

# To Require an Audit or Not Require an Audit? That is the question!

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Data Collected by  
Community Services Fund of Nebraska  
Spring/Summer 2011

# Purpose and collection of the data

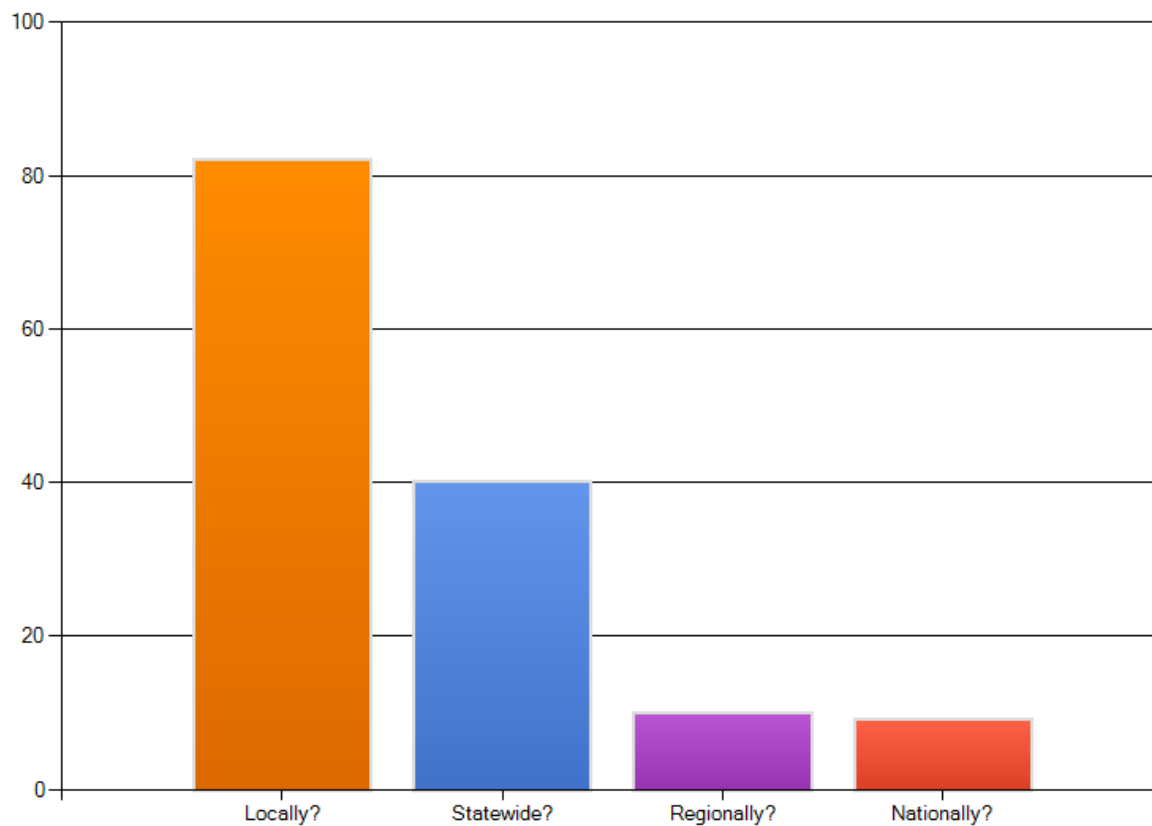
- Community Services Fund of Nebraska is attempting to gain a better understanding of non-profit organizations and their decisions about conducting annual independent financial audits.
- Conducted three separate surveys:
  - Sent Survey Monkey™ request to non-profits through Human Services Federation in Lincoln, Non-Profit Association of the Midlands and Nebraska Children and Families Foundation.
  - Sent a second Survey Monkey™ request to local funders through the Lincoln Funders Group and a less structured Funders Group that meets in Omaha area.
  - Sent a third Survey Monkey™ request to local auditors through CSF Member Agencies and vendors and asked auditors to self refer to their colleagues.

# Survey Collection Totals

- Non-profit survey = 139 Started, 122 Completed
- Funders survey = 17 Started, 12 Completed
- Auditors = 9 Started and Completed

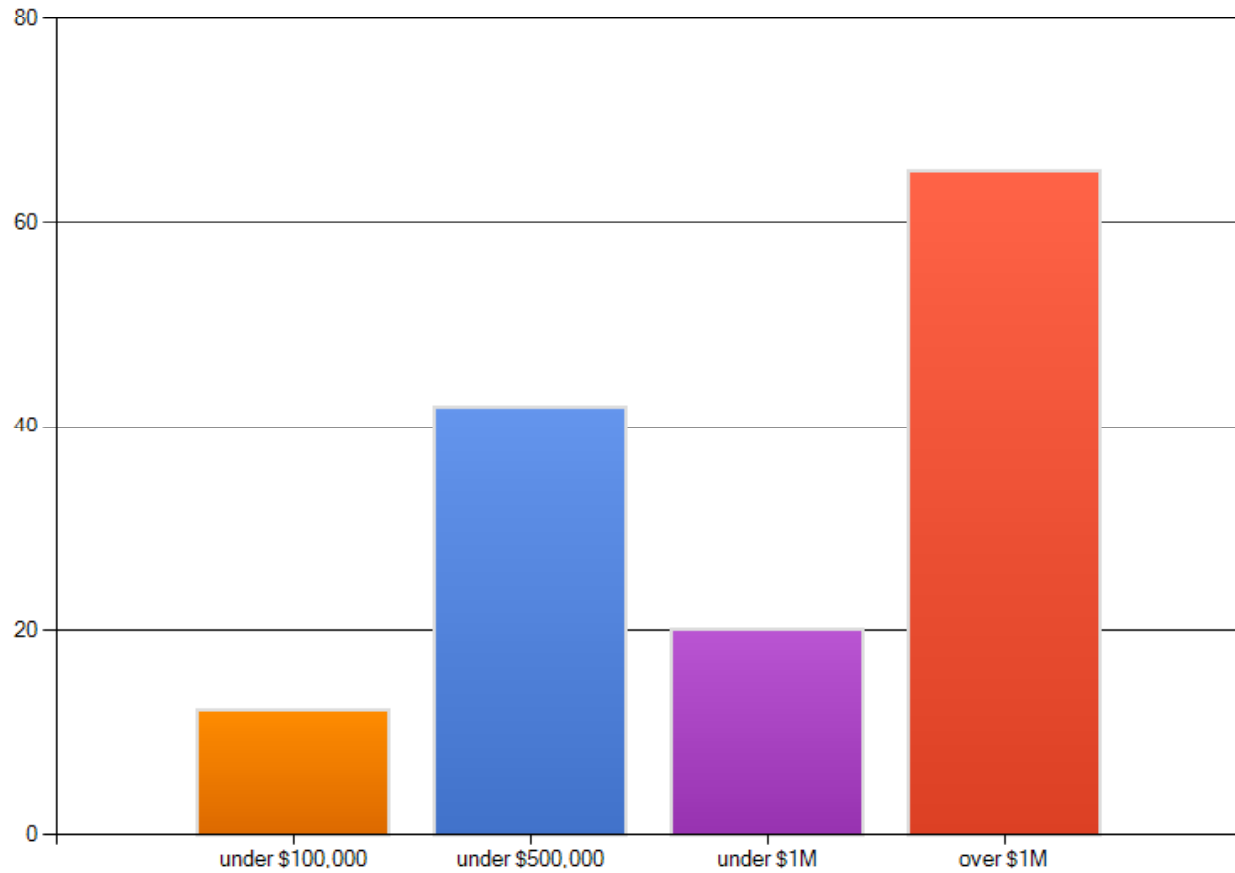
# Summary of the Data (Non-Profits)

