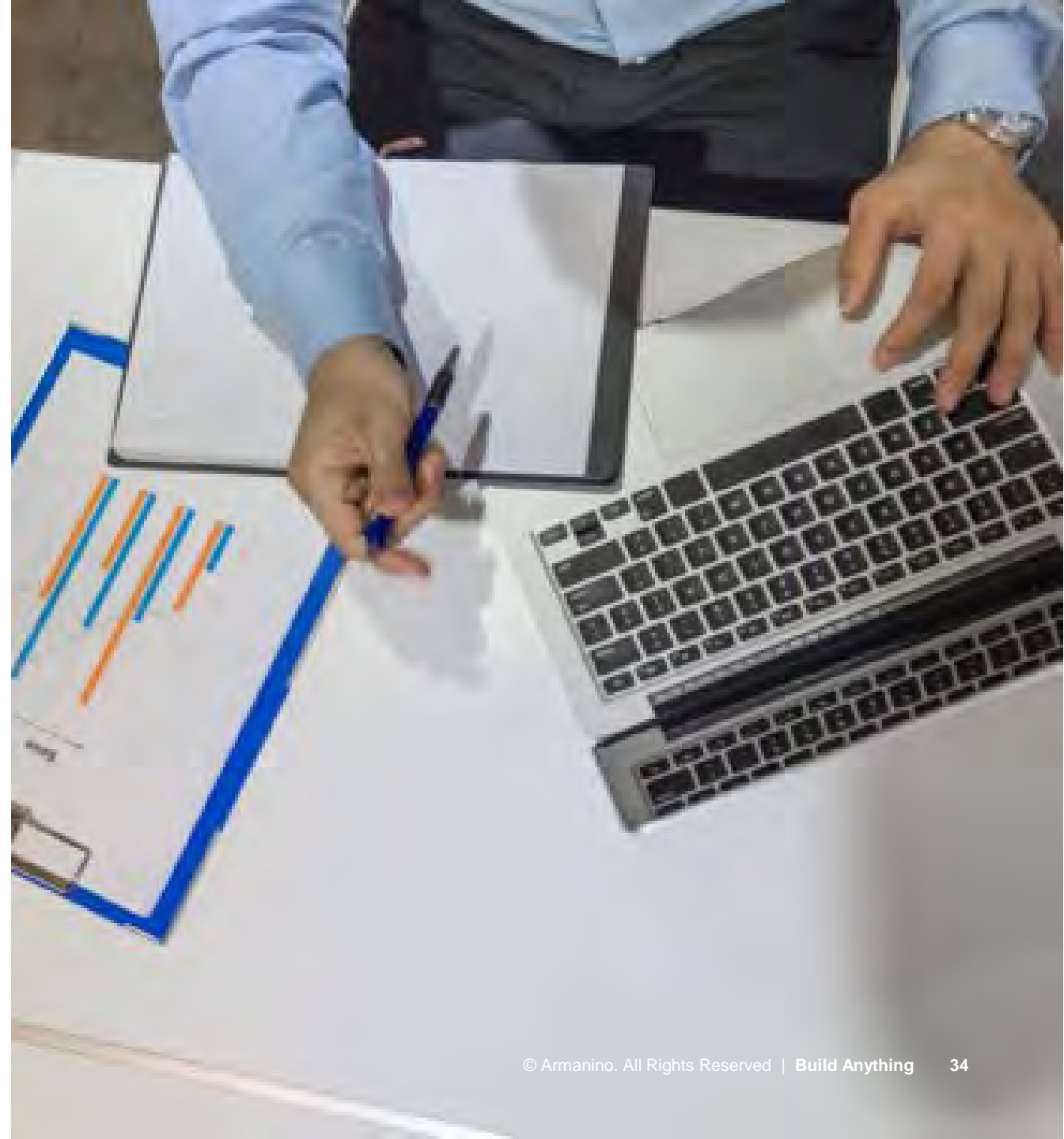
Integrate post-audit actions with year-end close procedures and board reporting to ensure holistic financial governance.

Audit Cycle Preparation

Prepare for the next audit by documenting lessons learned and updating readiness checklists to improve future performance.

Progress Tracking and Accountability

Track remediation progress to maintain accountability and demonstrate proactive governance within the organization.





POST-AUDIT PRACTICES

Strengthening Internal Controls

Identify Control Weaknesses

Review audit findings carefully to detect areas where internal controls need strengthening for better financial integrity.

Segregation of Duties

Implement segregation of duties to prevent fraud by ensuring no single individual controls all transaction aspects.

Enhance Documentation Standards

Maintain thorough and verifiable documentation to support financial activities and enable transparency.

Staff Compliance Training

Train staff on compliance procedures to build accountability and minimize future audit issues.





Engaging Your Board & Audit Committee During Audit Season

ENGAGING YOUR BOARD & AUDIT COMMITTEE DURING AUDIT SEASON



Early Communication

Share audit timeline and key milestones before fieldwork begins. Provide clarity on roles and expectations



Regular Updates

Schedule brief progress reports during board or committee meetings. Highlight any emerging issues or delays actively



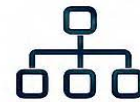
Post-Audit Debrief

Share key findings and recommendations promptly



Leverage Technology for Reporting

Use dashboards or secure portals for real-time document sharing. Provide summary visuals for complex financial data



Align on Governance & Compliance

Reinforce how audit outcomes impact donor trust and grant eligibility. Ensure board understands implications of findings





After hearing about common challenges and some recommended best practices, what do you feel is most important for you organization to tackle in the next audit cycle?



Planning for Next Year's Audit

Month-end close is Important – What do we commonly see missed?

- Reconciliations between development and finance
- Allocations (salary, etc.)
- Completeness of accruals – specifically related to grants and contracts
- Revenue recognition – refrain from dumping everything into deferred revenue and sorting it out at year end
- Restricted gift accounting
- Variance reporting – you can use Copilot or another AI tool to help make this analysis easy and efficient!
 - ❖ Budget scenario planning –it's ok to have multiple budget scenarios to present to the Board/Audit Committee. Scenarios can be influenced by open grant awards, etc.
 - ❖ Mid-year or other re-forecasting at certain intervals is ok too.
- Ratio and other metric analysis
 - ❖ Working capital
 - ❖ Liquidity metrics
 - ❖ Cash flow

Other best practices to consider:

- Talk to your auditor about interim and planning schedules
- Ensure you're speaking with your auditor throughout the season, not just at year-end (set up semi-regular check-ins)
- Ask your auditor to set up the data room at the beginning of the fiscal year so pertinent documents can be dropped in right away
- Get together EARLY to discuss the remediation process; build remediation milestones/timelines if necessary and meet regularly to talk this through
- As you receive gifts/contributions outside normal donor agreements, speak with your auditor when they come in the door!
- Ensure alignment between your audit and 990 teams
- Revisit standard donor agreement forms to discuss any changes



POLLING QUESTION

Poll #5

Q&A

CONTACT US

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Armanino Operates in an Alternative Practice Structure:

“Armanino” is the brand name under which Armanino LLP and Armanino Advisory LLC, independently owned entities, provide professional services in an alternative practice structure in accordance with law, regulations, and professional standards. Armanino LLP and Armanino CPA LLP are licensed independent CPA firms that provide attest services, and Armanino Advisory LLC and its subsidiary entities provide tax, advisory, and business consulting services. Armanino Advisory LLC and its subsidiary entities are not licensed CPA firms.



BUILD ANYTHING

AI TOOLS AND GUIDANCE FOR BUSINESS