

DIY Audits for Nonprofits

by Jill A. Shaw, CPA, Managing Partner

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Small nonprofit organizations often want to undergo an annual audit, because an audit can be a great tool to demonstrate transparency, compliance with policies and procedures, and ensure the financial house is in order. However, for many small nonprofits, the expense of conducting an audit is not possible considering the size of the budget. If this is the case for your nonprofit organization, conducting your own internal audit on an annual basis can be a great alternative.

First Steps

First, determine which financial processes are most critical to your organization's operations. A good place to start is by looking at the flow of cash through the organization. By starting here, you can identify key points in the process where it is important to have strong internal controls. These are the areas where you want to design audit steps. The following are sample internal controls that the auditors can verify:

- **Monthly Bank Statement Reconciliation** – Verify that all bank statement reconciliations were completed within ten days of month end and that all reconciling items appear reasonable. Also, verify that the statements and reconciliation were reviewed by someone other than the person who reconciled the accounts.
- **Cash Handling Procedures** – Select a sample of deposits and verify that the deposit was made in accordance with the organization's cash handling procedures. For example, verify the deposit slip was reviewed and signed by two people, or verify that the deposit slip agrees to the cash log prepared by someone other than the person who made the deposit.
- **Disbursement Process** – Select a sample of disbursements from each month, and verify that each disbursement is supported by a bill or invoice and that the disbursement was approved by the authorized individual. *Tip!* Be sure to include employee reimbursements and credit/debit card transactions in this sample, since those are areas where fraud more commonly occurs.
- **Compliance** – Verify that the Form 990 was filed with the IRS by the required deadline.

Who Should Conduct the Audit Procedures?

Audit procedures such as those listed above should be conducted by someone with knowledge of the organization's operations who is not involved with daily financial transactions. In some organizations this could be the Board Treasurer, or your organization may need to get other Board members involved if the Treasurer is an important part of segregation of duties. Ideally, the audit would be conducted by more than one individual.

Concluding the Audit

Those individuals who completed the audit should report their findings back to management and the entire Board of Directors. As the Board reviews the findings, they should ask the following questions:

- Did the audit identify areas where internal controls need to be strengthened?
- What changes will the organization make to prevent findings from recurring?
- Are there any financial policies and procedures that need to be updated because of the audit?

This process, when conducted on a regular basis, can provide a good chance to learn where opportunities for improvement exist. It can also be a great way to provide some peace of mind that your organization remains good stewards of their resources.