Does your nonprofit organization operate primarily



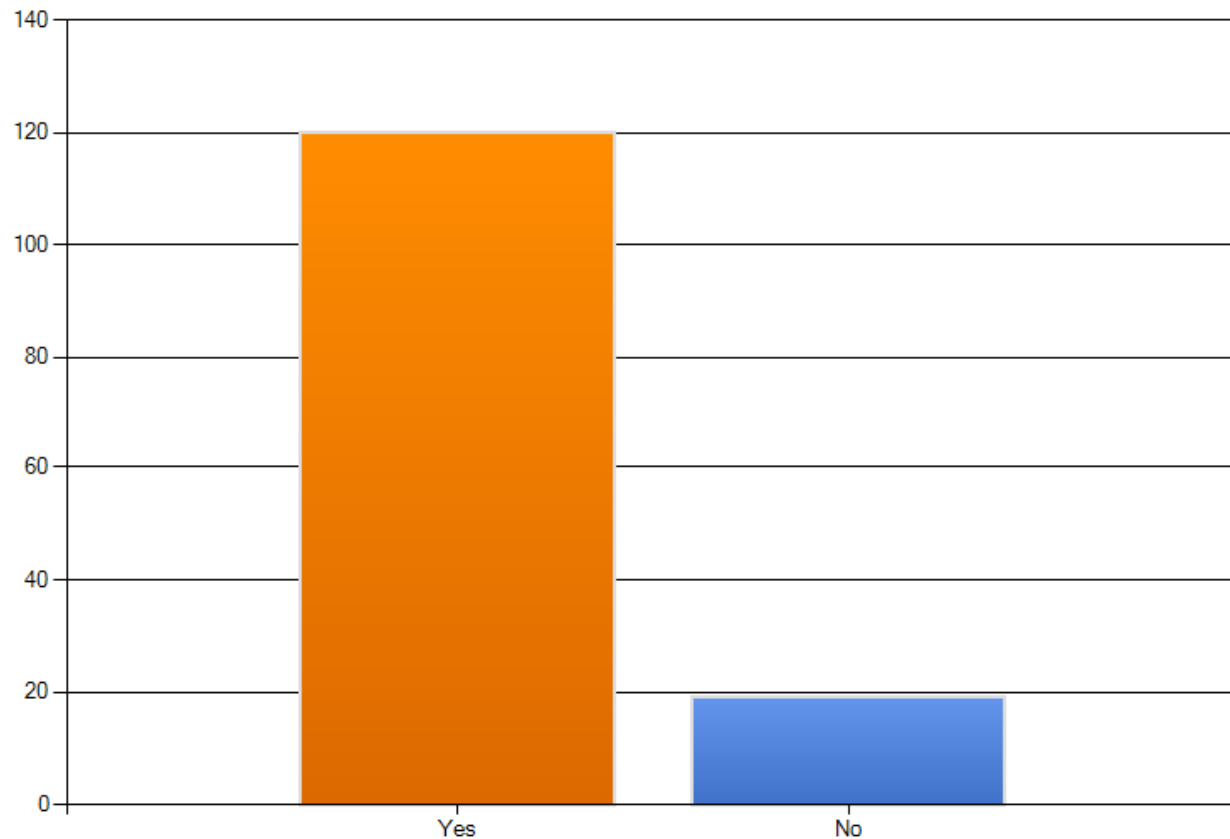
# Summary of the Data (Non-Profits)

What is the annual budget of your organization?



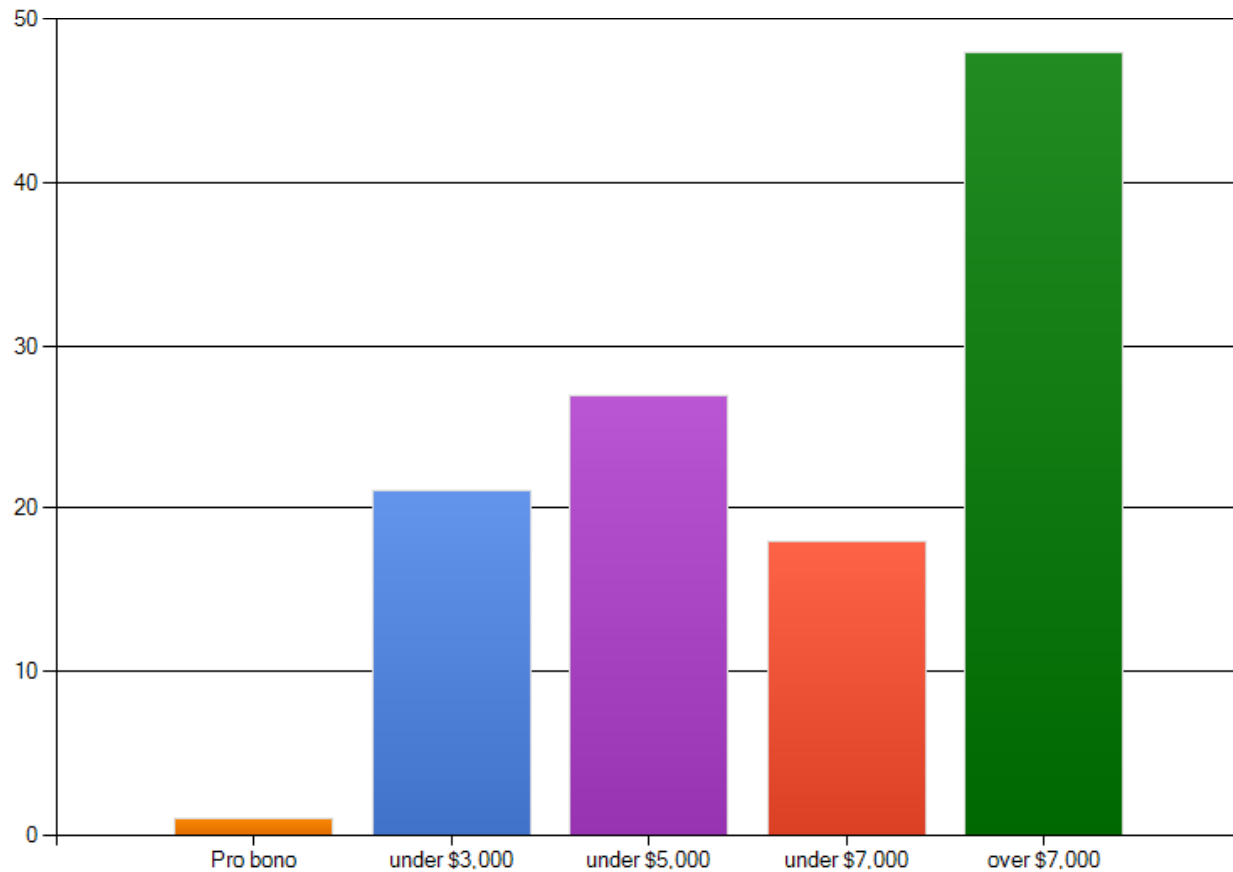
# Summary of the Data (Non-Profits)

Did your organization conduct or do you plan to conduct an independent financial audit of the most recent fiscal year?



