



DUFFY KRUSPODIN
CPAs & Trusted Advisors

NONPROFIT AUDIT READINESS

What the
Best-Run
Organizations
Do Differently

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WHO BENEFITS FROM THIS GUIDE?

Executive directors, finance directors, CFOs, and board members at nonprofit organizations, particularly those managing grant funding, federal awards, or California compliance requirements.

WHAT THIS IS

A practical resource for navigating the full audit cycle from pre-year-end preparation through post-audit action.

Built on what actually drives clean audits and what consistently gets organizations into trouble.

WHAT THIS ISN'T

A technical accounting manual.

A substitute for your auditor's guidance.

A checklist that works the same way for every organization.

KEY TAKEAWAYS

AUDIT PRESSURE builds months before fieldwork begins through documentation gaps, misaligned numbers, and controls that fail throughout the year

The type of audit your organization requires, whether a financial statement audit, Yellow Book audit, or Single Audit, **SHAPES THE DOCUMENTATION** and compliance requirements that follow

Four areas where nonprofit **AUDIT ISSUES** often surface are grant compliance, restricted fund tracking, cost allocation, and revenue recognition, and many of these can be addressed before your auditor arrives

A management letter can serve as a **ROADMAP**, and how your organization responds to it often influences whether the same findings appear next year

The right audit firm shouldn't just deliver an opinion. They should also help leadership understand the financial and **COMPLIANCE ISSUES** that may need attention

For some nonprofit organizations, your audit has just finished. The management letter is sitting on your executive director's desk, and at least one finding will require a conversation with the board that nobody is looking forward to.

For others, your year-end is about twelve weeks out, and the prep that was supposed to start in January still hasn't.

Both situations are more common than they should be. And both point to the same underlying problem: **audit readiness.**

Audit pressure doesn't appear the week fieldwork begins. It builds through:

- Documentation that never got organized
- Restricted funds that weren't tracked cleanly
- Internal controls that worked until they didn't
- The gap between what finance knows and what leadership thinks is true

By the time the auditor's request list arrives, the scramble is already underway.

The organizations that move through audits smoothly—on time, with clean findings and board confidence intact—aren't doing anything extraordinary. They're doing the fundamentals earlier and more consistently than everyone else.

In this guide, we're going to show you what those are and how to accomplish them so audit season turns from stressful to successful.

"An audit doesn't create problems. It finds them. The question is whether you find them first, and that answer is decided in the months before your auditor ever walks in the door."

Daisy Hom, CPA
Assurance Partner





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THE SETUP

**Timeline, Delays,
and What the
Auditors Look for.**

THE SETUP

The Ideal Nonprofit Audit Timeline

For nonprofits, the audit isn't a single event. It's a cycle, and where your organization is in that cycle right now determines what you should be working on.

Pre-Year-End

2-4 Months Before Fiscal Close

This is the highest-leverage window. Boards are reviewing budgets, leadership is assessing year-end position, and there's still time to address control gaps before the books close.

Organizations that use this period to confirm audit scope, review documentation practices, and flag compliance questions enter the audit in a fundamentally stronger position.

Post-Year-End — Fieldwork

0-3 Months After Fiscal Close

Once the year closes, the focus shifts to close quality, prepared by client (PBC) list preparation, and coordination with the audit team.

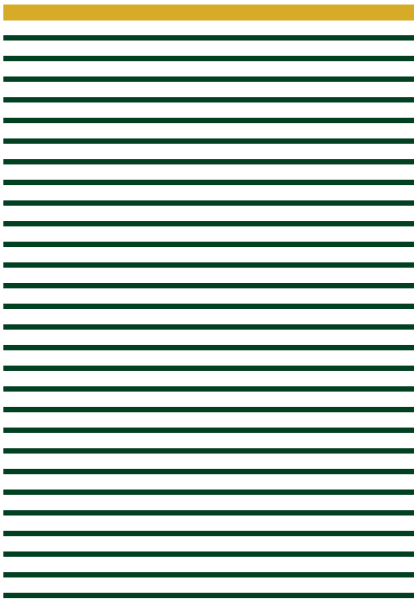
This is also when staffing strain tends to hit hardest because month-end close, year-end adjustments, and audit prep are competing for the same team's attention. Organizations that planned ahead in the prior window can often move through this phase with less disruption.

