FINANCIAL MANAGEMENT PRACTICES FOR MANAGING FEDERAL GRANTS TRAINING SERIES:

Session 3: Reporting on Federally Funded Grants

JUNE 25, 2024

BDO

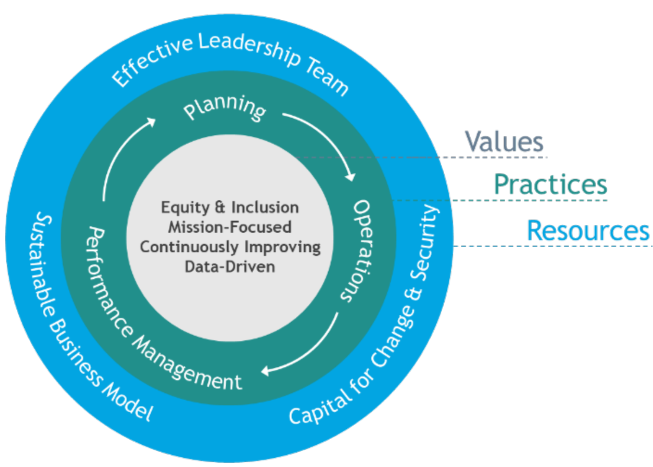
Contents

Program Overview

PLANNING	**SESSION 1:** Financial Planning for Federally Funded Grants April 25, 2024 1:00pm-3:00pm ET / 10:00am-12:00pm PT
OPERATIONS AND MANAGEMENT	**SESSION 2:** Managing a Federally Funded Grant May 14, 2024 1:00pm-3:00pm ET / 10:00am-12:00pm PT
REPORTING & PERFORMANCE MANAGEMENT	**SESSION 3:** Reporting on Federally Funded Grants June 18, 2024 2:30pm-4:40pm ET / 11:30am-1:30pm PT

Financial Resilience

What does financial resilience mean to you?



Financially resilient nonprofits stay focused on the long-term while continually assessing and responding to current needs. They understand and are able to tell their financial story. Expressed through an organization's **values, practices**, and **resources**, financial resilience is an ongoing commitment.

IT STARTS WITH VALUES

In an **equitable and inclusive** culture, financial data is shared with diverse stakeholders and not limited to the Executive Director and Board. Organizations that value equity and inclusion are transparent, not beholden to a single decision-maker, and have institutionalized financial leadership across the organization.

Resilient organizations foster a culture of **continuous improvement** around processes and systems. What financially resilient organizations understand intuitively is that operational improvements are not a one-time fix. The need to turn a critical eye to process and bring a standard of excellence to infrastructure is ongoing.

There is a willingness to use financial **data to inform decision making**. This can be a culture shift for many nonprofits, who are accustomed to relying on mission or gut rather than consulting financial data for key insights.

Finally, there is a recognition that the organization's financial performance as well as the finance team itself are deeply **tied to mission**. Strong financial results support mission achievement. And resilient organizations understand that the finance team is a core partner supporting mission-related goals, rather than a standalone transactional unit.

PRACTICES FOR THE PRESENT AND FUTURE

Financial **planning** ranges from annual budgeting to multi-year projections that map numbers to the organization's strategic priorities. Regardless of the timeframe, planning is about connecting program goals to resource decisions.

Operations boils down to people, processes, and systems. For effective planning and performance management to happen, operations need to work. This means having the right skills and roles on the finance team, efficient and effective workflows for core processes, and appropriate technology systems.

Effective **performance management** means leaders understand the financial status of an organization and its programs and use past performance as a baseline for anticipating future needs. Financially resilient organizations elevate standard budget-to-actual monitoring by defining and tracking Key Performance Indicators and presenting financial data in engaging, user-friendly formats such as dashboard reports.

FINANCIAL AND HUMAN RESOURCES

Leaders must understand and optimize their organization's business model—that is, what drives revenue and expenses and how their nonprofit creates impact. Having a **sustainable business model** means resources are used in alignment with mission goals and that revenues reliably cover the full cost of operations.

Resilient nonprofits are appropriately capitalized. They have liquid financial reserves to buffer the organization against future uncertainty, as well as access to the financial capital necessary to fund investments for growth and change. We call this **capital for change and security**.

Finally, the most important resource in any organization are its people. Nonprofits that have a well-balanced and **effective leadership team** with diverse perspectives and skillsets are at a distinct advantage to nonprofits that operate with a solitary leader and are much more likely to achieve and maintain financial resilience.

Grants Management Lifecycle

There are three major phases in the Grants Management Lifecycle:

1. **Pre-Award:** This is the phase where the organization researches opportunities, ensures mission and program fit, reviews criteria, and ultimately decides on whether or not to pursue the award. During this phase, the organization will write the proposal, develop budgets, and collect any materials needed before submitting the proposal.
2. **Award Phase**: Once the organization is awarded a grant, they enter the Award phase. During this time, the organization should review and understand expectations related to the grant. If the organization confidently believes they can execute on the grant according to the proposal and budget, they will accept the grant.
3. **Post-Award Phase:** Once the grant has been awarded and accepted, the organization enters the Post-Award phase. During this phase, the work for the grant will be executed, and the organization will be responsible for managing the grant needs and compliance requirements. Post-award activities include staffing up the project, ensuring the organization is meeting performance and financial goals, tracking expenses, and tracking outcomes. Once the work is finished or the period of performance has ended, the organization will programmatically and financially close out your project

Grounding Concepts

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

A set of standards for financial accounting and financial reporting in the U.S., set and maintained by the Financial Accounting Standards Board (FASB). GAAP is widely followed by both public and private companies, including nonprofits, and is often a requirement of financial statement users in order to promote consistency and understandability of financial information.

CASH VS. ACCRUAL BASIS ACCOUNTING

Cash Basis Accounting

- Revenue is recorded when cash is received and usually call “cashed receipts”
- Expenses are recorded at the time they are paid and usually called “cash disbursements”
- Can be thought of as “check book” accounting

Accrual Basis Accounting

- Revenue is recorded when it is awarded or earned
- Expenses are recorded at the time they are incurred
- Allows organization to better understand their current financial position
- Required under Generally Accepted Accounting Principles (GAAP)
- Multi-year foundation grants

REVENUE TYPES

Without Donor Restrictions

Description: Contributions are free of donor restrictions on their usage

Examples:

- Foundation grants for general operations
- Individual, corporate and other contributions
- Performance-based contracts
- Fee for service revenue
- Investment income

With Donor Restrictions

Description: Contributions have donor-imposed restrictions and may be removed by (1) the passage of time and/or (2) an act of the organization. Revenue with donor restrictions subject to the passage of time or an act of the organization are reclassified as revenue without donor restrictions once the restriction has been met.