# Summary of the Data (Non-Profits)

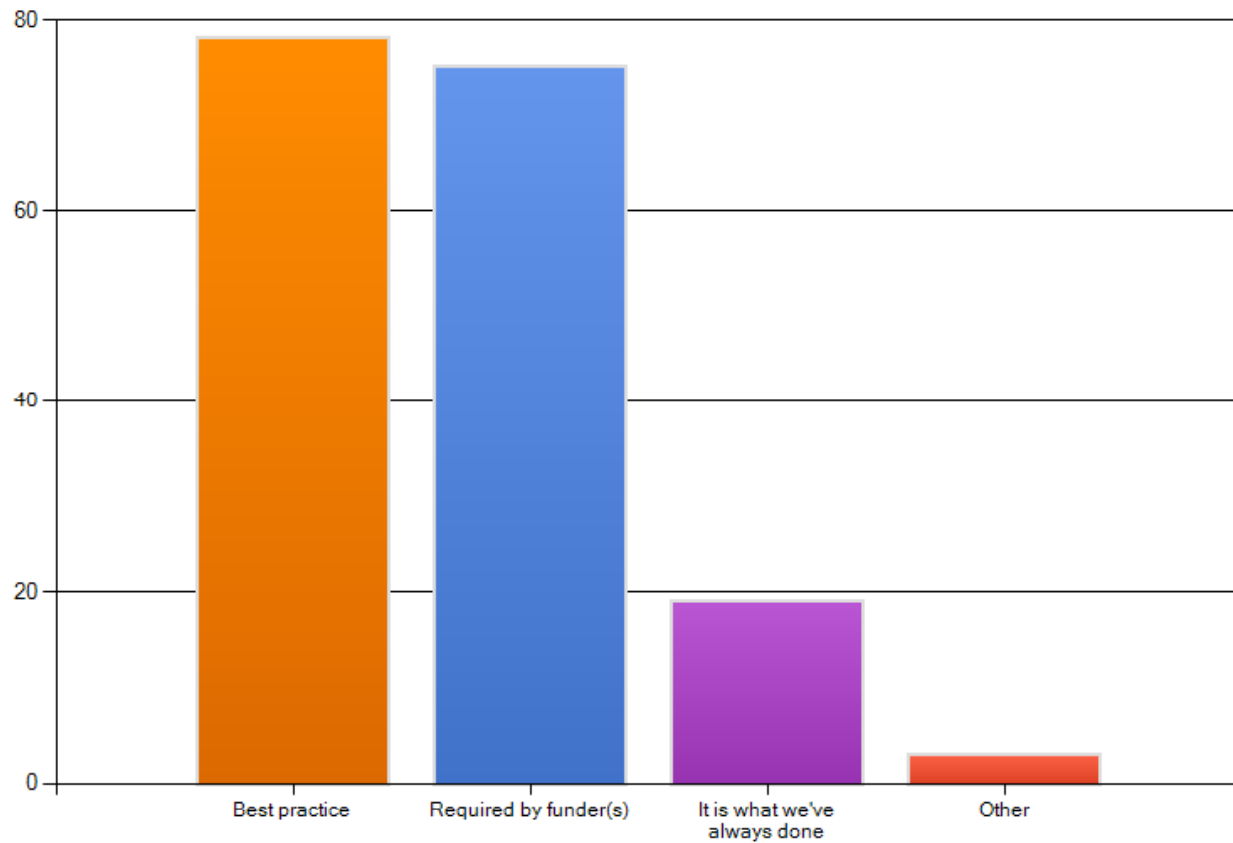
What is/was the cost of your agency's most recent financial audit?



# Summary of the Data (Non-Profits)

(Could select more than one)

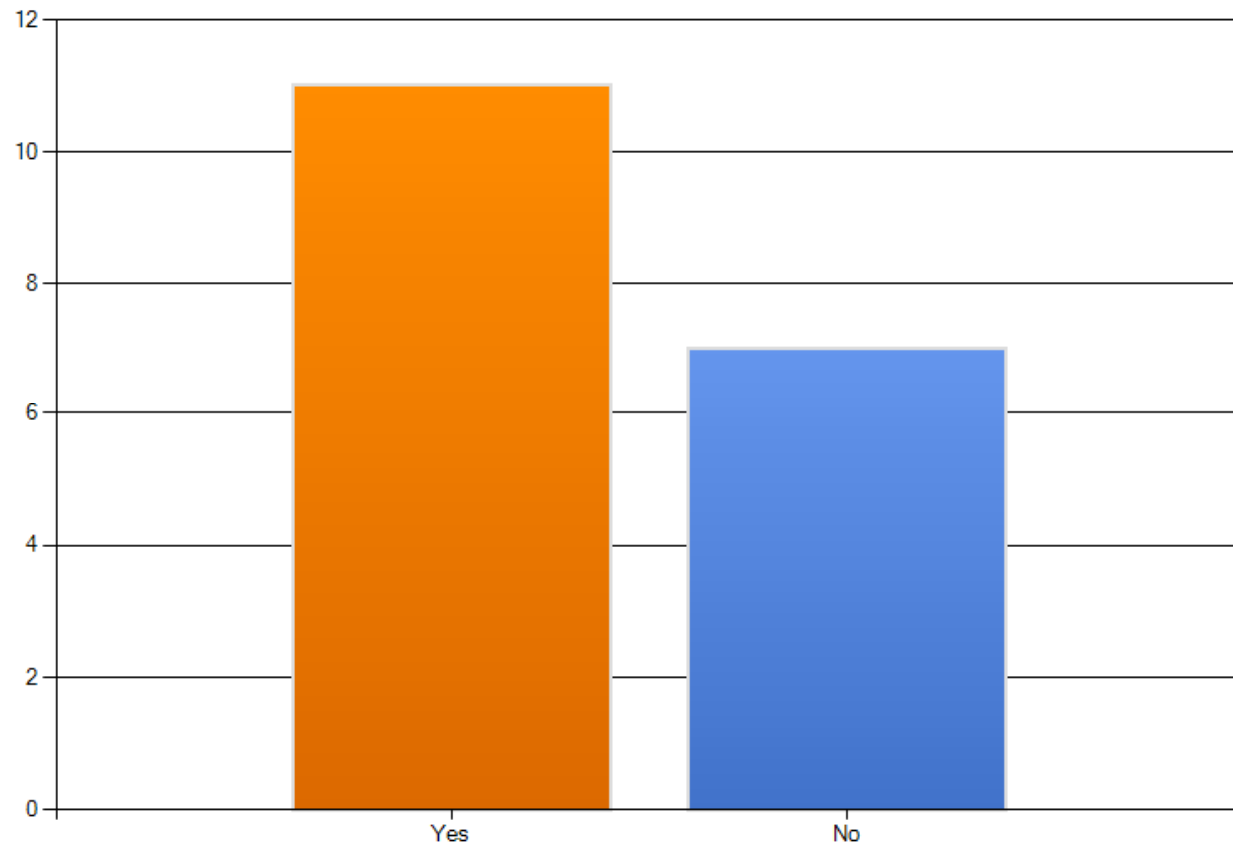
What are the primary reasons that your organization conducts an annual independent financial audit?





# Summary of the Data (Non-Profits)

In place of an independent audit, did your organization have an independent financial review of any kind in the most recent fiscal year?



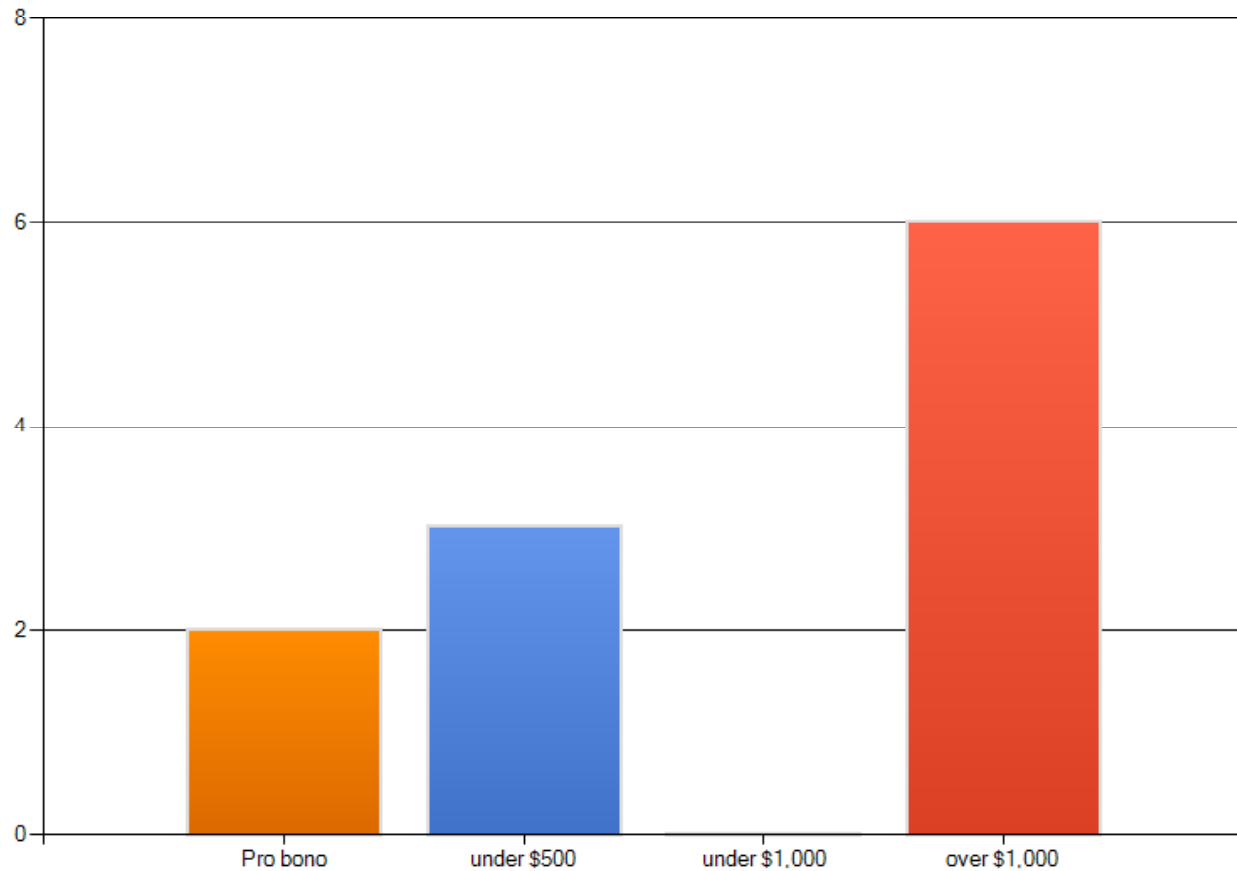
# Summary of the Data (Non-Profits)

WHY did you choose not to do an audit?

