

Key Aspects of Non-Profit Organization Audits

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Key Aspects of Non-Profit Organization Audits

Nonprofit organizations must comply with various financial and regulatory requirements to ensure transparency, accountability, and efficiency. Below are the key areas of nonprofit audits, covering financial statement audits, uniform guidance audits, and grant compliance audits.

1. Financial Statement Audits

Nonprofits in the U.S. must follow the Generally Accepted Accounting Principles (GAAP), particularly the Financial Accounting Standards Board's (FASB) ASC 958, which provides guidelines for nonprofit financial reporting.

Key Areas of Focus:

Internal Controls

- Establishing strong internal controls to prevent fraud and ensure accurate financial data.
- Maintaining a robust financial management system to support reporting requirements.

Revenue Recognition

- Correctly categorizing transactions as contributions vs. exchanges (e.g., grants vs. earned income).
- Differentiating between restricted vs. unrestricted funds and conditional vs. unconditional contributions.

In-Kind Contributions

- Valuing and reporting donated materials and services at fair market value.
- Proper documentation of volunteer services that significantly contribute to operations.

Functional Expense Allocation

- Accurately allocating costs among program, fundraising, and administrative expenses.
- If using estimates, ensuring there is a clear basis for allocation.

Endowments & Donor-Restricted Assets

- Reporting donor-restricted funds separately from general operating funds.
- Disclosing whether the principal must remain intact and how investment income is managed.

Classification of Net Assets

- Ensuring proper classification of net assets to reflect financial liquidity.
- Adhering to updated FASB standards for nonprofit financial statements.

Unrelated Business Income (UBI)

- Identifying non-mission-related income that may be subject to Unrelated Business Income Tax (UBIT).
- Ensuring proper tax reporting to avoid IRS penalties.



2. Uniform Guidance Audits (Single Audits)



A **Uniform Guidance Audit** is required for nonprofits **expending over \$750,000 in federal funds** (increasing to **\$1 million** effective fiscal year starting October 1, 2024). This audit ensures compliance with **Title 2, CFR Part 200 (“Uniform Guidance”)** regulations.

Key Compliance Areas:

Schedule of Expenditures of Federal Awards (SEFA)

- Listing all federal awards received and expended, following 2 CFR **200.508(b) & 200.510(b)**.

Procurement Standards

- Adhering to **federal procurement regulations (2 CFR 200.317 – 327)**.
- Ensuring that federal funds are **not provided to suspended or debarred entities**.

Reporting Requirements

- Submitting required grant-related reports, including:
 - **Financial Reports**
 - **Progress Reports**
 - **Special Reports (if required by grant terms)**

Cash Management Compliance

- **For reimbursement-based grants:** Expenses must be incurred before requesting federal funds.
- **For advance payments:** Funds should be spent promptly to minimize cash on hand, per 2 CFR 200.305.

Subrecipient Monitoring

- Differentiating between **subrecipients and contractors**.
- Monitoring compliance risk and enforcing corrective actions for non-compliance (**2 CFR 200.331 – 333**).

Indirect Cost Allocation

- Using the **10% de-minimis indirect cost rate** or a **Negotiated Indirect Cost Rate Agreement (NICRA)**.
- Excluding **unallowable costs** such as alcohol, bad debts, and lobbying expenses.

Upcoming Changes to Uniform Guidance (Effective fiscal year starting October 1, 2024)

- The **single audit threshold** increased from **\$750,000 to \$1,000,000**.
- The **subaward cost limit for indirect cost recovery** rose from **\$25,000 to \$50,000**.
- The **de-minimis indirect cost rate** will increase from **10% to 15%**.



3. Grant Compliance Audits

A Grant Compliance Audit is an independent review to ensure nonprofits properly manage grant funds while adhering to financial and regulatory requirements.

Key Areas:

Grant Compliance



Verifying adherence to funding requirements and cost-sharing obligations.

Financial Reporting



Ensuring transparency in how grant funds are spent

Documentation & Recordkeeping



Reviewing invoices, receipts and contracts for accuracy.

Internal Controls & Risk Management



Assessing fraud prevention measures and governance structures.

Regulatory Compliance



Ensuring adherence to federal and state grant requirements.

4. The Changing Landscape for Federally Funded Nonprofits

Key Developments & Legal Actions (2025)

Jan 27: OMB issued a **temporary freeze** on federal financial assistance.

Jan 29: The freeze was **rescinded**, but access to funds remains uncertain.

Jan 31 & Feb 3: U.S. courts lifted the funding freeze, yet some organizations still **cannot access federal funds**.

Implications for Nonprofit



- **Funding Delays:** Grants, loans, and awards may experience interruptions.
- **Operational Disruptions:** Programs in DEI, environmental, and foreign aid sectors are at risk.
- **Increased Agency Reviews:** Federal agencies will reassess funding priorities.

Recommended Action Steps:

- **Identify** programs at risk and develop contingency plans.
- **Monitor** updates from OMB and federal agencies.
- **Communicate** with funders for guidance on ongoing projects.
- **Ensure** financial and regulatory compliance.

5. Navigating Challenges & Preparing for the Future

Key Trends and challenges:



How Nonprofits Can Adapt



Diversify Revenue Streams:

Expand donor bases and explore new grant opportunities.



Reassess Strategic Plans

Align programs with shifting funding priorities.



Invest in Infrastructure

Strengthen financial systems, compliance processes, and governance.



Adopt AI & Technology

Improve operational efficiencies and impact measurement



6. How We Support Nonprofits

Our expertise helps nonprofits navigate financial and regulatory challenges by providing:

Strengthening Internal Controls & Operational Procedures:

Enhancing efficiency and risk management to safeguard financial resources and optimize workflows.

Capital Cost Accounting & Financial Reporting Compliance:

Providing expert guidance on cost allocation and regulatory requirements to ensure accuracy.

Grant Revenue Recognition & Funding Management:

Helping organizations navigate complex funding structures, ensuring compliance with grant terms, and optimizing financial reporting.

Lease Standard Implementation:

Assisting with the transition to updated lease accounting standards to ensure regulatory alignment.

Alternative Investment & Financial Reporting Disclosures:

Navigating new disclosure requirements to improve transparency and accuracy in financial statements.

Customized Reporting for Funders & Stakeholders:

Developing supplemental schedules to enhance clarity and ensure compliance with grantor expectations.

Executive Expense & Governance Best Practices:

Establishing policies for proper oversight and accountability in executive expenditures.

New Accounting Pronouncements & Implementation:

Ensuring seamless adoption of new financial reporting standards to maintain compliance and financial accuracy.





Pierag Consulting

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With more than 300+ team members operating out of our offices in Gurugram, Jaipur, Chandigarh and Bengaluru, we are fueled by our purpose of 'Inspiring people to do things that inspires them' and our values of 'Excellence, Equity & Empathy'.

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