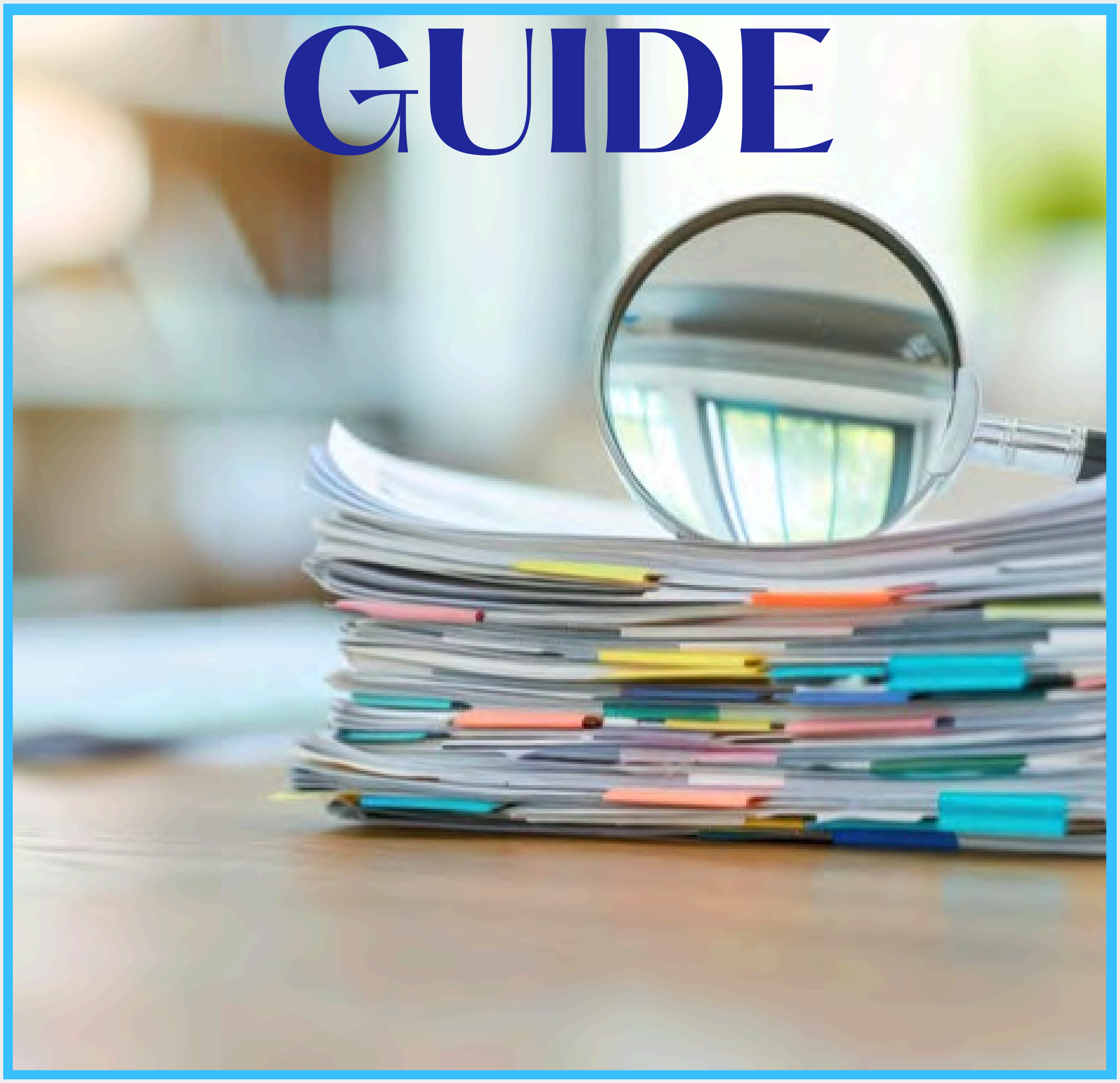
AUDIT RECOVERY GUIDE



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If this seems overwhelming, Jitasa can help!

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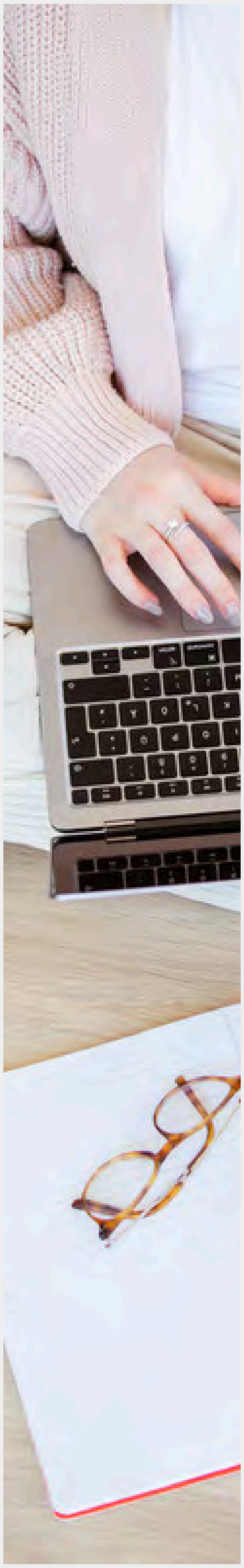
Getting a bad audit report is one of the most stressful moments a nonprofit leader can face. But a rough audit is not the end of your organization's credibility. It's a moment of clarity.

