

# LEAD WITH INTEGRITY

## AUDIT BEST PRACTICES

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### SPEAKER



**Adam Osborne**  
**CPA, CGMA**  
Managing Partner  
HHM CPAs  
Cleveland, Tennessee



CERTIFIED PUBLIC ACCOUNTANTS



# LEAD WITH INTEGRITY

## AUDIT BEST PRACTICES

### AGENDA

- Audits matter, but there are other options as well
- Different types of audits, including state specific audit requirements
- Preparing for the audit
- Best practices during and after the audit
- How to communicate with your auditor
- Audit adjustments
- Common findings
- What is a SEFA?
- What are restricted net assets?



# WHY DO AUDITS MATTER AND IS THERE SOMETHING ELSE?

- Provide assurance to donors, grantors, and boards
  - Support funding renewals and public trust
  - Ensure compliance with laws and regulations
  - Strengthen financial management and governance
- 
- There are other options, if an audit is not required or desired
    - Agreed Upon Procedures
    - Compilation
    - Review



# AUDIT REQUIREMENTS BY STATE



## TENNESSEE

- Required when revenue over \$1M (excludes grants from govt agencies and private foundations)



## GEORGIA

- When organization received or collected more than \$1M in charitable contributions



## ALABAMA

- No audit requirements



# TYPES OF AUDITS NONPROFITS ENCOUNTER

- **Financial Statement Audit** – GAAP compliance and opinion
- **Single Audit** – Required under 2 CFR 200 when expending \$1,000,000 in federal awards (effective for fiscal year ends beginning AFTER 10/1/2024) (used to be \$750,000)
- **Program-specific Audits** – For particular grant agreements
- **State-required Audits** – Based on state or contract thresholds





# BEFORE THE AUDIT: PREPARATION STEPS

- Review prior-year audit findings and ensure corrections
- Complete account reconciliations and close the year-end ledger
- Request a 'Prepared by Client' (PBC) list, fulfill majority of list before the audit
- Update policies, internal controls, and documentation
- Keep your board (or committee) engaged – they should know timing, scope and expectations of the audit



# AUDIT READINESS CHECKLIST



- Year-end reconciliations complete
- Board minutes and policies updated
- SEFA reconciled to general ledger
- Supporting schedules organized by account
- PBC list completed and reviewed
- Corrective actions for prior findings implemented





# COMMUNICATING WITH YOUR AUDITOR

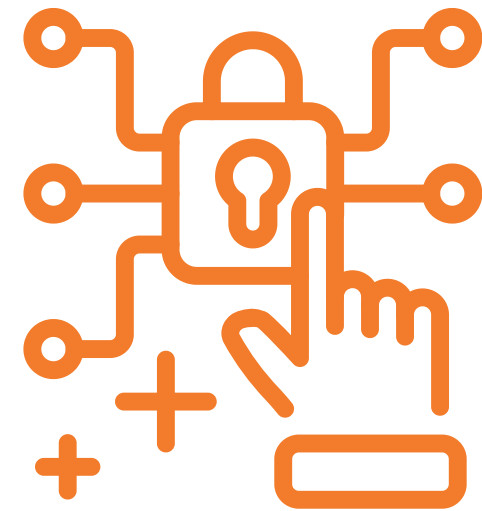


- Designate a single point of contact for requests
- Ask clarifying questions early
- Maintain transparency around complex transactions
- Encourage proactive communication throughout the engagement





# INTERNAL CONTROLS: WHAT AUDITORS LOOK FOR



- Segregation of duties and approval workflows
- Documentation of expenditures and grant restrictions
- Board oversight and review of financials
- Fraud prevention policies and whistleblower procedures



# BOARD MANAGEMENT & RESPONSIBILITIES



- Management: Responsible for fair presentation and internal controls
- Board: Oversight of the audit process and review of results
- Audit Committee (if applicable): Liaison between management and auditors
- Sign management representation letter upon completion



# DURING FIELDWORK: BEST PRACTICES



- Respond promptly to auditor requests
- Ensure all support is clearly labeled and reconciled
- Provide documentation electronically and securely
- Schedule daily or weekly touchpoints with auditors
- Clarify open items early to prevent last-minute issues



# HOW TO HANDLE AUDIT ADJUSTMENTS



- Review proposed adjusting journal entries for validity
- Document reasons for acceptance or rejection
- Understand recurring adjustments to improve processes
- Update internal policies to prevent repeat issues
- Make sure you actually make the AIEs



# AFTER THE AUDIT: CLOSING THE LOOP



- Review draft financial statements and footnotes carefully
- Discuss management letter and findings with the board
- Develop corrective action plans for any deficiencies
- Communicate results to grantors or regulators as required





