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CPAs & Trusted Advisors

NONPROFIT AUDIT READINESS  
A THREE-PART SERIES

PART THREE OF THREE

# WHAT TO DO NOW

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Turning audit findings into organizational strength, and choosing the right partner for the next cycle.

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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. You'll see these broken into categories:

### MATERIAL WEAKNESS

A control failure significant enough to result in a material misstatement of your financial statements.

### SIGNIFICANT DEFICIENCY

Less severe than a material weakness, but still requires prompt attention.

### COMMENT / OBSERVATION

Below either threshold, but still flagged by the auditor as a risk or inefficiency worth addressing.

**Read each finding for what it's actually describing**, not just how it's categorized:

- 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.

WHAT TO DO NOW

# ENGAGE LEADERSHIP & 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.

Four questions 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, DOCUMENT:

- 1 The specific control or process being addressed
  - 2 Who owns the remediation
  - 3 What the corrective action looks like in practice
  - 4 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.

### PRIORITIZE 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 maintain that discipline throughout the year arrive at the audit in a fundamentally different position.

- Review each active grant's expenditure-to-budget ratio **quarterly**, not just at year-end.
- Conduct a **mid-year restricted fund review** to confirm spending aligns with the purpose and timeline of each restriction.
- Schedule a **pre-audit meeting with your auditor** two to three months before year-end.

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.** Firms with deeper nonprofit experience are better positioned to identify issues related to cost allocation, restricted funds, grant compliance, and board-level oversight.

## 01 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.

## 03 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.

## 05 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.

## 02 EXPERIENCE WITH YOUR AUDIT TYPE

If your organization is at or near the Single Audit threshold, or operates under Yellow Book standards, confirm the firm has *active* experience, not just familiarity.

## 04 PROACTIVE PROCESS

The right firm coordinates early, communicates clearly, and surfaces issues before they become findings. A long PBC list with little context and tight deadlines is a process problem worth addressing.

*“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 · PARTNER, AUDIT & ASSURANCE

### CONTACT US

Amplify your mission & financial controls with the right audit firm.

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