Post-Audit

Ongoing

The management letter isn't the end of the process. It's the beginning of the next cycle.

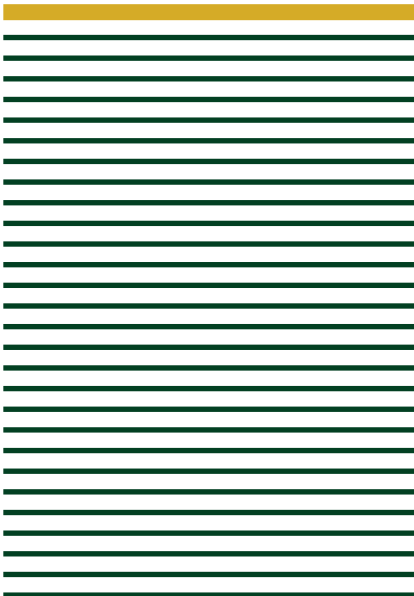
Organizations that treat audit findings as operational inputs—building action plans, assigning ownership, and tracking progress—show up to the next audit in better shape. Organizations that planned ahead in the prior window can often move through this phase with less disruption.



THE SETUP

The Top Culprits That Drive Most Audit Delays

Most nonprofit leaders think of audit readiness as a checklist, including documents gathered, schedules prepared, and the PBC list returned.



That's Part of It

But the organizations that move through audits cleanly are solving a different problem: **alignment**.

When finance, leadership, and the board all work from the same numbers (and everyone agrees on what those numbers mean), audits tend to go smoothly.

When there's a gap between what the finance team knows and what leadership believes, or between how funds were spent and how they were reported, that's where auditors slow down. That's where findings come from.

Getting to that alignment requires three things before any documentation request arrives.

ORGANIZED DOCUMENTATION

Well-documented support for every significant balance and transaction.

That sounds basic; in practice, it's where most audits lose time, from chasing undocumented approvals to explaining why a grant expenditure doesn't match the budget.

BALANCED INTERNAL CONTROLS

Think approval workflows that everyone follows, not just documents or expense authorizations that happen before the purchase, not after the auditor asks.

CONSISTENT FINANCIAL REPORTING

This ensures the numbers leadership is reviewing in the boardroom are the same ones the finance team is managing day to day.

When those three are in place, the audit becomes a confirmation of what everyone already knows. When they're not, the audit becomes the process of finding out.

Why These Delays Matter (A Lot)

A delayed or complicated audit doesn't stay in the finance department. For organizations with grant agreements or federal funding above the Single Audit threshold, missed deadlines can create compliance exposure and may affect reporting obligations or future funding. A management letter with significant findings changes the board conversation in ways that are harder to manage after the fact than before.

The flip side is also true. A clean, timely audit is a governance asset that compounds over time with funders, board members, and major donors who pay closer attention to financial stewardship than most organizations realize.

"...the smoothest audits are the ones that stay close to their financials throughout the year. When documentation is current, controls are working, and leadership understands the numbers, the audit becomes a confirmation of what everyone already knows."

Daisy Hom, CPA
Assurance Partner

THE SETUP

What Your Auditor Is Looking For Beyond The Numbers

It helps to understand what an auditor is assessing beyond the numbers themselves because preparation looks different when you're thinking about it from their vantage point.

Estimates get more scrutiny than most organizations expect.

Allowances for doubtful accounts, asset useful lives, cost allocation percentages, and grant revenue recognition judgments are all areas where auditors look for consistency, documentation, and methodology.

An estimate that's changed year over year without explanation, or one that can't be tied to a documented basis, requires the auditor to probe further. That takes time and often surfaces in the management letter.