- COST
- We have been advised by our CPA that we are "too small" for such an expense
- Cost relative to total budget
- On advise of our CPA

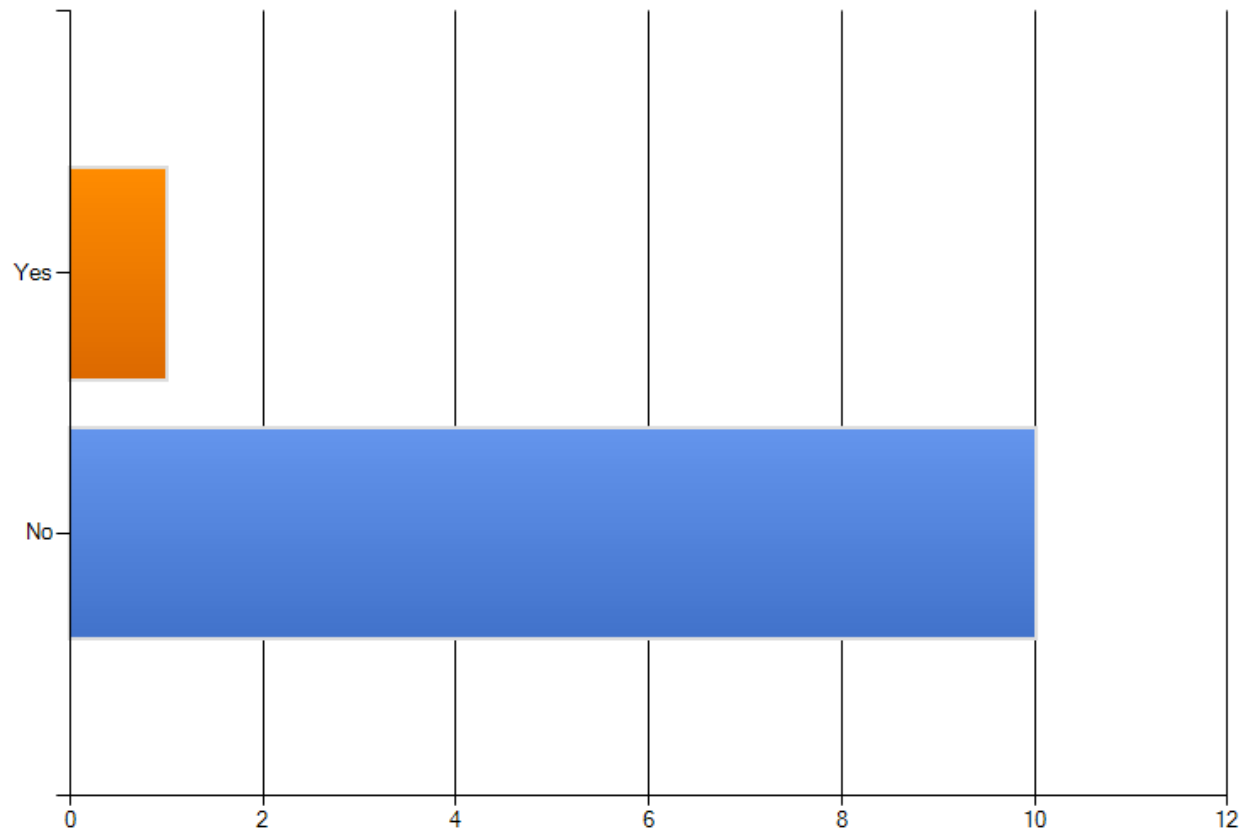
# Summary of the Data (Non-Profits)

What was the cost of your organization's independent financial review?



# Summary of the Data (Non-Profits)

Has the lack of an independent financial audit prohibited your ability to seek funding from any sources?



# Summary of Data (Non-Profits)

**What were the advantages or disadvantages, in your opinion, to an independent financial review versus an audit?**

- Cost
- Cost is less and the time frame is quicker
- Advantage is real or perceived correctness of numbers. Disadvantage is cost.
- Wanted to make sure everything was financially sound but an actual audit is too expensive. In addition, very few of the grants we would pursue require an audit
- Advantages - reduced cost, employee time savings and accountability Disadvantages - not the gold standard
- Our organization has few assets....mostly a cash reserves, no brick & mortar and a small organization making a Compilation Report a good fit for us and less expensive.

# Summary of Data (Non-Profit)

**If you did not complete an audit, or an independent financial review, how does your organization review its finances and fiscal health?**

- normally, a compilation or review is performed, rather than a full audit. once our 990 is complete (and we needed an extension this past year), it's likely one of those processes will be done.
- All financial transactions are conducted by an outside contracted accountant. The board Treasurer reviews those monthly.
- Board members review.
- Board CPA - independent CPA review of annual records -- monthly review by board member and exec director with CPA
- Annual and quarterly board meeting review of budget. Annual report of expenditures and income. Feedback from grant funders and national partner organizations.
- Profit and Loss, Assets and Liabilities via Quickbooks, bank statements, internal checks and balances, tax returns

# Summary of Data (Non-Profit)

**Please share any thoughts or comments with us on this topic.**

(51 Responses)

- Auditor recommended a financial review, but some funders require a full audit.
- We started conducting an annual audit in 2009, and it has helped us improve our internal controls and has also opened avenues to new funders.
- As a very small organization, yearly audits are truly cost-prohibitive. However, this is a best practice in terms of managing finances, so any fiscal assistance available to complete a yearly audit would help immensely. We would gladly petition for the funds.
- If there are other acceptable practices to demonstrate sound fiscal practices, our budget would appreciate it.
- This is a hot topic in small nonprofits where I have worked. We know we need to have an audit to compete for grant funding but cannot afford the professional consultation that is required before and during the audit process.



# Summary of Data (Non-Profit)

## **Please share any thoughts or comments with us on this topic.** (51 Responses Continued)

- Our bylaws require that a CPA does an annual review, and conduct an audit once every three years. But, we have a funder that requires an annual audit.
- I'd love a more affordable option for this, our latest on an audit was \$8500.
- It would benefit not for profits to have guidelines on when full audits are necessary and when reviews or compilations will work. Smaller organizations should be able to submit certain agreed upon procedures to ensure financial accountability, but not full audits. Perhaps there could be levels of total revenue that determines generally accepted outside financial verification of operating statements.
- Please use common sense. If an organization has CPAs and other financial professionals overseeing a budget of less than \$500K, an audit of \$5-10K seems wasteful in the face of so much community need. I think it is very situational, depending on many factors including need for grant accountability, size of organization, etc.



# Summary of Data (Non-Profit)

## **Please share any thoughts or comments with us on this topic.** (51 Responses Continued)

- Costs can be disproportionately high, but lack of independent audit raises questions in a lot of funders - both public and private - eyes. It also offers a degree of assurance to board members and public - and to an organization if it comes under scrutiny.
- We've considered having a formal audit every other year to reduce expense but we know foundations always want to see the audit annually. I would like to know how the donor community would view having it done every other year.
- Our volunteers both Board and our Audit Review Committee feel this is valuable.
- Audits help organizations discover financial areas of concern. They also help orgs to be transparent.
- ....I really do not think auditors take the time or the accountability for reviewing what is really happening at a nonprofit. As a past funder, I also reviewed many audits of local nonprofits that showed a healthy financial position for the organization. Yet, I knew that there were problems with the internal activity and financial health of the organization. The annual audit should dig deeper and also be used as a learning tool for nonprofit leaders....