Examples:

- Foundation grants for specific programs
- Multi-year foundation grants

Introduction to Reporting

TYPES OF FINANCIAL REPORTS

INTERNAL REPORTS

Internal reports are internally produced documents shared with Board & Management on a regular basis. They typically include:

- Budget-to-Actual / Variance Report: a side-by-side comparison of the budgeted revenue and expense drivers against actual revenue and expense to date for the organization or a single program or grant
- Statement of Financial Position (Balance Sheet): a summary of the organization’s assets, liabilities, and net assets at a given point of time
- Statement of Activities (Income Statement or Profit & Loss): revenue and expense report which often details restricted vs unrestricted activities.
- Cash Flow Projection: a detailed breakdown of anticipated cash ins and outs, often projected out 6-18 months.
- Management Narrative: a written document highlighting challenges, opportunities, and risks to the financial health of the organization.

EXTERNAL REPORTS

These are reports typically shared with external stakeholders as required or at the discretion of the organization. For organizations that don’t produce an audit they will typically share the internally produced statements when needed.

- Independent Financial Audit: A written opinion on the presentation of the organization’s financial statements following a series of procedures by an independent professional accountant used to test, on a selective basis, transactions and internal controls in effect.
- IRS Form 990: The most publicly available document about an organization, this form is the information return for organizations exempt from income tax.
- Single Audit: A compliance requirement for organizations that spend over a certain amount ($750,000 until October 2024 at which time it will increase to $1M) that tests an organization’s adherence to the regulations in 2 CFR, Part 200, the Uniform Guidance.
- Funder Grant Reports: A standard method for funders to monitor both the performance and financial progress of the funds awarded.
- State Reporting: Some states impose a requirement to file financial audits or other reports with a state agency as a condition to operate and fundraise as a charitable organization in their state.

Common Internal Reports

BUDGET TO ACTUAL REPORTS

Budget to Actual reports show the "actual" spend against the previously set budget to help understand how the organization may be differing from planned spending.

Run Budget to Actual reports for:

a) organization

b) each program

c) each grant/contract

ABC After School Program

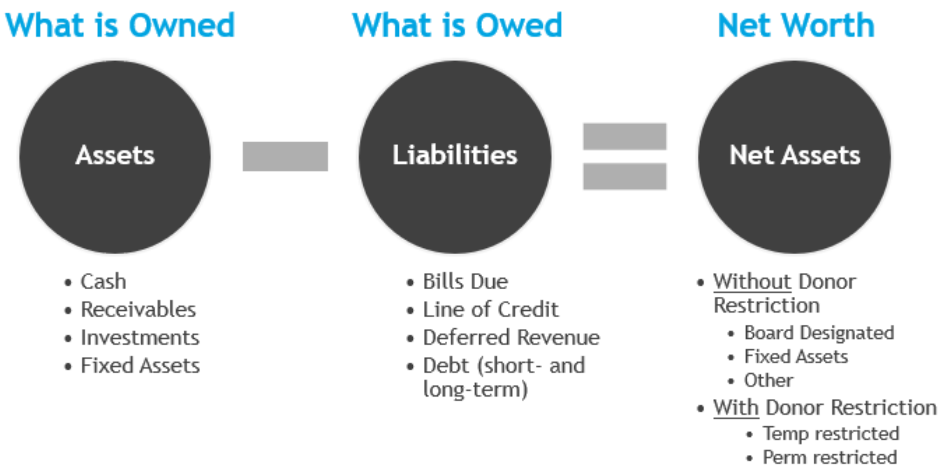
Sample PROGRAM Budget vs. Actual Revenues and Expenses

July 1, 2017 through April 30, 2018

	YTD Actuals Jul 1 - April 30	YTD Budget	Variance ($) (YTD Budget - YTD Actuals)	Total FY18 Budget	Remaining Budget
REVENUE					
Government Grants & Contracts	251,450	304,333	(52,883)	332,000	80,550
Foundation Grants	83,370	90,292	(6,922)	98,500	15,130
Individuals	1,500	1,833	(333)	2,000	500
Revenue from Program Fees	11,790	9,607	2,183	10,480	(1,310)
Donated Goods & Services	8,450	8,708	(258)	9,500	1,050
Total Revenue	**356,560**	**414,773**	**(58,213)**	**452,480**	**95,920**
EXPENSE					
Direct Program Expenses (Controllable)					
Salaries & Wages	228,992	270,771	41,779	295,386	66,394
Payroll Taxes & Benefits	68,698	81,231	12,534	91,795	23,097
Professional Services	27,500	28,580	1,080	31,178	3,678
Supplies & Materials	46,391	49,278	2,887	53,758	7,367
Staff Development	550	623	73	680	130
Travel	4,278	4,157	(121)	4,535	257
Conferences, Workshops & Meetings	2,190	1,925	(265)	2,100	(90)
Meals & Entertainment	998	1,192	194	1,300	302
Total Direct Expense	**379,597**	**437,757**	**(58,160)**	**480,732**	**101,135**
Shared Expenses (Non-Controllable)					
Supplies & Materials	7,290	9,855	2,565	10,751	3,461
Telephone & Communications	2,592	2,880	288	3,142	550
Postage & Delivery	439	382	(57)	417	(22)
Printing & Copying	879	860	(19)	938	59
Software, Technology & Website	2,648	685	(1,963)	747	(1,901)
Rent	5,126	5,126	0	5,592	466
Utilities, Janitorial & Security	1,840	1,766	(75)	1,926	86
Equipment Rental & Maintenance	1,498	1,249	(249)	1,363	(135)
Insurance (non-employee related)	946	827	(119)	902	(44)
Fees & Interest Expense	1,702	1,683	(19)	1,836	134

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

The Statement of Financial Position is a financial statement that reports the assets, liabilities, and net assets of an organization on a given date. In the audit, it reflects the accumulated operating results for the life of an organization.