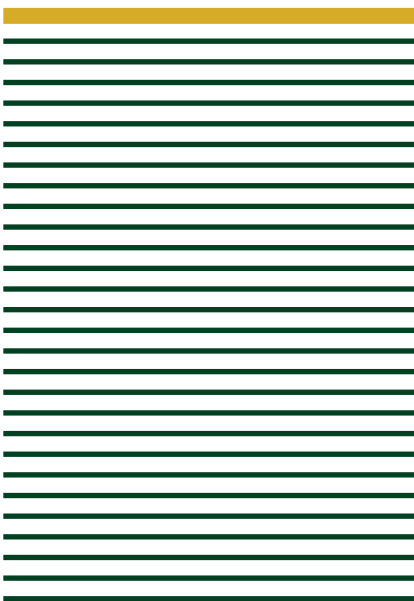
Governance and oversight are also relevant to the audit process because they affect the control environment and financial reporting process. Auditors consider whether the organization's oversight structure supports reliable financial reporting. Auditors consider governance and oversight as part of understanding the control environment and financial reporting process. Sparse meeting minutes, an audit committee that meets only when required, or a board that hasn't reviewed interim financials during the year are all signals that get noted.

For executive directors and board members reading this: the audit involves more than your finance team's work product. It also reflects the strength of the organization's oversight, documentation, and control environment.

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Amplify your mission & financial controls with the right audit firm

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7 STEPS

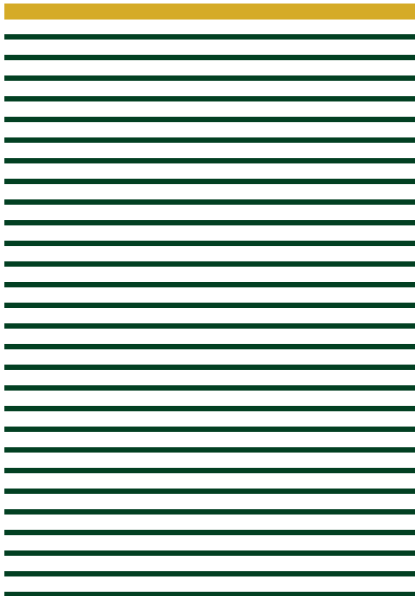
To Really Prepare for Your Nonprofit Audit

Audit preparation is a string of interconnected tasks that typically sits with your finance team, but the executive director's role is to ensure it's happening on schedule and that nothing organizationally is creating obstacles. These seven categories reflect what needs to be in place before fieldwork begins.

STEP 1

Confirm the Type of Audit You Need

Before anything else, confirm what you're being audited against. The answer drives every documentation and compliance decision that follows.



Financial Statement Audit

A financial statement audit applies to most nonprofits and results in an auditor's opinion on whether your financial statements are presented fairly under GAAP.

If this is your only requirement, your preparation is largely internal, including documentation, controls, and financial statement accuracy.

A Yellow Book Audit

Also called a GAGAS audit, applies when your organization receives federal, state, or local government funding and the funding agreement requires it.

Yellow Book standards layer additional requirements on top of a financial statement audit, including enhanced independence requirements and additional reporting on internal control and compliance.

If your organization has government contracts or grants, check your agreements. Many organizations discover Yellow Book requirements later than they should.

Single Audit

A Single Audit is generally required when a nonprofit expends \$1 million or more in federal awards during a single fiscal year.

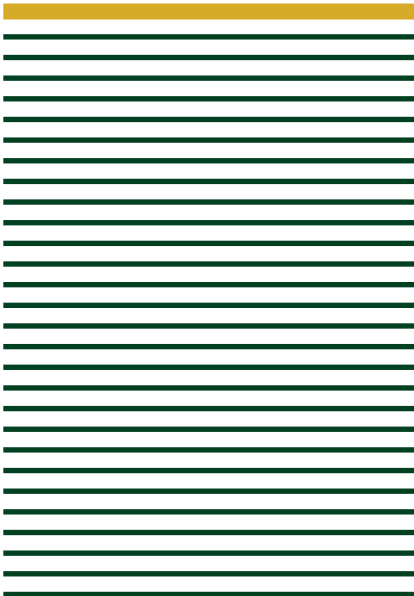
A Single Audit goes beyond your financial statements to examine federal program compliance, internal controls over federal spending, and adherence to the specific requirements attached to each federal award. The scope, timeline, and documentation demands are significantly greater than a standard audit. If you're near the threshold, track your federal expenditures carefully as crossing it mid-year without adequate preparation creates real problems.

