

# The Biggest Audit Mistakes Nonprofits Make & How to Avoid Them

The day of an audit is bad enough. Don't add to the headaches by making these errors.

*By Mark Gilbert*

**Y**ou know it's inevitable: The day of facing an audit will come. Yet, like many nonprofits, you may prefer not to think about it – until it's too late.

You can make that dreaded day less painful if you're prepared for it. Now's a great time to re-evaluate your organization's workflow and infrastructure. These steps will make it much easier to open your books when the time comes.

Most nonprofits, regardless of size, make the same mistakes. They start with volunteers and inexperienced people because they're more affordable, but as the organization grows, they continue with the same practices. As a result, they create legacy problems that are carried forward. Instead of addressing the growing problems with fresh eyes, they

continue with the same faulty systems, putting their finance teams at a disadvantage.

Here are the most common practices that make audits more difficult and stressful, along with tips on how to avoid them:

## **They don't have a digital archive system.**

Every audit requires critical documents pulled from archive. The question is: How easy will it be for your finance team to find that material? Will they need to spend hours rummaging through filing cabinets in search of that folder from last year? Or will they push a simple search button on the computer?

Unfortunately, most nonprofits are decades behind technology when it comes to this type of archiving. They're still in the paper era, creating huge obstacles, time delays,



and frustrations for the finance person who needs to find that desperately-needed lost document. Don't put your organization in that position: Evaluate your budget for an archival system that can better organize the documents you'll need for the audit.

## They don't track documents that require signatures.

With many audits, the nonprofit organization must verify an approval process. In such situations, people's accountability will come from their signatures or initials on the required documents. Most nonprofits overlook this workflow process. As a result, these documents are hard to find when the auditors ask for them.

Tech solutions are a great tool for this approval process. Many cloud-based interfaces have built-in oversight approval. Bill.com, Expensify, and Concur are just a few cloud-based systems that can keep track of these signatures and initialed documents for that future audit.

## They don't track restricted grants, gifts, and donations.

Like many nonprofits, you probably receive restricted grants, gifts, and donations that come with a contingency. If so, you'll need to prove that you followed the restricted guidelines in using these gifts.

Now is the time to create a workflow that keeps track of restricted gifts. You'll want to create a system that proves you've spent the money as required. You don't want to face an audit and not have this reporting. Prioritize a system for restricted grants, restricted gifts, and restricted donations as you're preparing the next fiscal year's budget.

## They don't discuss cash flow issues.

Finance directors understand how to forecast budgets and cash flow, but what happens when those projections are off target after the fiscal year is under way? Most nonprofit leaders don't address cash flow problems with their financial advisor, bookkeeper, or accountant until the problem has escalated. The deeper the hole, the harder it is to patch. By waiting months to alert your advisor or accountant, you're making the problem more difficult to fix. Ultimately, this will impact your audit.

“Most nonprofits are decades behind technology when it comes to archiving.”

“Create a system that proves you've spent the money as required.”

You can stay on top of this problem by scheduling monthly calls with your advisor, bookkeeper, or accountant. If the call is on the calendar, everyone will know whether financial expectations are being met or falling short. Mark those dates down now for the rest of the fiscal year. Focusing your attention on workflow now will assure that you pass any future audit. 

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## When the Auditor Comes to Call

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**How to Have an Audit without Breaking the Bank** (Vol. 20, No. 4)

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**Nonprofits without Audit Committees Risk Disaster** (Vol. 22, No. 2)

**Seven Questions You Must Address to Thrive in the Digital Age** (Vol. 35, No. 1)

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