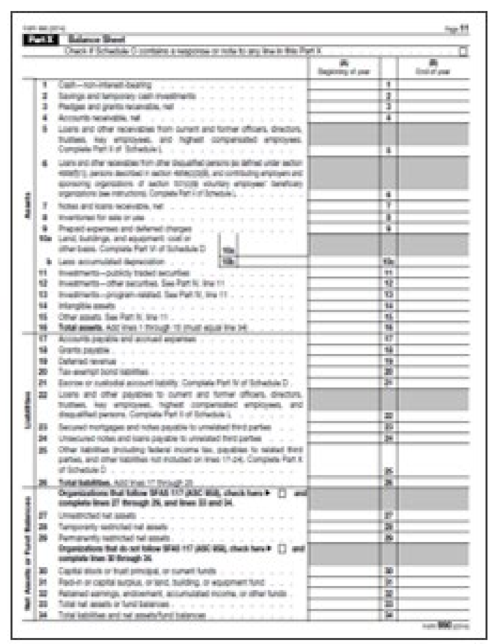
Statement of Financial Position

NONPROFIT ORG, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019 and 2018

ASSETS

	2019	2018
Assets:		
Cash	$274,139	$297,389
Pledges and contracts receivable	200,000	210,000
Prepaid expenses	17,000	22,000
Total Current Assets	491,139	529,389
Property and equipment, net of accumulated depreciation $27,505	39,393	64,393
Other Assets - security deposit	12,000	12,000
Total Assets	$542,532	$605,782
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 29,578	$140,054
Advances	51,300	78,500
Current portion of long-term debt	10,500	9,750
Total Current Liabilities	91,378	228,304
Long-term debt	160,744	170,494
Total Liabilities	252,122	398,798
Net Assets:		
Without donor restrictions	(38,427)	114,417
With donor restrictions	328,837	92,567
Total Net Assets	290,410	206,984
Total Liabilities and Net Assets	$542,532	$605,782

990: Balance Sheet (Part X)



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A **Property and equipment**, also referred to as fixed assets, are long-term assets such as a buildings that can not easily be converted into cash.

B **Total assets** are everything an organization owns such as cash, pledges receivable (e.g. pledges made but cash has not come in yet), and fixed assets. Assets are listed in order of liquidity with the most liquid (cash) on top.

C **Current portion of long-term debt** is any debt due within the next year, and **long-term debt** is debt beyond the next year. Examples include mortgages and loans.

D **Total liabilities** are everything an organization owes such as outstanding bills, funds received for services not yet performed, and debt.

E **Net Assets Without Donor Restrictions** are the difference between assets without donor restrictions and liabilities. Net assets without donor restrictions are an organization's equity. This number matches the Net Assets Without Donor Restrictions – end of year on the *Statement of Activities*.

F **Net Assets With Donor Restrictions** are equal to assets with restrictions as liabilities do not have restrictions.

G **Total Net Assets** are the difference between assets and liabilities. This value has limited use without understanding the restriction levels.

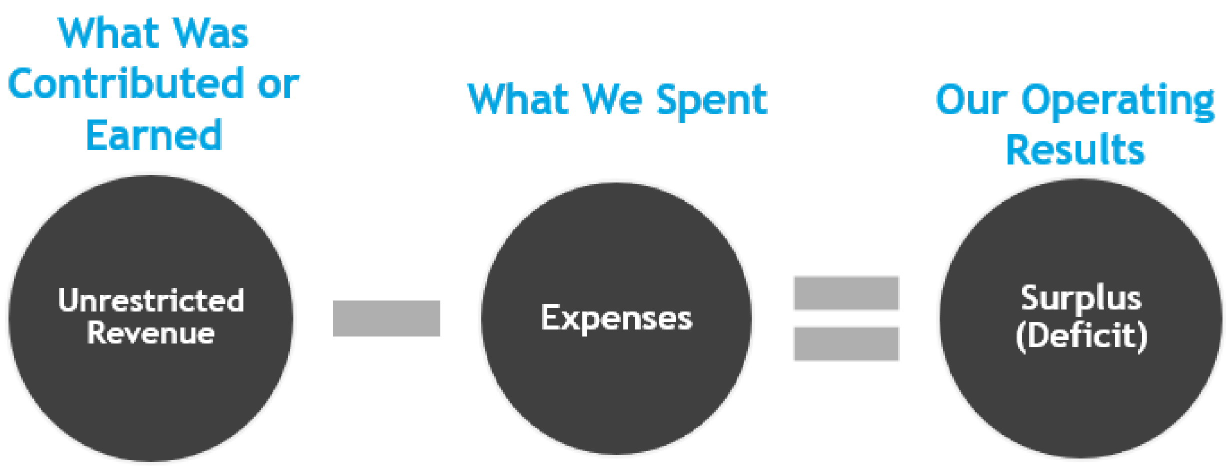
STATEMENT OF ACTIVITIES (INCOME STATEMENT OR PROFIT & LOSS STATEMENT)

The Statement of Activities is a financial statement that shows an organization's performance over a specific period of time. Key information in this report includes:

- Revenue by type and restriction, as well as what has been released from restriction
- Expenses by function
- Fiscal year *operating* results

OPERATING RESULTS

Operating Results measures the difference between the amount of revenue without donor restrictions an organization brings in and the amount it spends for one year. An **operating surplus** (positive number) means the organization brought in more than it spent. An **operating deficit** (negative number) means the organization spent more than it brought in.



NONPROFIT ORG, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 and 2018

	Without Donor Restrictions	With Donor Restrictions	Total 2019	2018
Revenue and support:				
Government contracts	$ 692,998	--	$ 692,998	659,650
Grants and contributions, non-government	188,760	559,100	747,860	834,982
Fundraising event	--	11,100	11,100	12,500
Satisfaction of program restrictions	A 333,930	(333,930)	--	
Interest income	3,915	--	3,915	4,578
Total revenue and support	B 1,219,603	F 236,270	1,455,873	1,511,710
Expenses:				
Program A	357,953	--	357,953	387,997
Program B	118,378	--	118,378	127,738
Program C	381,238	--	381,238	380,694
Program D	229,861	--	229,861	232,894
Total program expenses	1,087,430		1,087,430	1,129,323
Supporting Services				
Administrative and general	118,058	--	118,058	128,765
Fundraising	166,959	--	166,959	170,780
Total expenses	C 1,372,447	--	1,372,447	1,428,868
Change in net assets	D (152,844)	236,270	83,426	82,842
Net assets - beginning of year	114,417	92,567	206,984	124,142
Net assets - end of year	E $ (38,427)	$ 328,837	$ 290,410	$ 206,984

A **Satisfaction of program restrictions** (under the without donor restrictions column) is the amount of revenue that met donor restrictions (time and/or purpose) and was previously revenue with donor restrictions.