The wrong audit scope delays reporting, creates compliance gaps with funders, and in some cases affects future award eligibility.

STEP 2

Understand Your Compliance Landscape

Once you know the audit type, map the compliance requirements attached to it.



Keep in mind you'll need to revisit this step as requirements shift, funding sources change, programs expand, and regulations are updated.

Federal Compliance Responsibilities

Each federal award carries its own compliance requirements, outlined in the award agreement and, for larger programs, the OMB Compliance Supplement. Your auditors will test against these requirements directly.

Your program staff and finance team need to be aligned on what each award allows, including:

- **Allowable costs**
- **Matching requirements**
- **Reporting deadlines**

Without this alignment, you'll likely run into discrepancies during fieldwork.

Your nonprofit will also need to remain in compliance with GAAP reporting requirements under FASB ASC 958.

Pay special attention to net asset classification (distinguishing between without donor restrictions and with donor restrictions), revenue recognition for conditional versus unconditional contributions, and functional expense allocation across program, management, and fundraising categories.

State Compliance Responsibilities

California nonprofits registered with the Attorney General's Registry of Charitable Trusts have their own reporting obligations including annual filings required by the California Attorney General's Registry of Charities and Fundraisers.

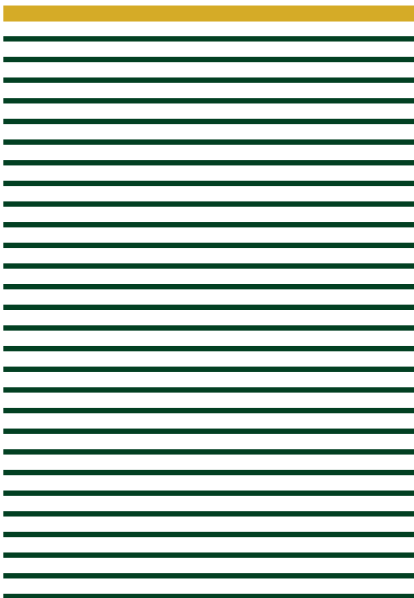
Organizations receiving California state funding may face additional audit or reporting requirements depending on the funding source and agreement terms.

If your organization operates programs across multiple California counties or state agencies, confirm whether each agreement carries independent audit or compliance requirements.

STEP 3

Organize Financial Documentation

During an audit, it's very easy for documentation to be scattered, incomplete, or formatted in ways that require the auditor to ask follow-up questions for every item.



To keep that from happening, organize by category before the PBC list arrives.

Financial records

General ledger, bank statements for all accounts (reconciled through year-end), payroll records including benefits and tax filings, and credit card statements with corresponding approvals and receipts. Bank reconciliations should be complete and signed off, as unreconciled items from prior months become audit findings.

Balance sheet support

Accounts receivable aging with documentation of collectability assessments for any aged items. Accounts payable with support for accruals. Investment statements as of year-end, including unrealized gain/loss schedules. Lease agreements and related ASC 842 lease amortization schedules. If your organization has operating leases and hasn't adopted the new lease standard, address this before fieldwork. Fixed asset schedules with acquisition dates, costs, accumulated depreciation, and documentation of any disposals.

Funding and revenue documentation

Executed grant agreements for every active award, including any amendments. Schedules of grant revenue recognized versus deferred, tied to the specific conditions in each agreement. Pledge documentation with payment schedules. For restricted funds, a fund-by-fund reconciliation showing opening balance, contributions received, expenditures, and closing balance with support that restricted funds were spent in accordance with donor intent.

