Not all nonprofit organizations are required to have an independent audit of their financial statements. However, there are several circumstances that trigger a mandatory audit, including expending $750,000 or more per year in federal funds. Many state and federal contracts, bank loans, and private foundations may also require audited financials.

As important as they are, audits can be time consuming, costly, and frustrating for nonprofit organizations, their boards, and staff. To ensure that the process goes smoothly, here are five ways to prepare:

1. Assemble the Team
   Even if audits are an annual event for your organization, you can’t assume that you’ll have the same people or talent on your team every year. It’s better to have a few more people on board to contribute than to manage the disruption of adding people as you go.

   Who to include? You will want to include your accounting and finance staff, as well as members of your board finance or audit committee. It’s also helpful to include the board chair for the kickoff with the auditors.

   Additionally, you may want to include your head of operations. The audit may disrupt your organization’s operations. This is especially true when a single person manages key functions. You might need to get some temporary help to either augment your audit staff or your operations efforts.

2. Prepare for Pre-audit Meeting
   The pre-audit meeting is the initial consultation between your audit project staff and the auditors. It’s the time to discuss the overall audit process, introduce key team members, understand the schedule and requirements for the auditors’ field visit, and list the documentation required.

   Be sure that you have your accounting and executive staff available during this meeting. Doing so will ensure that your key players understand any adjustments or accommodations necessary for the audit. This is a big effort, so build in contingency time to handle workloads and the unexpected.

3. Get Focused
   Take what you’ve learned from the pre-audit meeting and relay relevant information to the rest of your staff. Everyone will appreciate being in the loop.

   If this is your first audit—or the first audit for certain staff members—explaining the demands on your accounting and management personnel can foster cooperation from other departments.
Does your development strategy include pursuing grants from donor-advised funds (DAFs)? Considering the recent growth of these charitable investment vehicles, it should.

DAFs are managed financial accounts dedicated to charitable giving. Individual account owners establish and contribute to their own fund and then direct the account manager, also known as the sponsor, about which organizations should receive donations. Cash and other non-cash assets can be contributed to these funds, with the donor generally able to receive a tax deduction at the time of the contribution to the DAF.

Many DAFs are run by community foundations, charitable organizations that manage funds on behalf of individual owners. Community foundations create a locus of interest and identify key issues and priorities in the community. DAFs are central to how community foundations have functioned and grown.

The same best practices for building relationships with your individual donors apply to DAFs but with a few small modifications. Here’s how to position your organization:

**Analyze.** Analyze your donor rolls to see if you are currently receiving donations from DAFs. These checks will come from a financial institution or from a community foundation rather than an individual donor.

While DAFs act as an intermediary between your organization and donor account owners, do your best to identify the account owners to establish a relationship, and thank them appropriately. If you can’t determine the owner, send a thank you note to the sponsor. The sponsor may relay your thanks and, if not, the sponsor will at least know that you appreciate your donors.

**Nurture.** Try to nurture relationships with DAF owners. The network of professionals who help individuals set up DAFs includes wealth, tax and legal advisors, and the donor services staff at community foundations.

When you meet with your non-DAF donors, find out their preferences for donations. Perhaps they have donated by check or cash but could donate from their DAF instead.

**Think digital.** Your fundraising and marketing materials should reference and encourage donors to give through their DAFs. This includes putting prompts and information on your website’s donation page including your legal name, Tax ID, address, and a contact.

The DAF sponsor may want to provide funding via ACH. Several DAF management companies support web widgets that allow donors to log into their DAFs and make grants directly from your page. Any way you can reduce the friction for accepting these donations will be helpful.

**Cast a wider net.** There’s no easy central index for funding from DAFs, so you’ll have to roll up your sleeves to expand your network. DAFs tend to cater to higher net worth individuals who employ professionals like wealth, tax, and legal advisors to help establish and manage funds.

Because DAFs aren’t required to distribute funds regularly, consider setting up a visit to your local community foundation. There are databases of community foundations within your area that will list their primary efforts for the community. The donor services staff at these foundations is charged with helping their donors meet their philanthropic aspirations and may find your organization of interest to one or more of their donor account owners.

Our team is familiar with DAFs. We would be happy to help you build a strategy to build these relationships.
Board Matters

Be Strategic in Board Selection and Succession

Building a board is a continuous improvement process. You want committed, passionate, and expert members to help guide your nonprofit—and you want to continuously fine-tune the board to be its best.