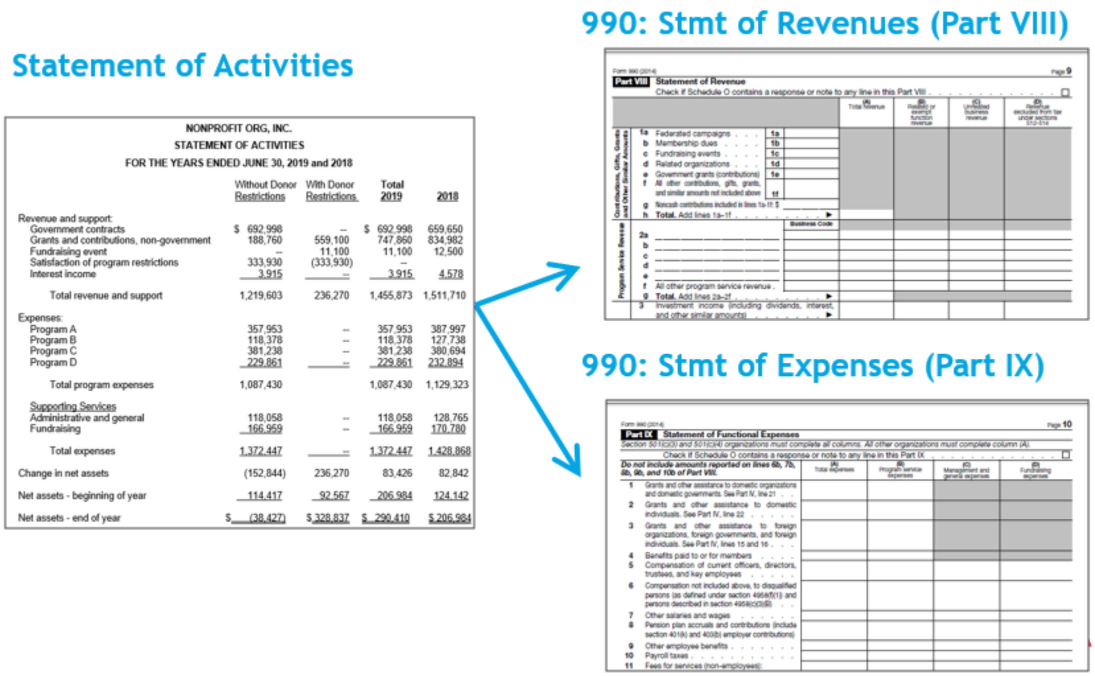
B **Total revenue and support without donor restrictions** is the amount of revenue that was available to use. It includes any revenue released from restriction, where the donor restrictions (time and/or purpose) were met.

C **Total expenses** are all expenses for the year. Expenses are not restricted.

D **Change in net assets without donor restrictions** (negative $153K in this case) is the amount of surplus or deficit during the time period. This is the organization's operating results.

E **Net assets without donor restrictions – end of year** is the total net assets without donor restrictions accumulated during the life of the organization. This number matches the Net Assets Without Donor Restrictions on the *Statement of Financial Position*.

F **Revenue with donor restrictions** is the amount of revenue pledged within the timeframe that has not met donor restrictions (time and/or purpose).



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CASH FLOW PROJECTION

A cash flow budget or forecast is a 6 to 18-month plan for cash disbursements and receipts, month by month, incorporating both operating and capital requirements. The forecast should include a clear indication when cash will be received and disbursed regardless of when revenue and expenses will be recognized on an accrual basis. Cash flow forecasts should include cash inflows and outflows which are not in the operating budget like the purchase of fixed assets and utilization or repayment of debt.

Using the starting cash position, this budget can predict the likelihood of a cash shortfall in specific months. The position would need to be shored up using reserves or a credit line. The budget can also predict months when there is excess cash. This could be a good time for taking on expenses which have a flexible timeframe.

Even an organization which plans for a healthy surplus in its annual budget and has a several months of cash-in-hand, can have a cash crunch if the revenue and expenses are very low or very high, respectively, in some months.

Financial Monitoring Best Practices

Internal financial reports should present information in a way that addresses the needs of the end-user, including the leadership team, board members, program directors and/or other department managers. This is best accomplished by including stakeholders in the design of reports. Reports should be distributed on a regular basis (i.e., monthly) and ideally should inform decision-making at all levels of the organization.

DESIGNING EFFECTIVE FINANCIAL REPORTS

Financial reports should be designed to:

- **Meet the needs of the intended audience**. Think about what information is important for the intended audience to know and what decisions they should consider. As an example, the board should have a big-picture view of the financial results. Insignificant line-item variances could steer conversation into operations territory. Instead of sharing detailed line-items (e.g. electricity) roll up items into categories that provide a more strategic view (e.g. facilities). Where needed, additional information can be provided at the line-item level.
- **Deliver information in a user-friendly format**. If you have to tape together multiple printouts to read the financials, there is likely too much information being presented at once. Even small design elements, such as formatting the report to print on a page, can go a long way for users. Instead of making the main points a game of hide and seek, use graphs and colors to highlight the most important numbers and/or trends.
- **Use categories and captions that make sense and are consistent across the organization**. List items on the Balance Sheet and Statement of Activities (or budget vs actuals) with labels that are descriptive and meaningful. If there are often questions about what a line item includes, the name may not represent the activity. When something like earned revenue is called out on one report but included as part of "other" on another report, it can create confusion about what is included when.
- **Separate controllable from non-controllable costs**. Budget owners should be able to take action based on financial reports. If a program manager has a report with a program expenses in the same line, it is unlikely to be useful since that is likely the only line the individual can control.

Example: Controllable vs Non-Controllables Expenses for Programs

Expenses Program Staff Typically Do Not Control	Expenses Program Staff Typically Control
• Rent • Utilities • Telephone expense • Other "shared" expenses allocated to program	• Transportation for participants • Consultants/contracted professionals delivering program services • Food for participants • Program supplies • Travel expenses for program staff

- **Compare against where you want to be**. Reports containing information on revenue and expense should show results for the current period in the context of key points of comparison, such as:
  - Amounts budgeted for the same period
  - Actual results from the same period a year earlier
  - Projection for the end of the year

FINANCIAL REPORT TIMING

Balance timeliness with the expectation of accuracy, which is a trade-off. Timely reports are important to make operational decisions and ensure proper coding. However, if the goal is to achieve 100% accuracy and prepare a mini-audit every month, reports will likely not be timely. Set expectations for the level of accuracy—using estimates where appropriate—in the spirit of timeliness.

Leadership should ensure that roles and responsibilities in the process of reviewing, analyzing, and communicating financial information are understood by all involved and that financial reports are designed to best facilitate this process.

IDENTIFYING COMPLIANCE REQUIREMENTS

Compliance requirements can come from various sources, often requiring additional time and resources to meet these requirements. Often, reporting is a requirement for all different entities. For passthrough funding, each subsequent entity can also add additional requirements on the funding, thus requiring additional time and resources to meet all compounding requirements. Compliance comes from various sources:

- Funding Sources (Federal Agencies, State Agencies, Local Municipalities)
- Pass-Through Entities: Funding organizations that pass federal funding to other organizations
- Organizational Policies: Often reflected in a Policies and Procedures Manual

The basis for compliance requirements for Federal funding comes from the **Uniform Guidance: 2 CFR, Part 200.** The Uniform Guidance informs Federal agencies on how to manage their grants under the law and also informs funding recipients what the obligations are for accepting Federal funds.