Getting this work done in advance helps keep the audit moving on schedule.

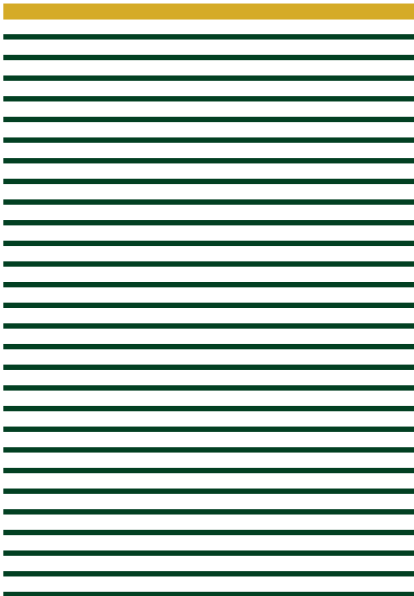
"...audits that run long aren't missing information; it's just disorganized...they're spread across email threads, drives, and staff members' files. By the time everything is located and reconciled, fieldwork has already been extended. Organizations that move through audits efficiently treat documentation as a year-round discipline."

Daisy Hom, CPA
Assurance Partner

STEP 4

Address High-Risk Areas Before Fieldwork Begins

Organizing your documentation is the first task. Next is reviewing them before your auditor does.



Certain areas generate a disproportionate share of nonprofit audit findings, including:

Grant compliance and reporting

For each active federal and state award, confirm that expenditures align with the approved budget, that any required prior approvals were obtained before costs were incurred, and that progress reports and financial reports were submitted on time. Auditors will pull grant files and test expenditures against award requirements. Unallowable costs (even small ones) create findings that require written responses and corrective action plans.

Restricted fund tracking

Net asset restrictions need to be tracked at the individual fund level, not managed as a pool. If your accounting system doesn't clearly distinguish between purpose-restricted, time-restricted, and board-designated funds, reconcile this before fieldwork as it can raise governance concerns.

Cost allocation

If your organization allocates shared costs, like occupancy, administrative salaries, and technology across programs and supporting services, your allocation methodology needs to be documented, consistently applied, and defensible. Labor and time allocation is a high-risk area. If employees work across multiple programs or functions, time records should support the allocation.

Revenue recognition

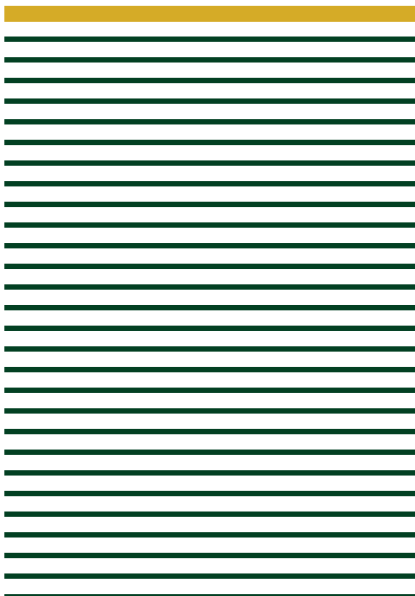
Conditional grants are recognized when the condition is met, not when the cash is received. Unconditional pledges are recognized when the commitment is made. Membership dues, program fees, and earned revenue each have their own recognition requirements. If your team isn't clear on the distinction between a conditional and unconditional contribution or if your grant agreements contain ambiguous language, work through it with your auditor before year-end.

Getting ahead of these problems is significantly easier to resolve before the audit, and it's where your preparation gives you the highest return.

STEP 5

Prepare Internal Controls and Governance Documentation

Auditors aren't just reviewing your numbers. They are also seeking to understand whether your organization has controls in place that support reliable financial reporting.



Policies and procedures

Your written financial policies should reflect how your organization actually operates. If your expense reimbursement policy requires receipts and manager approval but your records show consistent exceptions, that gap will be noted. Review and update policies before fieldwork, and be prepared to show they were communicated to staff.

