



PREPARING FOR A POTENTIAL AUDIT

APRIL 2025

5 TAKEAWAYS:

1. What is an audit?

- An audit is an **independent examination of your organization's finances**, done by an independent Certified Public Accountant (CPA). It checks that your records are accurate, presented fairly, and compliant with generally accepted accounting principles (GAAP).
- **Auditors don't review every detail**—they check key areas to make sure there are no major errors or signs of fraud. While audits may not catch everything, they build funder trust, support transparency, and can improve your financial practices.

2. You might need an audit if...

- You get \$750,000+ in federal government funding in one year
- A funder requests audited financials
- Your board or bylaws say you need one
- Even if you're not required to get one, doing a smaller review (like a financial review or compilation) can still be helpful. (as it builds trust with external parties and potential donors)

3. The IRS Form 990 tells your story

- The form 990 is a **public document** and tells the world how your organization spends money, what your mission is, and how you operate.
- **Funders, media, and watchdog groups read it**—so make sure it's accurate, honest, and tells your story clearly.

4. Internal Controls Protect Your Team

- **Internal Control** = checks and balances that help protect your nonprofit's finances and prevent fraud, mistakes, and misuse of money.
- Even in a small team, it's important to have checks and balances. Examples of strong internal controls include:
 - Separating duties (e.g., the person writing checks isn't the same person reconciling accounts).
 - Reviewing financials monthly with leadership or the board.
 - Have clear processes for who can approve spending
 - Have policies in place to prevent risk and fraud

5. Start Planning Early

- Start early and keep clean records throughout the year. **Keep your files organized**, label your documents clearly, and get familiar with your accounting software (like QuickBooks).
- Think of each year as if you might be audited—it'll save you stress later.



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5 TIPS FROM THE EXPERTS:

1. Don't worry about being perfect — just be organized

- Auditors don't expect perfection. What they want is transparency and consistency. If there's a mistake, just explain it clearly.

2. Set up your accounting software to work for you

- QuickBooks and similar tools can be customized to match your budget categories and audit needs. It's worth working with a bookkeeper or CPA to do this early.

3. Communication with your auditor matters. Ask them questions!

- Auditors are not the IRS—they are here to help. You can (and should) ask clarifying questions throughout the process. A good audit can actually make your organization stronger.

4. Prepare board members in advance

- If board members are involved in finances, ensure they understand and follow proper oversight and conflict-of-interest protocols.

5. A “management letter” from your auditor is a helpful and free roadmap.

- After an audit, you might get a letter suggesting ways to improve. Treat it as a learning tool and use it to strengthen your organization.

RESOURCES

IRS Form 990 – <https://www.irs.gov/forms-pubs/about-form-990>

Everything you need to know about the Form 990

NYS Charities Bureau – <https://www.charitiesnys.com>

- Information on registration, annual filings (like CHAR500), and compliance requirements for NY nonprofits. Check if you're compliant and learn more about financial reporting in NY State.

National Council of Nonprofits / Financial Management -

<https://www.councilofnonprofits.org/tools-resources/financial-management>

- Tips for internal controls, budgeting, and audit prep