USING FINANCIAL REPORTS TO ANALYZE RESULTS

When analyzing reports, the end-user should determine whether differences between budgeted and actual results are driven by true variances, as opposed to timing differences. In the process of reviewing financial reports, key representatives from Executive, Programs, Development, & Finance teams should:

- Identify problem areas
- Determine action steps
- Assign responsibilities and a timeframe for carrying out any corrective action

Members of the finance team should schedule **regular meetings (monthly or quarterly)** to review and discuss reports with end-users, focusing on:

Backward Looking Information	Forward Looking Information
• Budget to Actual Variances • Rate of spending on contracts (if applicable) • Completion of activities funded by restricted grant	• Cash flow projections • Revenue Projections and pipeline • Anticipated future spending and/or cost control efforts

Financial Decision Making Meetings Action Steps

- **Form the team:** Includes key representatives from Finance, Program, Development, Executive Leadership and other departments
- Establish a **meeting calendar** with specific dates, times, and topics for discussion/decision
- Ensure the **right data and reports** are available 2-4 days prior to the meeting for review by participants
- Take note of **agreed-upon action steps** and circulate immediately after the meeting

Reviewing Financial Reports: Questions to Ask

Balance Sheet

- **LUNA:** what are available LUNA balances to provide flexibility?
- **Restricted Net Assets Balances:** what is the balance of temporarily restricted net assets compared to unrestricted net assets?
- **Unrestricted Net Asset Change:** are operations generating surplus or deficits? Are deficits planned or unplanned?

Budget vs Actuals

- **Revenue**: what is the composition of revenue by source?

Cash Flow Report

- **Cash Balance**: is there enough cash to cover daily operations?

Contract Management Report

- **Contract Spend Down**: how much funds are remaining to be spent down, and by when?

PROGRAMMATIC VS. FINANCIAL MONITORING

PROGRAMMATIC	FINANCIAL
▸ Milestone targets to meet ▸ Deliverables owed ▸ Collection of data elements ▸ Formative and/or summative evaluations ▸ Interim and annual progress reports	▸ Budget vs. actuals ▸ Expenses through reporting period ▸ Cash flow projections ▸ Drawdown amounts ▸ Consistent review of expenses

External Reporting

ANNUAL FINANCIAL AUDIT

A series of procedures performed by an independent CPA to obtain reasonable assurance in order to express an opinion about whether the organization’s financial statements are free from material misstatement (in accordance with the stated reporting framework).

Requirements to undertake an audit vary from state to state. *See* the **National Council of Nonprofits’ Audit Guide** for regulations for all 50 states: www.councilofnonprofits.org/nonprofit-audit-guide.

Elements of the audit:

- Financial statements:
    - Statement of Financial Position (Balance Sheet)
    - Statement of Activities (Income Statement)
    - Statement of Functional Expenses
    - Statement of Cash Flows
- Other Elements:
    - Opinion Letter: Standard letter in all audits stating the role of the management and auditor, as well as the auditor’s “opinion” of the organization’s financial management
    - Notes: Additional information at the end of the audit providing further context and information
    - Management Letter: Optional letter issued by the auditor outlining concerns or questions that may have come up during the audit

THE IRS FORM 990

An information return for organizations exempt from income tax which provides the IRS and state charity agencies information to assisted them in enforcing the laws government nonprofits.

All nonprofits with revenue over $50,000 must submit the 990 or 990EZ.

CONSIDERATIONS AROUND TIMELY SUBMISSION

Both the audit and 990 are important external documents that present your organization to the public. Some funder or other external parties may look at the timeliness of the documents as an indicator of your fiscal infrastructure.

If your organization undergoes an annual audit by an independent CPA, is it completed within 4-6 months of the close of the fiscal year? Why or why not?

How far after your fiscal year end is your Form 990 completed? What contributes to any challenges around the timeline, if any?

GRANT-RELATED EXTERNAL REPORTING AND MONITORING

Both private and government funders will monitor how their grantees spend funds as well as meet the intended goals of the funding and will usually ask for reports on a pre-determined schedule such as monthly, quarterly or annually. These are some examples of reports that may be required or encouraged when accepting certain grants.

- Financial programmatic reports: Helps to track and monitor progress against the goals and outcomes of the project.
- FFATA (Federal Funding Accountability and Transparency Act): Disclosure to the public of all entities receiving public funds.
- Site Visit/Desk Reviews: Funders may conduct these to assess compliance to the Uniform Guidance and contract terms & conditions. Funders also can take this opportunity to provide technical assistance.
- Single Audit: Provides assurances to funders, the public, and the government that grantees comply with and is stewarding public dollars according to the Uniform Guidance.

Award contracts may sometimes include other terms and conditions that organizations may need to prove or show that they have complied. Be sure to read contracts carefully for these other requirements that may appear as part of an external monitoring activity. Some examples may include:

- A financial audit of Contractor's performance **conducted at County’s (or other funders’) discretion**.
- County (or other funder), during the term of the Agreement, having access, for the purpose of audit or inspection, to any and all books, documents, papers, records, property, and premises.
- Acknowledgement of a funder’s contribution on published materials.

SUBRECIPIENT MONITORING RESPONSIBILITIES

A subrecipient is an entity that receives a subaward from a pass-through entity to carry out part of a Federal award. A Federal agency may give a grant to one entity, who then grants some of those dollars out to other entities. The downstream entity becomes the “subrecipient”.

If you are subgranting these federal funds to other organizations, the Uniform Guidance requires you, as the subgranting entity, to monitor your subsequent subrecipients since you are now acting as a funder.

Key monitoring activities often required of funders include:

- Subrecipient/contractor determination
- Suspension and debarment review
- Subrecipient risk assessment
- Contracting and communication of award information
- Monitoring and oversight
- Closeout procedures

Preparing for the Single Audit

SINGLE AUDIT REQUIREMENTS

Auditees are responsible for procuring audit services and preparing financial statements, including the Schedule of Expenditures of Federal Awards (SEFA). The auditee must be committed to promptly following up and taking corrective actions depending on audit findings, and provide the auditor with access to personnel, accounts, books, records, supporting documentation, and other information needed for the auditor to perform the audit.

WHO IS RESPONSIBLE FOR THE SINGLE AUDIT?

Per the Uniform Guidance, 2 CFR, Part 200.501: Audit Requirements, organizations that spend $750K or more of federal funds during a fiscal year are required to complete a single audit. Note that after October 2024, the requirement for a Single Audit will impact those organizations that spend at least $1M. The terms in the award will give specific guidance if this change applies to an award made prior to October 2024.