# Summary of Data (Non-Profit)

**Please share any thoughts or comments with us on this topic.**  
(51 Responses Continued)

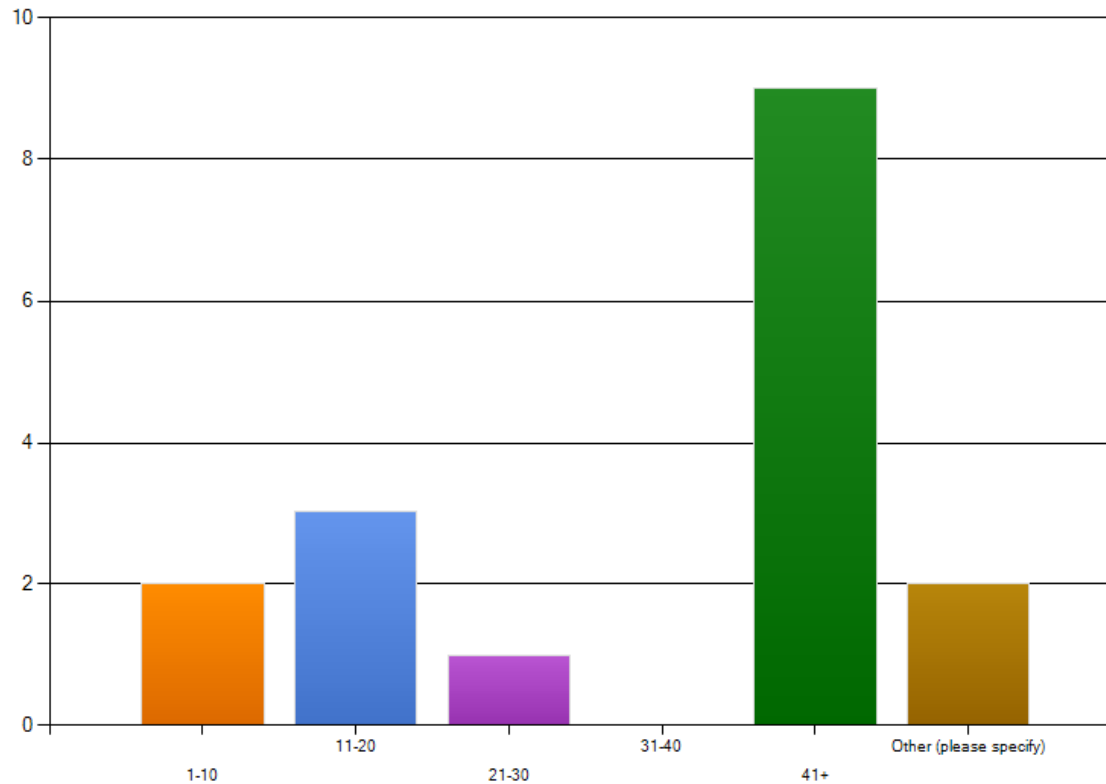
- The cost of an independent audit yearly is significant to us as a small agency. That is outweighed by the extra oversight provided, as smaller agencies like ours tend to have less capacity for / fewer financial internal controls.
- If there is a way to get a better rate as several organizations I would be interested.
- Audits should be like national accreditation -- if your audit is "clean" you should not have to repeat the audit for a year or two. If there are issues, then an annual audit may be in order.
- Good fiscal stewardship requires an independent annual audit by a qualified auditing firm.

# Potential bias in Non-Profit data

- Request for survey completions was sent to many current members of CSF and United Way who both require a full independent audit, this may have swayed the results to lean more heavily toward non-profits that completed audits.

# Summary of Data (Funders)

How many non-profit organizations do you financially support on an annual basis?

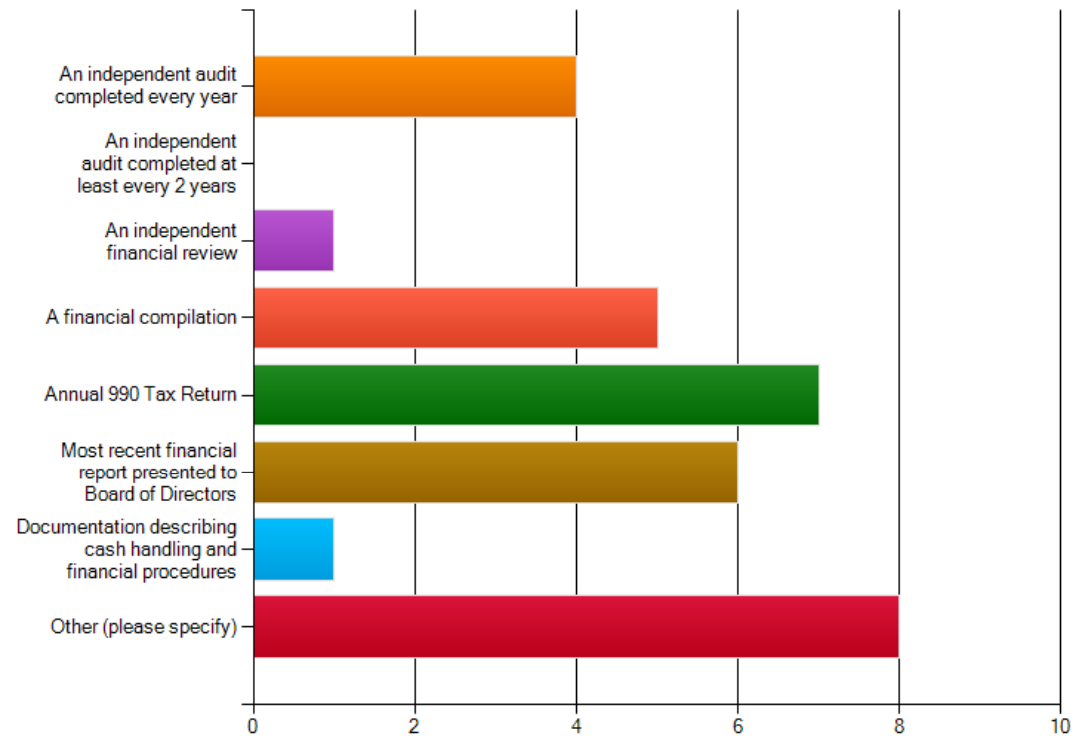


\*Others: 125+ and 75

7 Funders 'Lincoln based'  
Remainder Omaha/Statewide

# Summary of Data (Funders)

What kind of financial documentation does your organization require from agencies requesting financial support? Interested agencies must present:(Please check all that apply.)