Meeting minutes

Board and audit committee minutes for the full fiscal year should be complete, approved, and accessible. Auditors review minutes for evidence of board oversight, including approval of the budget, review of financial statements, discussion of significant transactions or risks, and any governance decisions with financial implications.

Approval workflows

Document who is authorized to approve what, and at what dollar thresholds. Purchase orders, vendor contracts, payroll changes, and journal entries should all have clear approval requirements and your records should show those approvals happened before the fact, not as a retroactive exercise.

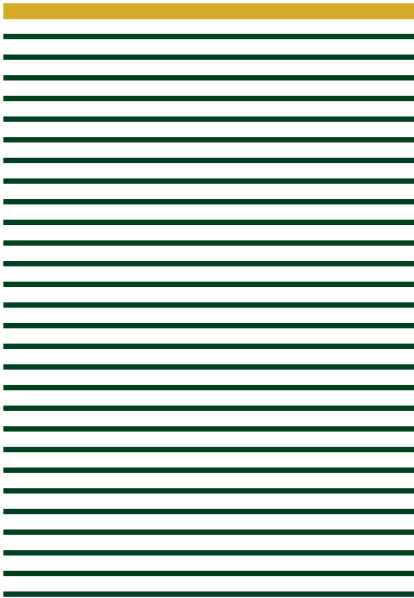
Inventory and fixed assets

If your organization holds physical inventory or significant fixed assets, confirm that your records reconcile to what's actually on hand. Auditors will test this. Discrepancies between the schedule and physical count require explanation.

STEP 6

Align Your Team

Audit fieldwork requires sustained attention from your internal team and that team is usually managing other responsibilities at the same time.



Set Expectations

Before fieldwork begins, assign a primary contact who owns the relationship with the audit team. This person receives document requests, coordinates responses, and escalates anything that needs leadership input. Without a single point of accountability, requests stall.

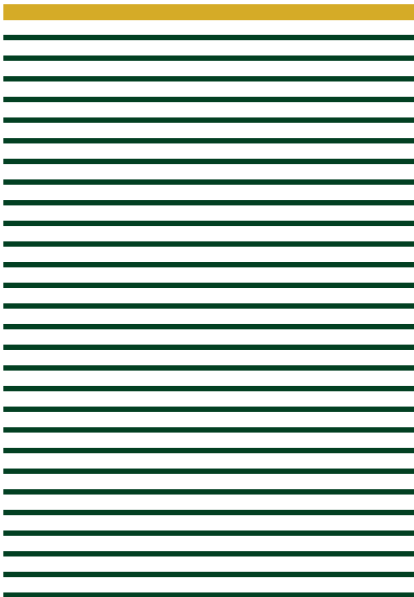
Then, confirm availability for key staff, including your CFO or controller, whoever manages grants, and whoever handles payroll and AP during the expected fieldwork window. If someone is traveling, on leave, or managing a competing deadline, plan for that now rather than during fieldwork.

Make sure time tracking and payroll allocation records are complete and approved through year-end. If your organization receives federal funding or allocates employees across multiple programs, these records may be needed to support compliance and cost allocation. Auditors will ask for it.

STEP 7

Centralize and Format Your Audit Packet

The final step is the one most teams skip because it feels administrative. It isn't.



Get Organized

How your documentation is organized directly affects how much time fieldwork takes and how many follow-up requests you receive.

Create a single, organized repository, whether that be a shared drive, a client portal, or whatever system your auditor uses with clearly labeled folders that map to the PBC list.

If your auditor provides a document request template, use their structure, not your own. Auditors working in an unfamiliar folder structure spend time locating items instead of reviewing them.

You'll want to label files clearly.

*Bank reconciliation —
December 2024*

is useful!

*Recon final
FINAL v3*

is not!

Provide complete documents, not partial ones. A bank statement missing page 4, or a grant agreement without the executed amendments, requires a follow-up request that could have been avoided. Before uploading anything, review it.