Also remember that other funders or States may have a different threshold or require an audit as part of the conditions of accepting the funds.

PURPOSE OF THE SINGLE AUDIT

The Single Audit helps to ensure that the recipient of federal funds has adequate controls and is compliant with the program requirements. This proves to the Federal Government and the public that the funds are being stewarded correctly. By knowing how the Single Audit is performed, what is asked, and what needs to be provided, it can be used as a roadmap to ensure compliance. As the Single Audit includes both a financial statement audit and a compliance audit, it is usually coordinated when the year-end financial statement audit is performed.

TIMING OF THE SINGLE AUDIT

- Potential interim testing (not common for small to mid-sized organizations):
  - 6 to 9 months after the start of the fiscal year
  - Gives auditors an early view of entity’s financial statements, areas for testing, and what to expect for year end
- Year-end testing:
  - After the fiscal year is closed
  - Covers the remaining months if interim testing was performed
  - Generally conducted alongside regular financial statement audit
- The Single Audit report needs to be completed and submitted to the federal government within the earlier of a) 30 calendar days after receipt of the auditor’s report, or b) 9 months after the end of the audit period

WHAT TO EXPECT

- Management should review everything before providing it to the auditors. This gives the organization an opportunity to correct an issue or determine the sequence of events and a response.
- Ask auditors to clarify what exactly they are trying to review or why they are requesting certain items. Sometimes what the auditors ask for may be called something different than what you use in your normal daily operations, and what they ask for might not be what they need to test
- You will spend a lot of time responding to many questions from auditors.
- Management is given a chance to explain and provide context for the information you provide them. This is a way to build a rapport with them and help them learn more about your organization.

Two overarching questions to keep in mind during a Single Audit:

- Can the financial information presented to regulators and others be independently verified?
- Is the entity compliant with the Uniform Guidance and program requirements?

COMPLIANCE AREAS TESTED DURING A SINGLE AUDIT

Each auditing firm will have their own protocols and methods for conducting a Single Audit, but the Federal government provides guidance to firms for what they should test and the goals for testing for each compliance area. These are found in Appendix XI of the Uniform Guidance.

- **Allowable costs**
  - Were expenses incurred for allowable activities?
  - Were all direct expenses allowable?
  - Were all indirect expenses incurred in accordance to Uniform Guidance's negotiated rate agreement or other specific award conditions?
- **Cash management**
  - For advance payments, did minimal time elapse between the transfer of Federal funds and the disbursement by the organization?
  - For reimbursement payments, were all costs paid prior to the date of the reimbursement request?
- **Eligibility**
  - If there were eligibility requirements for individual program participants or groups of participants for Federal funds, were those determinations made?
  - Were amounts provided to eligible participants calculated according to program requirements?
  - If subawards were made, were they made only to eligible subrecipients?

- **Equipment and real property management**
  - Does the organization maintain proper records for equipment and adequately safeguard and maintain the equipment?
- **Matching, level of effort and earmarking**
  - Matching: Was the minimum amount or percentage of matching funds met?
  - Level of effort: Were specified service or expenditure levels maintained?
  - Earmarking: Were minimum or maximum limits for specified purposes or types of participants met?
- **Period of performance**
  - Was the Federal award only charged for a) allowable costs incurred during the period of performance or b) any pre-award spending allowed by the Federal funding agency or pass-through entity?
- **Procurement and suspension and debarment**
  - Were any procurements made in compliance with the applicable Federal regulations or other procurement requirements specific to the award?
  - Did the organization verify that entities paid with Federal funds were not suspended, debarred or otherwise excluded?
- **Program income**
  - Was program income correctly determined, recorded, and used per the award terms or other requirements?
- **Reporting**
  - Ensure all reports for Federal awards:
    - Include all activity of the reporting period
    - are supported by accounting or performance records
- **Subrecipient monitoring**
  - Did the pass-through entity identify the subaward and applicable requirements at the time of the subaward?
  - Did the pass-through entity monitor the subrecipient activities to provide reasonable assurance that the subrecipient administered the subaward in compliance with the terms and conditions of the subaward?

Because each funding program will have specific terms and conditions, auditors will determine if there are additional compliance requirements that must be met that are outside the above-listed areas. Auditors will design a test specific to that requirement and determine an organization’s compliance to that term and condition.

SIX COMMON MISTAKES MADE BY ORGANIZATIONS

1. Not understanding all the funding requirements
2. Working with inexperienced auditors
3. Cost allocation issues
4. Insufficient internal control design and execution
5. Lack of documentation
6. Inadequate subrecipient monitoring

Activity: Interpreting Variance Reports

BACKGROUND

You are the Program Director for ABC After School Program. After the month close for May 2018, you received the following Budget vs Actual (Variance) Reports from your Finance lead in preparation for a discussion. With two months left on the grant for the program, you have an opportunity to submit one final budget modification, if needed.

QUESTIONS

How do you feel about these reports? Are things going well? Do you see any concerns? How can you prepare for meeting with the finance lead? Some questions to consider include:

- How does actual revenue compare to budgeted (for the program and the grant)?
- How does actual expenses compare to budgeted (for the program and the grant)?
- Is there a connection between the trends in revenue and expenses?
- What line items show the largest variances?
- Are any variances surprising?
- What options might you have as you consider a budget modification?
- Are there any changes you could make without a budget modification needed?