Recruitment Best Practices

It’s challenging to find people with the right skills for board positions. Here are a few best practices:

Stay ahead. Regularly assess the board’s skills and talents, and begin searching for replacements ahead of time. Pay attention to the board mix and tenure. Be sure to capture senior members’ wisdom and knowledge before they go.

Create a pipeline. Often, the best source of future board members is a “friends of” group or a junior committee. These people already know and support your mission, and they are enthusiastic fans of your organization. They are a wellspring for the next wave of key board members.

Tap your current board. Your current board members are familiar with how the organization runs and what specific expertise might be lacking. Ask them to think about who might fill talent gaps and start cultivating those people for board positions.

Ask your advisors. Your CPAs, attorneys, insurance brokers, and other advisors are excellent resources when it comes to ideas for new board members. They are typically plugged into the community and have a wide circle of acquaintances and friends. Their clients—and your clients—can also be helpful.

Consider a nominating committee. If a casual approach to board recruitment isn’t working, try a nominating committee. This group is charged with finding the right people with the necessary skills. A more formal structure, deadlines, and deliverables often produce superior results.

Use term limits. For potential new members, knowing the length of their obligation can help get them to commit. For established members, term limits will ensure that you have fresh faces and that your organization benefits from new ideas. Building in term extensions or renewals gives you the flexibility to keep key members longer if desired. Also, stagger terms to ensure continuity through transitions.

Look at size. Is your board sized right? Is it nimble enough to make quick and smart decisions? A board that’s too large adds to recruitment difficulties. Examine your bylaws to see what’s required.

Mind the politics. Significant donors are often asked to serve on boards as a thank you for their commitment. There’s nothing wrong with this arrangement, but be aware that you must maintain a good mix of members to be effective.

Also remember that potential members may be scared off if they think a big donation is required for board membership. Be straightforward about financial expectations as you recruit.

Build a deep bench. Great board officers make a huge difference in board efficiency and effectiveness. A deep bench ensures exceptional leadership.

Always On

The bottom line? Approach board recruiting with an “always on” attitude. Always be looking for your next board superstars.

Our team is familiar with board recruitment challenges. We’re happy to help!

Be Audit Ready

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4. Pull It Together

Nothing slows the audit process more than missing or incorrect requested documents. Your pre-audit meeting should provide a specific list of documents and describe the format for their delivery. At a minimum an auditor will need the following:

• Accounting manual and financial management policies
• Closed general ledger
• Trial balance
• Bank statements
• Lists of contributions and grant funds received and pledges receivable
• Grant awards and supporting documentation
• Fixed assets and depreciation schedule
• Access to payroll tax reports – W2s, 1099s, and timesheets
• Year-end reconciled financial statements and reconciliations

5. Plan for the Field Visit

The auditing team will likely spend time in your office to conduct field work. To make their visit efficient and effective, make sure one person on your staff handles logistics. For example, how many people will come per day? Where will they sit and work? Do they need internet access or after-hours building access?

Audits are important organizational efforts that take time. Getting the right people involved early, gathering the necessary documentation discussed in the pre-audit meeting, and welcoming your audit guests will help you execute successfully.

Thinking about an upcoming audit? Let’s talk about how to prepare.
Does your staff cringe when you talk about goals? Do your coworkers roll their eyes when you discuss your objectives for the coming year?

If this is the case in your organization, it may be time for a new way of thinking about your aims—one that is well established, motivating, and clear.

Try using the SMART framework to make your goal setting more effective. SMART is an acronym for specific, measurable, achievable, relevant, and time bound. This technique can add clarity, structure, and motivation to your organizational goals.

Specific: What do you want to accomplish? What actions should you take? Be detailed, use numbers, and define results.

Measurable: How will you know if you’re successful? How will you assess progress and know if you’re on track? Will you measure quality, quantity, or both? You might need to build a way to collect data so that you can measure your results.

Achievable: There’s no sense in setting a goal that’s so lofty it’s unattainable. Your goal should be a stretch and a challenge, but defined and doable. Also, make sure you have the resources you need to achieve your goal.

Relevant: Each goal should matter. It should fit with and support other goals and move the organization forward. It should match your nonprofit’s current needs and future aspirations and be meaningful to your team.

Time Bound: When’s the deadline for accomplishing this goal? How long will it take? Are there intermediate steps that can be scheduled to encourage progress? A deadline keeps your work focused.

Using the SMART framework, your goalsetting exercises will result in a more realistic vision for your organization’s future and inspire your team to targeted action.

We can help you further your goals. Contact us to discuss your objectives.