

Non-Profit Financial Review Guide

Financial Audit or Financial Review

A **financial review** provides limited assurance using primarily analytical procedures and management inquiries, offering a moderate level of confidence in the financial statements. A review can be conducted by anyone with knowledge of basic accounting or bookkeeping, such as a chapter member, someone from another chapter board, or anyone external and not involved with the financial processes of the chapter. A review should occur annually.

In contrast, a **financial audit** delivers reasonable (high) assurance through extensive testing, verification with external parties, and evaluation of internal controls. An audit is performed by a CPA or tax attorney who is not a member of the chapter and they are performing an in-depth examination of the books and financial health of the organization. An audit should occur every 3-5 years. Together, the review serves as a lighter check-up, while the audit functions as a thorough examination of an organization's financial accuracy.

Purpose of a Financial Review

A financial review helps a nonprofit make sure its money is being handled honestly and correctly. It checks that income, expenses, and other financial details are recorded properly, giving donors, board members, and the public confidence that funds are being used the right way. A review also helps catch mistakes, prevent fraud, and strengthen financial policies to keep everything running smoothly. In addition to keeping things transparent, a review ensures the nonprofit is following tax laws, state rules, and any funding requirements from grants or large donors.

Review the Bylaws & Financial Policies

Review the Chapter Bylaws and Financial Policies and Procedures to gain an understanding of how the chapter operates financially. These will be required to answer various questions throughout this process.

Pay attention for the following information:

- Who is responsible for what?
 - When are budgets approved, how are changes made?
 - Who approves expenses and what are the procedures for handling bills/expenses?
 - What the record-retention policies are in place?
 - Where are documents stored? For how long?
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Financial Records Review

Gather the following documents for review:

- Financial statements (balance sheet, income statement, cash flow)
- Bank statements & reconciliations
- Balance sheet (assets & liabilities)
- Income statement (revenue & expenses)
- Cash flow statement
- General ledger

Once the documents have been pulled together, check all the financial statements against each other and verify all receipts, invoices, checks, deposits, etc. are complete and documented.

Questions to ask:

- Does the organization have all the required documents for the period of time being audited? If not, why not?
- Are all required documents in order (time/date)?
- Do the bank statements match the general ledger and reconciliations?
- Are assets and liabilities properly recorded on the balance sheet?
- Do revenue and expenses align with past trends and expectations?
- Are there unexplained discrepancies between cash flow statements and bank balances?
- Do all the checks and deposits match on the bank statements?

Action Steps:

- Review bank reconciliations for missing or unauthorized transactions.
- Verify outstanding checks or deposits not yet recorded.
- Cross-check general ledger entries with supporting documentation.

Flag anything that does not align (ex. Outstanding checks, items that do not match the statements, etc.)

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Income & Donations Verification

Ensure that all revenue is properly recorded and categorized. Confirm that donor-restricted funds are being accounted for and used correctly and that tax-compliant receipts were issued.

Questions to ask:

- Are there any discrepancies or irregularities found?
- Are there financial risks that need to be mitigated?
- What policies should be improved to ensure stronger financial oversight?
- Are all revenue sources (donations, grants, fundraising) recorded?
- Are donor-restricted funds are used per the Bylaws and Policies?
- Are the donation receipts in compliance with state and IRS tax laws?
- Were all grant funds tracked & reported as required?

Action Steps:

- Compare donation records with bank deposits.
 - Review grant agreements to confirm compliance with funder requirements.
 - Verify that fundraising event revenue is accurately reported.
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Expense & Spending Review

Review all expenses for legitimacy and that they align with the organization's mission. Look for any duplicates, excessive, or unusual transactions, or for missing receipts. Expenses align with the non-profit's mission and with travel and reimbursement policies.

Questions to ask:

- Are there any unusual or unexplained transactions?
- Do expenses align with the approved budget?
- Are vendor payments supported by invoices and contracts?
- Are there any recurring payments that need to be reviewed or renegotiated?

Action Steps:

- Compare expense reports with receipts and invoices.
 - Check whether expenses were approved according to policies.
 - Identify any large or unexpected purchases that may require explanation.
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Governance & Compliance Check

Confirm that the board reviews financials regularly (meeting minutes). Ensure IRS filings (Form 990) and state compliance reports are up to date. Verify adherence to and grant or funding requirements and that a conflict-of-interest policy is in place (and followed, if possible).

Questions to ask:

- Are board meeting minutes properly documented and do they reflect financial oversight?
- Has IRS Form 990 been filed correctly and on time?
- Are state nonprofit registration and charitable solicitation permits current?
- Were state/local taxes filed/paid on time and properly recorded?
- Has the board reviewed and approved financial policies & budgets?

Action Steps:

- Review board meeting minutes for evidence of financial discussion.
 - Confirm that all required tax and state filings are completed.
 - Ensure that conflict of interest policies are being followed.
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Internal Controls & Fraud Prevention

Check the Bylaws, policies, and procedures to ensure a separation of duties (e.g., one person doesn't handle all finances). For some organizations this might mean having a two-person approval for major expenses or transfers; others might not. Check that financial data is securely stored & backed up and that there are cash-handling procedures in place to prevent fraud.

Questions to ask:

- Is there separation of duties (e.g., the person writing checks is not the same person reconciling accounts)?
- Are major purchases approved by at least two people?
- Is there a system for detecting unauthorized or suspicious transactions?
- Are financial records backed up securely (digitally and/or physically)?

Action Steps:

- Review cash-handling procedures to ensure accountability.
 - Test a sample of transactions to verify approvals and documentation.
 - Ensure passwords and access to financial systems are restricted appropriately.
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Final Review & Reporting

Write up a summary of any key issues, note any red flags or inconsistencies and recommend solutions. Finally, present findings to the board and/or finance committee.

Questions to ask:

- What discrepancies or irregularities were found during the review?
- Are there financial risks that need to be mitigated?
- What policies should be improved to ensure stronger financial oversight?
- Has the board been informed of the review findings?

Action Steps:

- Document findings and recommend improvements.
 - Flag any concerns, inconsistencies or issues, and create or recommend an action plan.
 - Present findings to the board or finance committee.
 - Implement corrective actions if needed.
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