# Summary of Data (Funders)

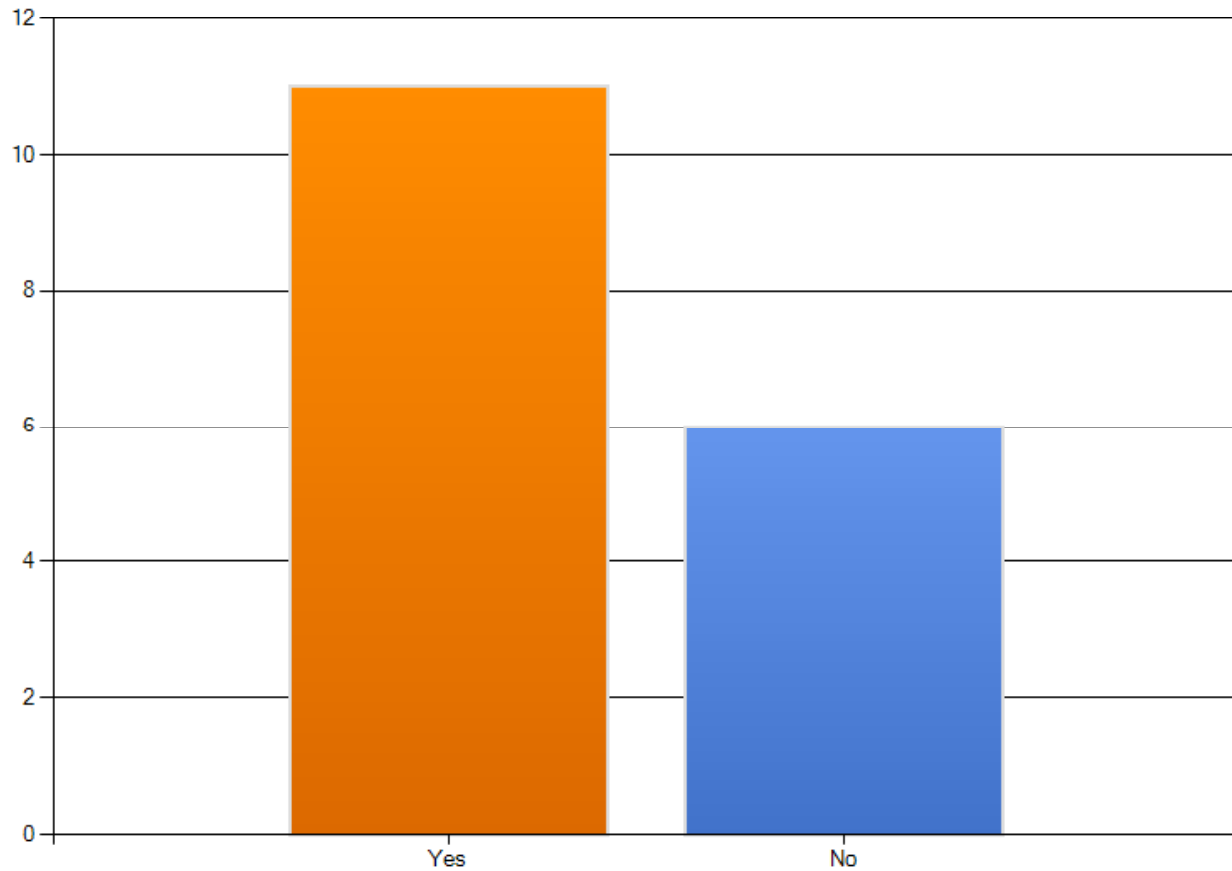
**What kind of financial documentation does your organization require from agencies requesting financial support?**

## OTHER:

- Copy of their tax id and their 501c3 letter from the IRS
- We ask for their "most recent" audit. We do ask for income/expense statement and current operating budget. 990 is collected via Guidestar.
- Back up documentation of expenses billed to our grant
- Recent audited financial statement; or, year-end bank statement
- Highest level of annual review available - audit, review, compilation, or year-end financial report

# Summary of Data (Funders)

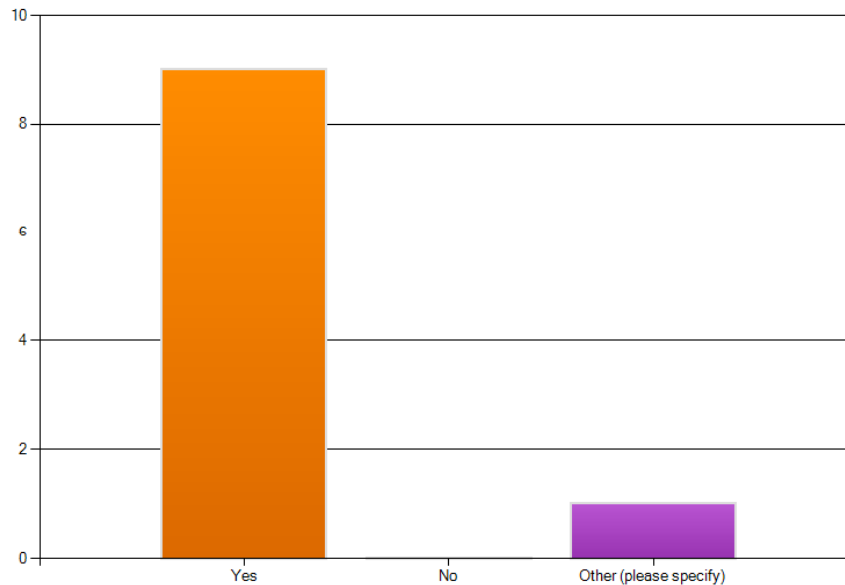
Does your organization have agencies that you fund on a recurring or annual basis?





# Summary of Data (Funders)

Do you require the same supporting documentation from agencies applying annually that you request from agencies applying for the first time?



Other: We often fund multi-year grants. We ask for supporting documentation at the time of application and not on an annual basis. Each new application, regardless of the agency, must submit the supporting documentation.



# Summary of Data (Funders)

## **Do you plan to change any of your financial documentation requirements in the foreseeable future?**

- Not at this time, unless the government changes their rules
- Very recently switched from encouraging (though not requiring) an audit to encouraging a financial review in lieu of an audit when appropriate for the organization applying.
- No or Not at this time x6
- We are beginning to make multi-year grants and will request the financials up-front and only once.
- Yes and Just did
- Reconsider this requirement annually

# Summary of Data (Funders)

## **Does your organization have any input or specific opinions about what financial documentation should be supplied by interested applicants?**

- Annual Operating Budgets
- We ask for an organizational budget detailing projected revenue and expenses for the current fiscal year
- We look our requirements on a case-by-case basis. We recognize that not every organization will complete an audit, or will complete an audit on an annual basis. We believe that we need to balance the need for due diligence on our part with the cost of an audit to the non-profit.
- Org. Operating budget; project budget; resource development plan/budget; financial statements
- The level of financial review should be appropriate to the size and complexity of the agency - large agencies should have audited financial statements.
- The higher the level of financial review provided by the organization, the stronger the application, but this is only one factor considered by the board of directors
- We like to see what level of financial information the agency creates and provides to its board of directors. We realize that some small agencies may be hard pressed financially to complete an audit of financial statements. We try to work with applicants at the level of organizational development they present to us..
- Yes – 4    No – 1

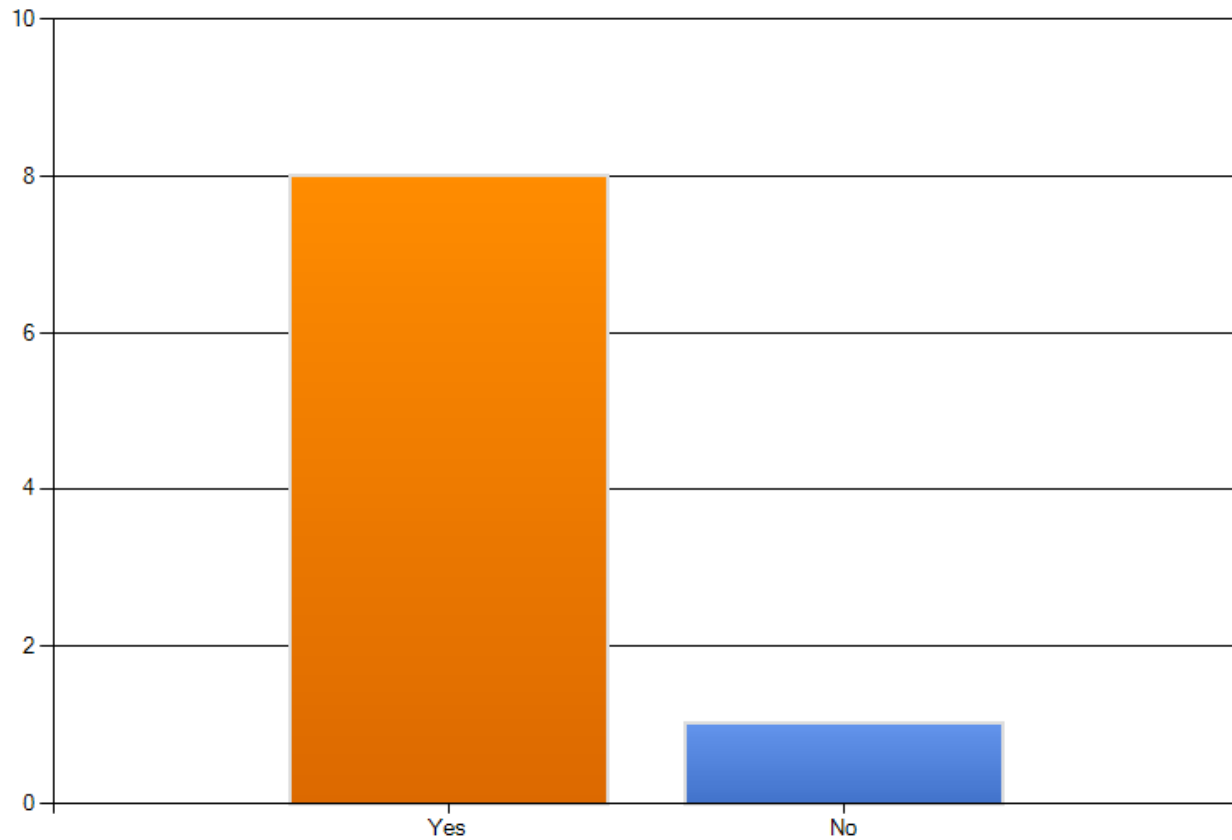
# Summary of Data (Funders)

## **Take away message:**

Many funders are struggling with the audit requirement, particularly for small agencies.