CONTACT US

Request an RFP from a firm that aligns with your needs

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WHAT TO DO NOW

Turn Audit Findings Into Organizational Strength

The audit report isn't the finish line. For organizations that use it well, it's one of the most useful operational documents they'll receive all year. Here's how to use it wisely.

Review Auditor Communications Carefully

The management letter contains your auditor's observations on internal control deficiencies, compliance issues, and operational risks identified during fieldwork, written specifically for your organization based on what they found.

Read each finding for what it's actually describing.

- *A finding about segregation of duties in accounts payable is telling you something specific about where your financial reporting is vulnerable.*
- *A finding about grant documentation is telling you that your current process wouldn't hold up under a more intensive compliance review.*
- *The category matters less than understanding the operational reality behind it.*
- *If anything in the management letter is unclear, ask your auditor to walk through it before you respond.*

Engage Leadership and the Board

Audit findings don't belong only in the finance department. The board and audit committee have a governance responsibility to understand what was identified and what's being done about it.

The questions that should drive the post-audit board conversation:

What risks were identified, and how significant are they?

Not every finding carries the same weight. The board should understand which findings represent genuine financial reporting risk versus process inefficiencies that are manageable with operational adjustments.

Are internal controls sufficient to protect the organization?

A pattern of recurring findings, especially around segregation of duties, authorization, or restricted fund management, is a governance concern, not just an operational one. If the same issues appear in consecutive management letters, the board needs to understand why.

Are there compliance gaps that could affect funding?

Any finding related to federal award compliance, grant reporting, or regulatory requirements should be reviewed by the audit committee with specific attention to whether corrective action is required under the terms of existing agreements.

What needs to change before next year's audit?

While the board won't necessarily manage remediation, they should approve the action plan, set expectations for progress reporting, and hold leadership accountable for follow-through.

WHAT TO DO NOW

Build an Action Plan

In some engagements, especially Single Audits, a written response or corrective action plan may be required. Even when it is not, organizations should build an action plan and treat the audit as an input to how they operate, not just a compliance obligation to close out.

For each finding:

- Identify the specific control or process being addressed
- Who owns the remediation
- What the corrective action looks like in practice
- When you'll implement the changes

Vague commitments, like *“we will strengthen our review process,”* don't hold up when the same finding recurs the following year.

You'll also want to prioritize fixes by risk level. Material weaknesses and significant deficiencies need immediate attention and should be resolved before the next audit cycle begins. You can sequence other findings based on operational capacity.

Some findings reveal process improvements that go beyond audit risk, like program budgeting or a system or staffing gap. Pay attention to these connections and use the audit as a time to address them.

Strengthen for the Next Audit Cycle

The gap between a reactive audit posture and a proactive one often comes down to financial discipline.

Organizations that review their controls once a year, in the weeks before fieldwork, will always be catching up. Organizations that maintain that discipline throughout the year arrive at the audit in a fundamentally different position.

In practice, that means a few specific habits.

- Review each active grant's expenditure-to-budget ratio quarterly, not just at year-end. Variances that are explainable in October become findings in March when the context is gone and the person who knew the answer has moved on.
- Conduct a mid-year restricted fund review. This isn't just a balance check, but a confirmation that spending is aligned with the purpose and timeline of each restriction. Discovering a compliance issue six months before year-end gives you options. Discovering it during fieldwork doesn't.
- Schedule a pre-audit meeting with your auditor two to three months before year-end. Organizations that do this consistently can use it to surface scope changes, flag unusual transactions, and discuss any new accounting standards that may apply before the PBC list arrives.

The audit cycle is also a natural forcing function for the conversations that often get deferred, like if your organization has outgrown its current accounting system, carries control weaknesses that staffing constraints make difficult to address, or has compliance obligations that aren't fully understood across the leadership team.

Those issues don't disappear between audits. They compound. The post-audit window, when findings are fresh and leadership attention is focused, is the best time to address them.

