

## Suggestions for Ensuring a Smooth Annual Audit

<b>1. Establish accounting policies, procedures, and responsibilities. (See Best Practices for Executives and Board of Nonprofit Organizations.)</b>
<ul style="list-style-type: none"><li>• Provides auditors with understanding of how procedures are performed, who authorizes, who records, responsibility assigned, etc.</li><li>• A method of documenting internal controls which can be useful by auditors in assessing the design of the internal controls, and possibly reduction of transactions testing. More efficient audit.</li><li>• A useful management tool in training new staff and volunteers.</li><li>• A method for communicating expectations to organization employees and volunteers.</li><li>• A tool for evaluating performance against expectation.</li><li>• Saves auditor time if updated annually for changes.</li></ul>
<b>2. Review trial balance and account fluctuations before audit.</b>
<ul style="list-style-type: none"><li>• Assists management in the identification of errors, or fluctuations that may need addressed before audit starts.</li><li>• Useful in planning stage by auditors. A well documented analysis provides auditor with expectations. Overall, this saves auditor time and makes the analytical review more efficient.</li><li>• Gets management more involved in the audit process.</li></ul>
<b>3. Perform analysis of actual expenditures to budgeted expenditures.</b>
<ul style="list-style-type: none"><li>• Provides a clear understanding as to budget assumptions.</li><li>• A tool by management for monitoring expectations throughout the year. If properly monitored, could be a tool for alerting management when to take action.</li><li>• A useful document for auditors when evaluating variances. The more the organization can do throughout the year, the more reliable the budget can be to the auditor and management. This ultimately saves time in the audit process.</li></ul>
<b>4. Evaluate expense allocations carefully. (Guidance on allocation can be found in SOP 98-2, and in detailed instructions for 990.)</b>
<ul style="list-style-type: none"><li>• Proper allocation between program, fundraising, and G&amp;A is necessary for financial reporting purposes, as well as the annual 990 return.</li><li>• Reflects the organization's mission and purpose when allocated properly. Too much cost in G&amp;A can be alarming to constituents who wish to donate.</li><li>• Rule of thumb &gt; 75% on program</li><li>• More favorable to constituents when spending resources on mission and not just to support operations.</li></ul>
<b>5. Utilize your accounting system for tracking functional expenses.</b>
<ul style="list-style-type: none"><li>• Fund accounting may be helpful in tracking programs. The expenses associated with such are required to be reported in FS and 990.</li><li>• Saves time by being able to readily provide data from the accounting system on functions. A manual system is not as efficient as electronic.</li><li>• Can be effective in helping management identify whether a program is holding its own, or a fundraising event is cost effective. Help management identify changes that will better service its missions and accomplishments.</li></ul>

<p><b>6. Outsourcing to fiscal agent.</b></p> <ul style="list-style-type: none"> <li>• Allows NPO to focus more mission activities.</li> <li>• Improve efficiency of NPO staff.</li> <li>• Allows for feedback from third-party.</li> <li>• May be fiscally more cost efficient.</li> <li>• Less burdensome/headaches.</li> </ul>
<p><b>7. Prepare workpapers for auditor's use.</b></p> <ul style="list-style-type: none"> <li>• PBC list/ timetables improve efficiency.</li> <li>• Creates opportunity for learning by NPO and saves auditor time in workpaper preparation.</li> <li>• Facilitates accumulation of data throughout the year.</li> <li>• Better planned for audit, more efficient.</li> <li>• Fosters better communication and understanding.</li> </ul>
<p><b>8. Pull documentation/support during audit.</b></p> <ul style="list-style-type: none"> <li>• Reduces time of fieldwork—more cost efficient.</li> <li>• Requires better organization of files by NPO.</li> <li>• Creates less interruption to daily operations when planned ahead (PBC list/timetable).</li> </ul>
<p><b>9. Establish audit committee, encourage participation.</b></p> <ul style="list-style-type: none"> <li>• A separate component from the BOD.</li> <li>• Responsibility for overseeing the audit process.</li> <li>• Creates opportunity for having a “financial expert”, CPA, or other accredited accountant on committee. Better quality audit process.</li> <li>• Independent feedback.</li> <li>• More focused on audit results, improve process.</li> </ul>
<p><b>10. Plan for 990. (see checklist for 990)</b></p> <ul style="list-style-type: none"> <li>• Provides better understanding of what is required for disclosure.</li> <li>• Causes accumulation of data throughout the year, rather than at year-end.</li> <li>• Improves overall governance through adoption of policies that are requested in disclosures.</li> <li>• Minimizes the risk of loss of “tax-exempt status” due to poor oversight or lack of records maintained.</li> <li>• Reduces time and effort through the year when proper planning is conducted.</li> <li>• Less last-minute questions.</li> <li>• Improves disclosure, and overall transparency of organization. This creates trust from constituents when good governance is present.</li> </ul>

**NOTE:** The nature of the suggestions may not be applicable to all NPOs. Being prepared and having good communication and documentation are important factors in ensuring the year-end process is more enjoyable to you and your auditors. Incorporating just a few of these suggestions can make a big difference to year-end. Please call Tammy McGaughy at (850) 244-5121, or email at [tmcgaughy@osullivancreel.com](mailto:tmcgaughy@osullivancreel.com) before your next audit. O’Sullivan Creel is here to help you.