ABC After School Program

Sample PROGRAM Budget vs. Actual Revenues and Expenses

July 1, 2017 through May 31, 2018

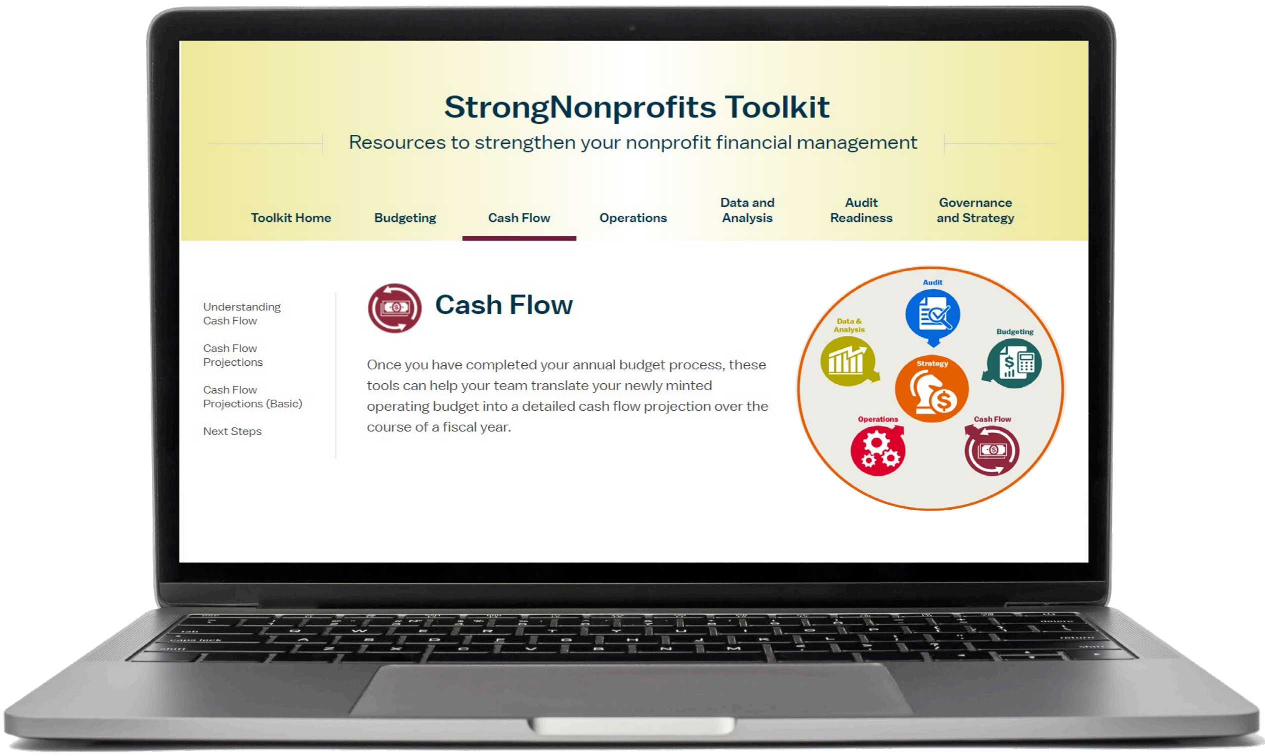
	YTD Actuals Jul 1 - April 30	YTD Budget	Variance ($) (YTD Budget - YTD Actuals)	Total FY18 Budget	Remaining Budget
REVENUE					
Government Grants & Contracts	251,450	304,333	(52,883)	332,000	80,550
Foundation Grants	83,370	90,292	(6,922)	98,500	15,130
Individuals	1,500	1,833	(333)	2,000	500
Revenue from Program Fees	11,790	9,607	2,183	10,480	(1,310)
Donated Goods & Services	8,450	8,708	(258)	9,500	1,050
Total Revenue	**356,560**	**414,773**	**(58,213)**	**452,480**	**95,920**
EXPENSE					
Direct Program Expenses (Controllable)					
Salaries & Wages	228,992	270,771	41,779	295,386	66,394
Payroll Taxes & Benefits	68,698	81,231	12,534	91,795	23,097
Professional Services	27,500	28,580	1,080	31,178	3,678
Supplies & Materials	46,391	49,278	2,887	53,758	7,367
Staff Development	550	623	73	680	130
Travel	4,278	4,157	(121)	4,535	257
Conferences, Workshops & Meetings	2,190	1,925	(265)	2,100	(90)
Meals & Entertainment	998	1,192	194	1,300	302
Total Direct Expense	**379,597**	**437,757**	**(58,160)**	**480,732**	**101,135**
Shared Expenses (Non-Controllable)					
Supplies & Materials	7,290	9,855	2,565	10,751	3,461
Telephone & Communications	2,592	2,880	288	3,142	550
Postage & Delivery	439	382	(57)	417	(22)
Printing & Copying	879	860	(19)	938	59
Software, Technology & Website	2,648	685	(1,963)	747	(1,901)
Rent	5,126	5,126	0	5,592	466
Utilities, Janitorial & Security	1,840	1,766	(75)	1,926	86
Equipment Rental & Maintenance	1,498	1,249	(249)	1,363	(135)
Insurance (non-employee related)	946	827	(119)	902	(44)
Fees & Interest Expense	1,702	1,683	(19)	1,836	134
Depreciation	2,762	2,883	121	3,145	383
Other Expenses	175	194	19	212	37
Total Shared Expenses	**27,897**	**28,390**	**(493)**	**30,971**	**3,074**
Total Expenses	**407,494**	**466,147**	**(58,653)**	**511,703**	**104,209**
Excess (or Deficiency) of Revenue over Expenses	**(50,934)**	**(51,373)**	**439**	**(59,223)**	**(8,289)**

ABC After School Program
Sample CONTRACT Budget vs. Actual Revenues and Expenses July 1, 2017 through May 31, 2018

	YTD Actuals Jul 1 - May 31	YTD Budget	Variance ($)	Total FY18 Budget	Remaining Budget
REVENUE					
Government Grants & Contracts	251,450	304,333	(52,883)	332,000	80,550
Total Revenue	**251,450**	**304,333**	**(52,883)**	**332,000**	**80,550**
EXPENSE					
Direct Program Expenses (Controllable)					
Salaries & Wages	146,187	185,167	38,980	202,000	55,813
Payroll Taxes & Benefits	43,856	55,550	11,694	60,600	16,744
Professional Services	5,163	5,500	337	6,000	837
Supplies & Materials	32,250	35,750	3,500	39,000	6,750
Staff Development	0	0	0	0	0
Travel	0	0	0	0	0
Conferences, Workshops & Meetings	0	0	0	0	0
Meals & Entertainment	0	0	0	0	0
Total Direct Expense	**227,456**	**281,967**	**54,511**	**307,600**	**80,144**
Shared Expenses (Non-Controllable)					
Supplies & Materials	7,862	7,333	(529)	8,000	138
Telephone & Communications	2,368	2,292	(76)	2,500	132
Postage & Delivery	467	348	(119)	380	(87)
Printing & Copying	682	614	(68)	670	(12)
Software, Technology & Website	745	550	(195)	600	(145)
Rent	3,758	3,758	0	4,100	342
Utilities, Janitorial & Security	1,576	1,283	(293)	1,400	(176)
Equipment Rental & Maintenance	1,248	917	(331)	1,000	(248)
Insurance (non-employee related)	779	779	0	850	71
Fees & Interest Expense	1,295	1,283	(12)	1,400	105
Depreciation	3,025	3,025	0	3,300	275
Other Expenses	189	183	(6)	200	11
Total Shared Expenses	**23,994**	**22,367**	**(1,627)**	**24,400**	**406**
Total Expenses	**251,450**	**304,333**	**(52,883)**	**332,000**	**80,550**
Excess (or Deficiency) of Revenue over Expenses	**(0)**	**(0)**	**(0)**	**0**	**0**

Resources

STRONGNONPROFITS.ORG



In collaboration with the Wallace Foundation, BDO has created a library of tools and resources to help organizations become "fiscally fit"

For a 15-minute, on-demand webinar tour of the site: StrongNonprofits.org

Appendix

QUICKBOOKS TIPS FOR EASIER REPORTING

The setup of your accounting software plays a critical role in being able to produce timely, usable reports that meet stakeholder needs. While QuickBooks is commonly used in the nonprofit sector, it is not a fund accounting package. Therefore, tracking restricted funding in QuickBooks is a manual process. Additionally, it uses for-profit terminology (e.g. customer, sales, etc.) which means that the set-up and financial reporting require some customization and/or translation.