WHAT TO DO NOW

Why the Right Audit Partner Matters

The audit itself is only part of the equation. Who conducts it and how shapes what your organization gets out of the process.

A firm without deep nonprofit experience may still be able to complete a financial statement audit. But firms with stronger nonprofit experience are often better positioned to identify issues related to cost allocation, restricted funds, grant compliance, and board-level financial oversight.

What to Evaluate In An Audit Firm—and What Most Organizations Miss

Most nonprofits evaluate audit firms on price and availability. The organizations that consistently produce clean audits evaluate on different criteria.

1. Nonprofit specialization

General audit experience isn't the same as nonprofit audit experience. Your auditor should understand fund accounting, net asset classification, grant compliance, and the governance structures specific to mission-driven organizations. If they're learning your environment during fieldwork, you're paying for their education.

2. Experience with your audit type

If your organization is at or near the Single Audit threshold, or operates under Yellow Book standards, confirm that the firm has active experience with both, not just familiarity. Single Audits require specific expertise in federal program compliance testing that not all firms maintain at the same level.

3. California-specific knowledge

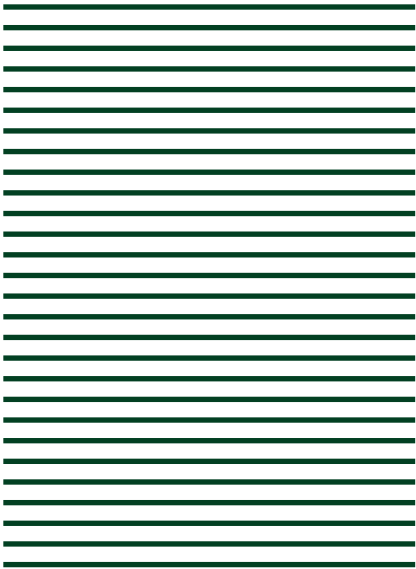
State funding requirements, Attorney General reporting obligations, and California-specific compliance considerations add complexity that firms without a California nonprofit practice may not handle fluently.

4. Proactive processes

The right firm coordinates early, communicates clearly, and surfaces issues before they become findings. If your current auditor's primary communication is a long PBC list that arrives with little context and tight deadlines, that's a process problem worth addressing.

5. Insight beyond the opinion

The audit report is the deliverable. The strategic value is in what your auditor observes about your controls, your compliance posture, and your financial operations and whether they communicate those observations in a way leadership can actually act on.



Duffy Kruspodin's non-profit audit practice covers the full range of what mission-driven organizations require, including financial statement audits, Single Audits under Uniform Guidance, Yellow Book engagements, and compliance assessments for organizations with complex funding structures.

We built our process around early coordination, clear documentation requests, and direct communication with finance teams and leadership throughout fieldwork, not just at delivery.

For organizations managing grant compliance, restricted fund requirements, or state-specific reporting obligations, we bring the context to make those conversations productive rather than reactive.

Ready to Strengthen Your Next Audit Cycle?

Whether your last audit surfaced findings that need attention or your year-end is approaching and preparation hasn't started, the right time to have this conversation is before the pressure builds.

CONTACT US TODAY

Talk with a member of Duffy Kruspodin's nonprofit audit team.

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Duffy Kruspodin, LLP is a CPA and advisory firm serving business owners, finance leaders, and families across California and beyond. With offices in Los Angeles (Woodland Hills), Beverly Hills, Irvine, and San Diego, and more than 200 professionals, the firm provides tax, accounting, audit, and operational support backed by more than 35 years of experience. Clients rely on Duffy Kruspodin for responsive service, forward-looking guidance, and a team that understands both business and personal financial priorities.

"Nonprofit audits require a specific kind of fluency — in fund accounting, grant compliance, federal program requirements, and the governance dynamics that boards and funders care about. The technical standards are the baseline. What separates a good audit partner is whether they help you understand your organization better at the end of the process than you did at the start."

Daisy Hom, CPA

Assurance Partner