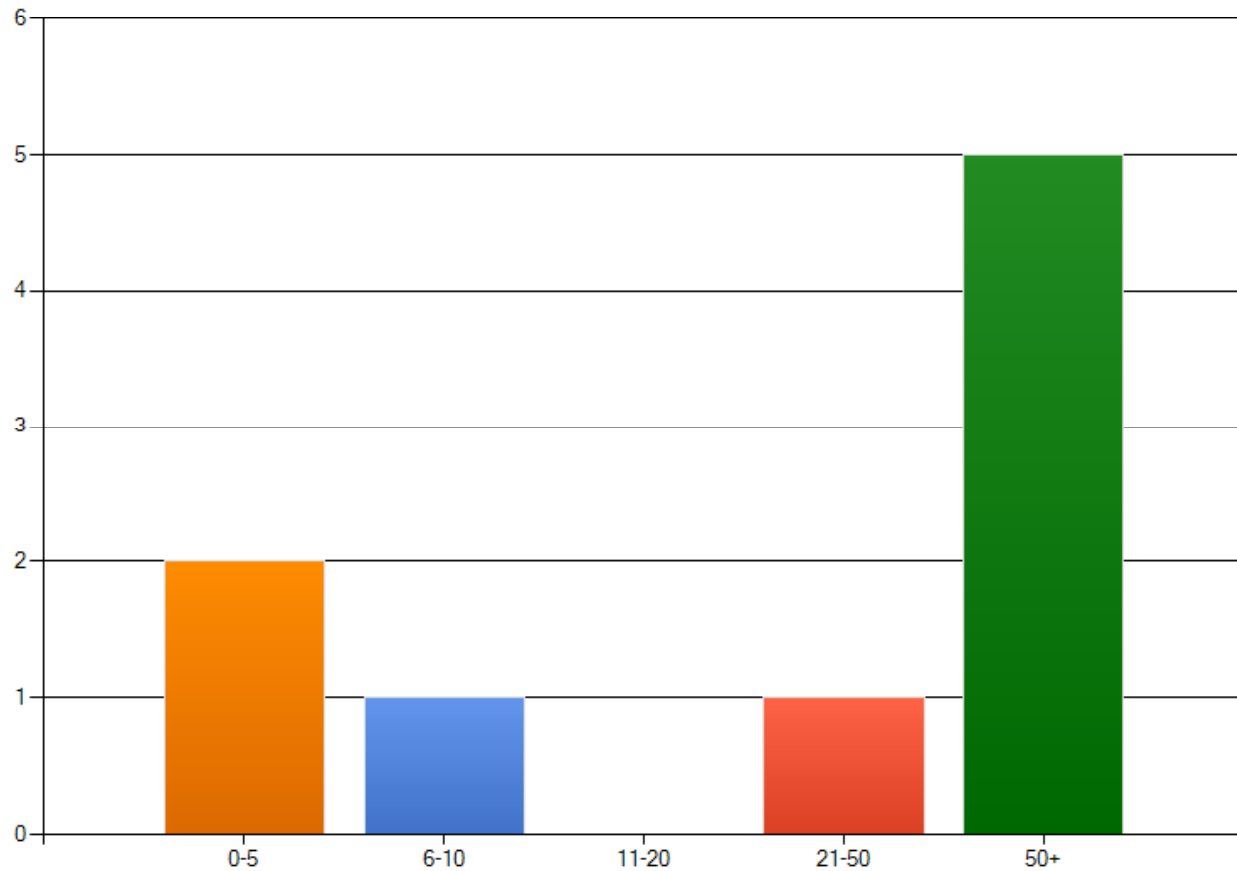
# Summary of Data (Auditors)

Do you (your company/firm) conduct independent financial audits for 501(c)3 organizations?



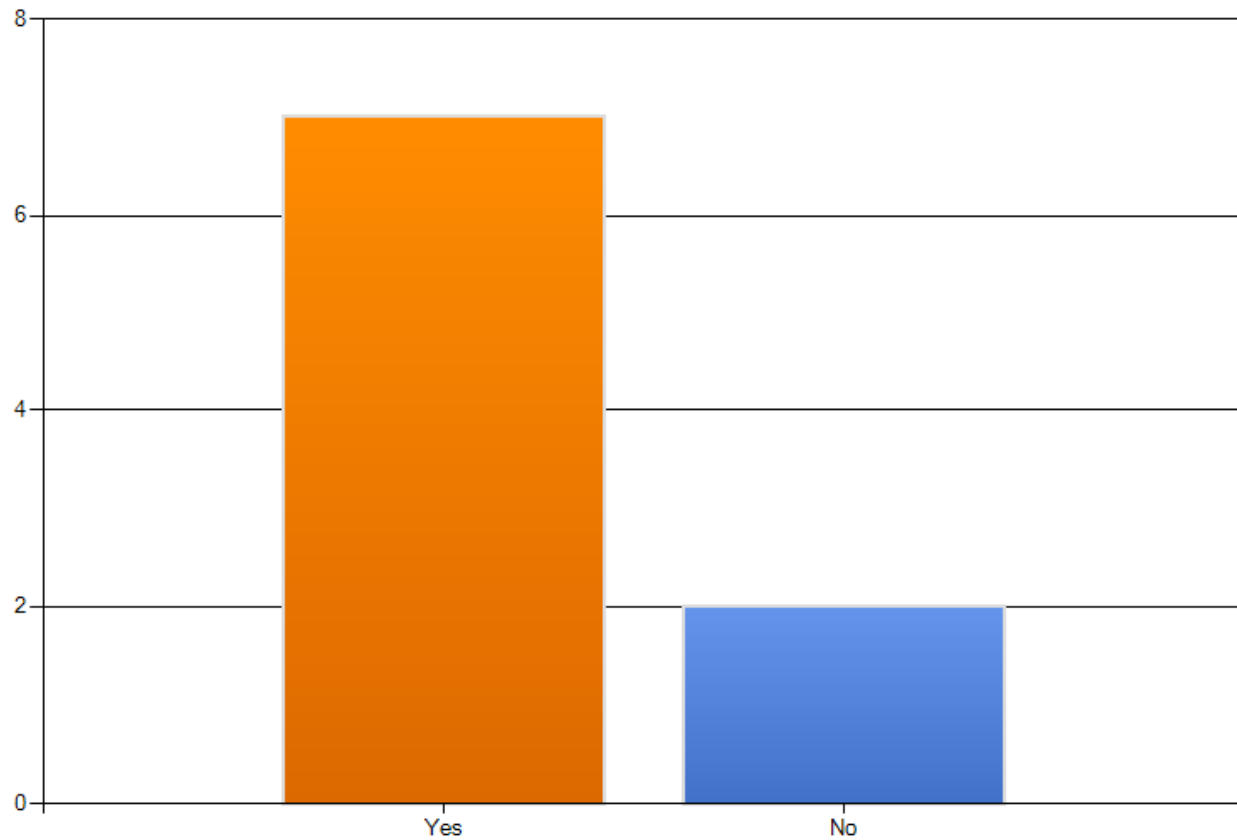
# Summary of Data (Auditors)

In an average calendar year, how many non-profit audits does your company complete?