# COMMON AUDIT FINDINGS

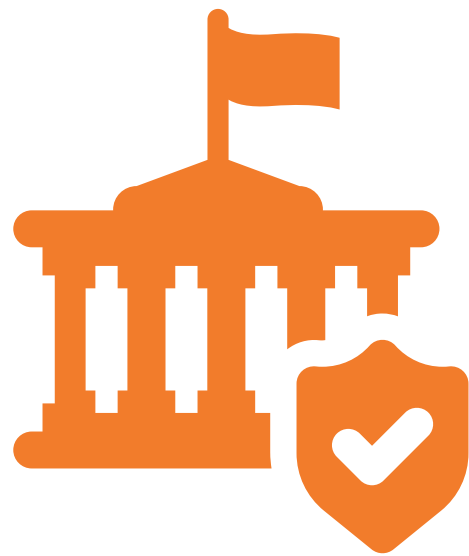


- Unreconciled accounts or unsupported balances
- Lack of documentation for grant expenditures
- Failure to implement prior audit recommendations



# UNDERSTANDING SEFA

## [SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS]



- Lists all federal funds expended during the fiscal year
- Used to determine whether a Single Audit is required
- Must include CFDA/Assistance Listing numbers, agency, and expenditures
- Should reconcile to general ledger and grant reports





# SINGLE AUDIT REQUIREMENTS

## (2 CFR PART 200 SUBPART F)



- Applies if total federal expenditures  $\geq$  \$1,000,000 in a fiscal year (for years beginning after 10/01/2024)
- Requires both financial and compliance testing
- Auditor issues a separate report on compliance and internal controls
- Findings require a corrective action plan within 6 months



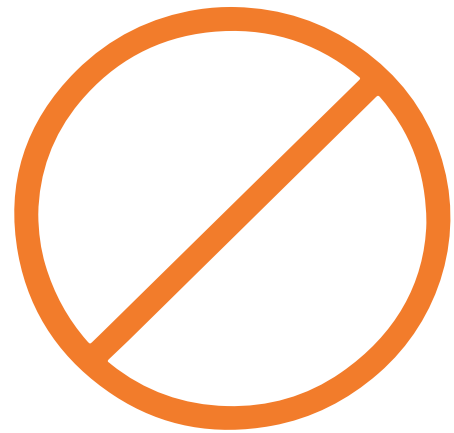
# COMMON SEFA AND COMPLIANCE ISSUES



- Incorrect or missing CFDA numbers
- Unreconciled SEFA totals to general ledger
- Missing subrecipient monitoring documentation
- Late report submissions to the Federal Audit Clearinghouse



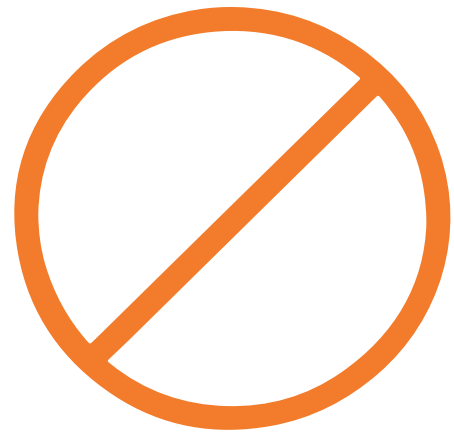
# RESTRICTED NET ASSETS



- Net assets with donor-imposed restrictions that limit how and when funds can be used.
- Types of Restrictions:
  - Purpose Restriction: Funds must be used for a specific program or activity (e.g., scholarship fund, building project).
  - Time Restriction: Funds cannot be used until a certain date or event occurs (e.g., endowment income available after a set period).
- Restrictions are set by the donor, not by the organization.



# RESTRICTED NET ASSETS



- Ensures compliance with GAAP and transparency for donors.
- Misclassification can lead to audit findings, restatements, and reputational risk.
- Demonstrates accountability and adherence to donor intent.
- Some restrictions may have contractual or regulatory implications.



# RESTRICTED NET ASSETS



- Track restrictions separately by using clear ledger accounts for restricted vs. unrestricted funds.
- Document donor intent by maintaining written agreements and correspondence.
- Reassess restrictions as conditions are met (e.g., time lapses or purpose fulfilled).
- Communicate clearly with readers of your financial statements. Liquidity and availability footnote.





# QUESTIONS



CERTIFIED PUBLIC ACCOUNTANTS

**Adam Osborne, CPA, CGMA**

**423-458-8031**

**[aosborne@hhmcpas.com](mailto:aosborne@hhmcpas.com)**