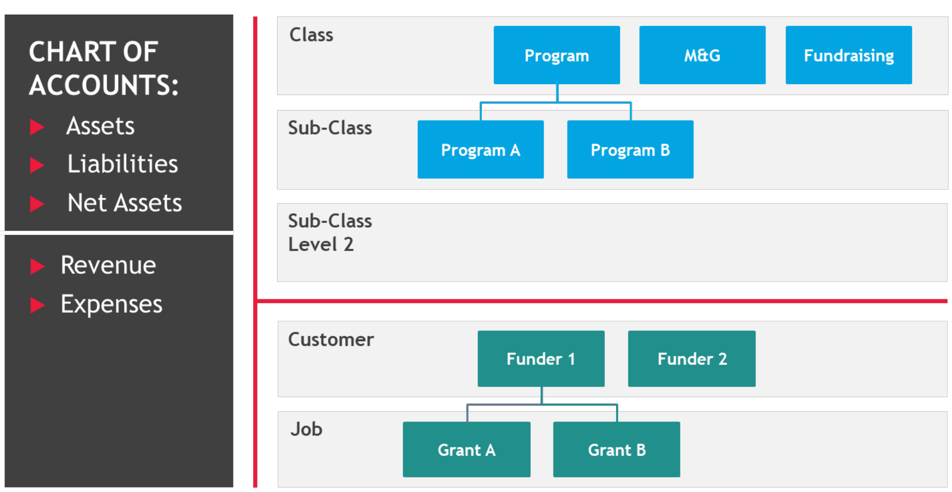
Structure

The below is a recommend way to track revenue and expense in QuickBooks. This structure is applicable to various QuickBooks versions includes PC desktop, Mac desktop and QuickBooks Online.

Chart of Accounts: Includes assets, liabilities, net assets, revenue, and natural expense categories. (Refer to the Unified Chart of Accounts, for a best practice format for nonprofits - http://www.notforprofitaccounting.net/wp-content/uploads/2008/08/ucoa.pdf). Header accounts can be used to more easily run rolled-up reports.

The Chart of Accounts should have as few as possible repeating items if the dimension can be captured elsewhere. For example, it is not necessary to have a "salary" expense for each and every program/function (e.g. Salary – Program A, Salary – Fundraising). Instead, the programs/functions can be setup as classes and reports can be run with and without the class dimension.

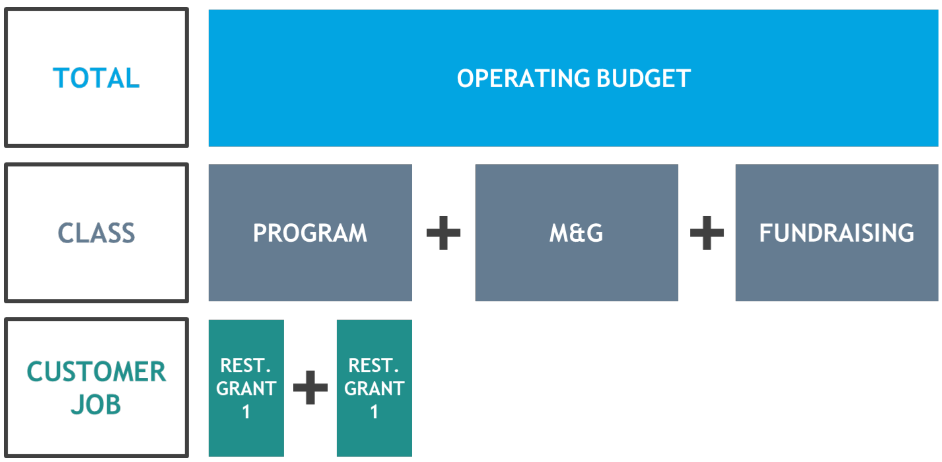
Class/Subclass: Programs/Functions can be setup as classes. Subclasses can be used if needed. **Customer/Job**: Funding sources can be identified as "customers" and specific grants and/or contracts with line-item budgets can be listed as "jobs" under the customer



Budgets

Entering budgets into QuickBooks facilitates easier budget-to-actual reporting. There are three types of budgets in QuickBooks, which are all independent of one another:

- Budget by revenue and natural expense category (operating budget)
- Budget by Class/SubClass
- Budget by Customer/Job



About BDO

BDO's Nonprofit and Grantmaker Advisory Practice exists to build a community of individuals with the confidence and skills to lead organizations that change the world.

As of 2021, FMA has become a part of BDO USA. With this new relationship, we augment FMA's empathetic approach to meeting clients where they are with the significantly broader range of accounting, advisory and consultative services for which BDO USA is known.

BDO's Nonprofit and Grantmaker Advisory Practice provides expert fiscal management staff and capacity-building technical assistance, including organizational consultation and training, using an approach tailored to individual organizations and their specific needs. The group serves nonprofit organizations and funders, empowering them to effectively manage their resources, improve operations, and position themselves for stable, long-term growth.

The following is an outline of services that BDO can provide:

Our Services	
Fiscal Infrastructure Review	Assistance with developing the internal fiscal staffing, systems and processes to support the financial complexity of your programs and operations.
Financial Advisory Services	Support to your organization's leaders in understanding and making decisions on critical financial issues, including business modeling, budgeting, cash management, creating dashboards, and strategic planning.
Internal Controls Consulting	Assistance with defining staff roles and responsibilities to ensure internal controls that protect your organization's resources and meet contemporary auditing standards. We can also work with you to document this control structure in a customized fiscal policies and procedures manual.
Accounting System Implementation	Designing, installing, and training on the most widely used accounting software programs available for nonprofit organizations.
HR Consulting	Help with minimizing risk by ensuring policies, documents and practices are compliant with government regulations, create efficiencies by implementing best practices through available technology and achieve excellence by hiring and retaining top quality fiscal staff.
Outsourced Fiscal Management Services	Management of the full range of your organization's accounting and financial management tasks on an outsourced basis, including providing support for the annual financial audit.