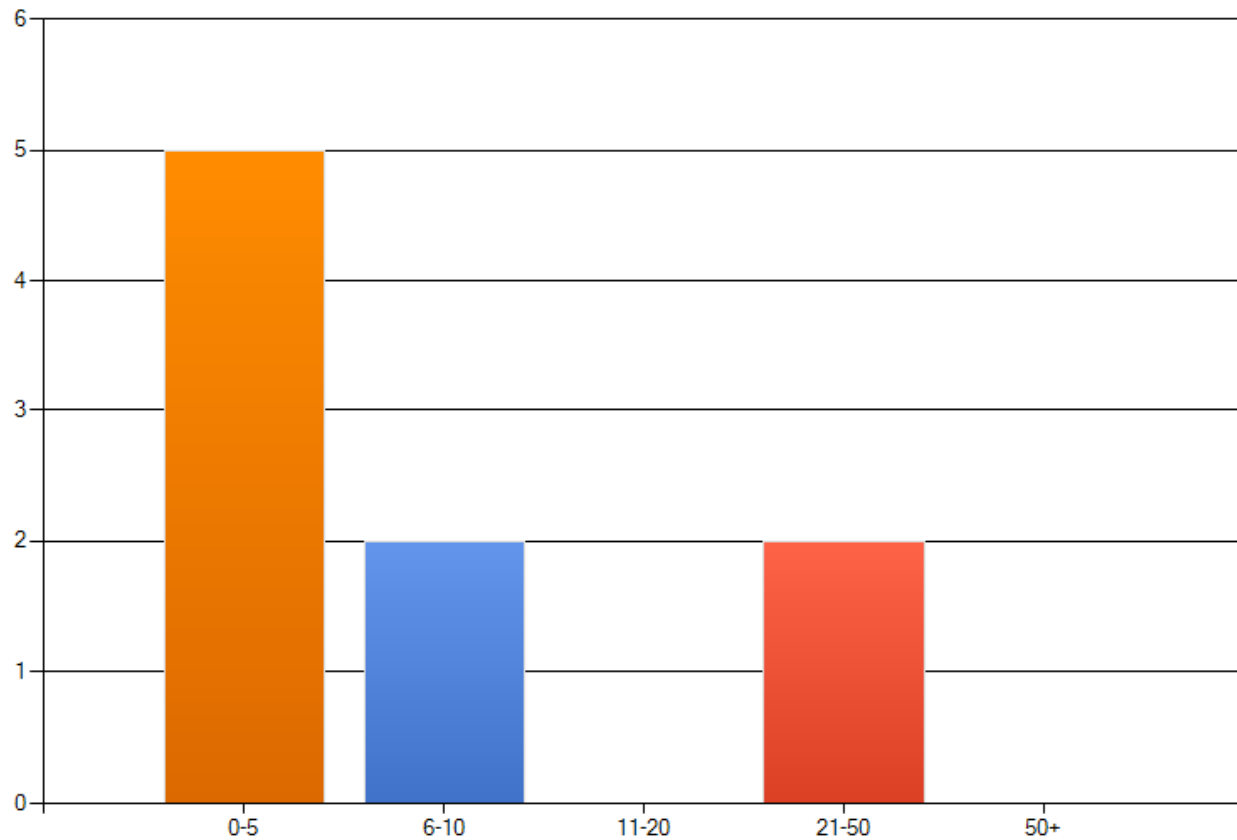
# Summary of Data (Auditors)

Does your company conduct independent financial reviews (in place of a full audit) for non-profit organizations?



# Summary of Data (Auditors)

In an average calendar year, how many independent financial reviews does your organization complete?



# Summary of Data (Auditors)

Has the price of an annual audit increased in the last 3-5 years?

- **YES** – all 9 responses
  - Due to revisions in audit standards



# Summary of Data (Auditors)

If so, by what percentage or amount?

- 5% a year
- Approximately 10%
- 15%
- 2.5%
- At least 10%
- 15-20%

# Summary of Data (Auditors)

## **What is your company's average billing or price for a full independent financial audit for a non-profit organization?**

- \$5-10,000 (x2)
- That question is impossible to answer. We have \$4,000 or so audits and \$20,000 audits....depends on the organization and complexity of engagement.
- *Depends* upon size, volume, type, etc. The range is from \$3,000 to \$15,000
- \$4,975
- \$5,000 (x2)

# Summary of Data (Auditors)

**Within your company, what is the range of price (most expensive to least expensive) for a independent financial review for a non-profit organization?**

- \$2,000 - \$4,000
- \$1,000 - \$4,000
- \$2,500 - \$4,000
- \$5,000 - \$10,000
- \$1,500 - \$5,000
- \$3,500 - \$10,000
- \$1,800 - \$5,000

# Summary of Data (Auditors)

**In your professional opinion, is a full independent audit still necessary for every non-profit every year? Is an independent financial review sufficient to determine fiscal stability and financial health for a non-profit organization?**

- I would say an audit is necessary for funding requests and fiscal responsibility.
- Yes, audit should be required.
- Yes
- I do not believe an independent audit is necessary. A financial review would be sufficient in most smaller organizations.
- No. A review may be sufficient, but there are numerous circumstances to consider for every organization.

# Summary of Data (Auditors)

**In your professional opinion, is a full independent audit still necessary for every non-profit every year? Is an independent financial review sufficient to determine fiscal stability and financial health for a non-profit organization?**

- We feel that an audit every other year is not efficient and not very practical. If reviews are considered adequate you would need to consider them such for every year.
- It depends, if auditee has good records with a history of no or minor audit adjustments then a review could get you to your goal. If the records are a mess and audit adjustments are many and large, a review won't get you there.
- I don't believe an independent audit is necessary for all organizations each year and that in many cases a review would be sufficient. However, it's important to note that if you wouldn't require an independent audit each year and do it every other year, many of the costs would still be there are you would need to perform the same amount amount of work to verify cutoff. Therefore, allowing an organization to present reviewed statements and audited statements of comparative years in the same report would help alleviate that.
- I believe a financial review would be sufficient to determine fiscal stability and financial health if you have someone in the financial role in your company that knows non-profit accounting. If you don't have someone like this, there will be more adjustments at the end of the year - which means the accounts would need more of an audit level review.

# Summary of Data (Auditors)

**How would you advise funding organizations who want to gather the most useful information possible from prospective fundees, but not burden non-profits with a procedure that is cost prohibitive in comparison to the fundees' budget?**

- Establish minimum funding amounts before an audit is required.
- The 990 can be a useful tool.
- Develop a short form with the most important information desired and have it completed by the non-profit, signed by auditor and have the audit report attached, or request supplementary information in the report which would have specific information needed by CSF.
- I think a financial review would be sufficient and more cost effective.
- At a minimum require an independent financial review.



# Summary of Data (Auditors)

**How would you advise funding organizations who want to gather the most useful information possible from prospective fundees, but not burden non-profits with a procedure that is cost prohibitive in comparison to the fundees' budget?**

- I would suspect that funding sources still need to see a review or audited financial statement from organizations as there are many organizations not able to prepare financial statements on their own without the assistance from some outside accountant. At this point you just need to determine the amount of level of assurance you want. If you want an overall view of the organization a review is probably sufficient, but you have to remember that within an audit there would be substantially more tests to give a higher level of assurance.
- I would say compare actual to budget numbers for the organization and compare current year financial results with prior years and ask for explanation in large discrepancies.
- Consider a review for those smaller organizations
- Consider an agreed to procedures engagement to vouch receipts and disbursements, verify bank reconciliations and complete an internal control questionnaire and report on results and recommendations.


# Conclusion

- No consensus
- Interesting to note: funders and auditors' primary concern may not be the desire to thoroughly review for appropriate use of funds etc. via the audit; but about the public perception if there is not an audit requirement or an audit conducted
- Large non-profits should still be conducting full independent audits on an annual basis
- Possible strategy to gather the best data in absence of an audit might include: an annual independent review, 990, financial reports, budget reports and a questionnaire on office procedures



# Outcome for Community Services Fund of Nebraska

- In 2011, Community Services Fund of Nebraska changed our audit requirements for member agencies.
- Agencies with annual operating budgets \$500,000 or more will still be required to complete a full independent audit.
- Agencies with annual operating budgets under \$500,000 can complete an independent financial review and some additional financial readiness assessments.
- This is an annual membership requirement.



To Require an Audit or  
Not Require an Audit?  
***That is STILL the  
question!***

## Contact us:

Community Services Fund of Nebraska  
Kiersten Hill, Executive Director

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215 Centennial Mall South, Ste. 509

Lincoln, NE 68508

402-489-4332

[CommunityServicesFund.org](http://CommunityServicesFund.org)