This guide will help you understand what your audit findings actually mean, respond to your board and funders with confidence, and put a real plan in place so next year's audit tells a very different story.

Understand What You’re Actually Dealing With

Before you respond to your board or your funders, you need to understand what the audit report actually says. Not all findings carry the same weight, and reacting to the wrong thing can make a manageable situation look worse than it is.

The mildest form is a clean audit with a management letter. Your auditor issued an unmodified (clean) opinion, but included some observations or recommendations. Maybe a few adjusting entries were needed, or documentation was thinner than they'd like. This is fixable and rarely alarming to funders as long as you address the recommendations.

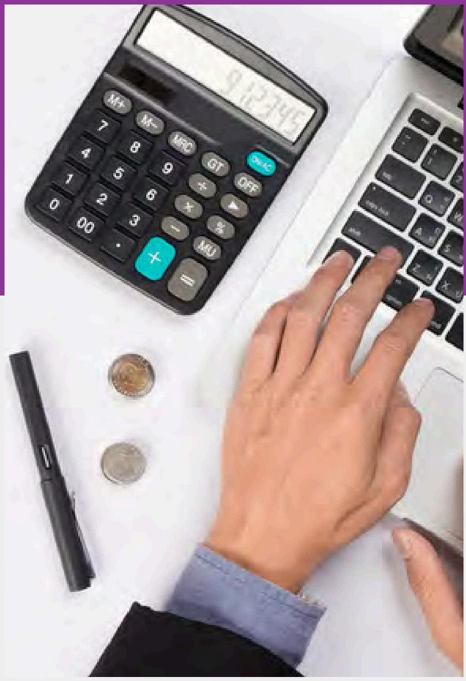


The most serious tier includes qualified, adverse, or disclaimer opinions, or one or more "material weaknesses." These are the findings that carry real weight with the IRS, banks, and funders. Federal single audit findings, questioned costs, going concern language, and any suggestion of missing funds or possible fraud all fall into this category. These situations demand a serious, structured response, but they are still recoverable. We've seen organizations with material weaknesses come back with fully clean audits the following year.

The middle tier is where most rough audits land: a clean opinion, but with a "significant deficiency" flagged in your internal controls. This means the auditor found a weakness serious enough to report formally, but not severe enough to change their opinion. Common examples include weak segregation of duties, restricted funds not properly tracked, or grant compliance gaps. Funders and your board will notice, but recovery within one audit cycle is very achievable.

⚠️ A material weakness or qualified opinion is serious. Take it seriously. But most organizations recover fully within one audit cycle when they respond well.

Read The Report Like An Auditor Would



Before you talk to anyone, you need to understand what's actually in the report. Most bad audit responses go wrong because leadership reacts to the findings before they've fully understood them.

Start with the opinion letter. That single page is the most important document in the whole audit and tells you exactly how the auditor views your financials. An unmodified opinion means clean. Qualified means "clean except for this specific issue." Adverse means the financials materially misrepresent your position. Disclaimer means the auditor couldn't gather enough evidence to form an opinion. Each carries very different weight, and how you respond depends on which one you're holding.

Next, distinguish between the different types of items in the report. Formal "findings" require written responses and corrective action. Observations and recommendations in the management letter are suggestions, not requirements, although ignoring them tends to make them turn into findings the following year. Adjusting entries are corrections your auditor made to the financials during the audit; they don't require action, but they tell you something about your monthly close process. Uncorrected misstatements are issues the auditor found but didn't insist on fixing; those often signal areas that need attention.

Also...

Identify any repeated findings. A finding that appeared in a prior year and shows up again this year sends a very different signal to funders than a first-time issue. Repeat findings suggest the corrective action last time didn't stick, and funders take that seriously.

Finally, understand your deadlines. Corrective action plans for federal findings often have structured due dates and requirements. Your board will need to formally accept the audit report. Your 990 filing may depend on it. And your grant agreements likely have specific notification requirements you'll need to meet.

Communicate Before Others Do It For You

The single biggest mistake nonprofit leaders make after a bad audit is going quiet. Bad news travels, and how it's shared matters as much as what it says.

Start with your board. This should not be a slide buried in the finance committee report. Depending on the severity, it may warrant a dedicated agenda item or even a special meeting. Prepare a plain-language summary alongside the technical report, because most board members won't parse audit language well on their own. Present the corrective action plan alongside the findings, so the conversation is about the path forward, not just the problem. If the findings are serious, consider inviting the auditor to attend. Their presence signals that you're taking this seriously and gives your board a chance to ask questions directly.

Then move to your funders. Review each major grant agreement for notification requirements. Many require you to disclose material findings within a set period. But even where notification isn't strictly required, proactive outreach almost always strengthens the relationship. Program officers appreciate hearing bad news from you before they see it in a report. When you reach out, lead with the corrective action plan, not the findings. The story you're telling is "here's what happened, here's what we're doing about it, and here's how you'll know it's working."

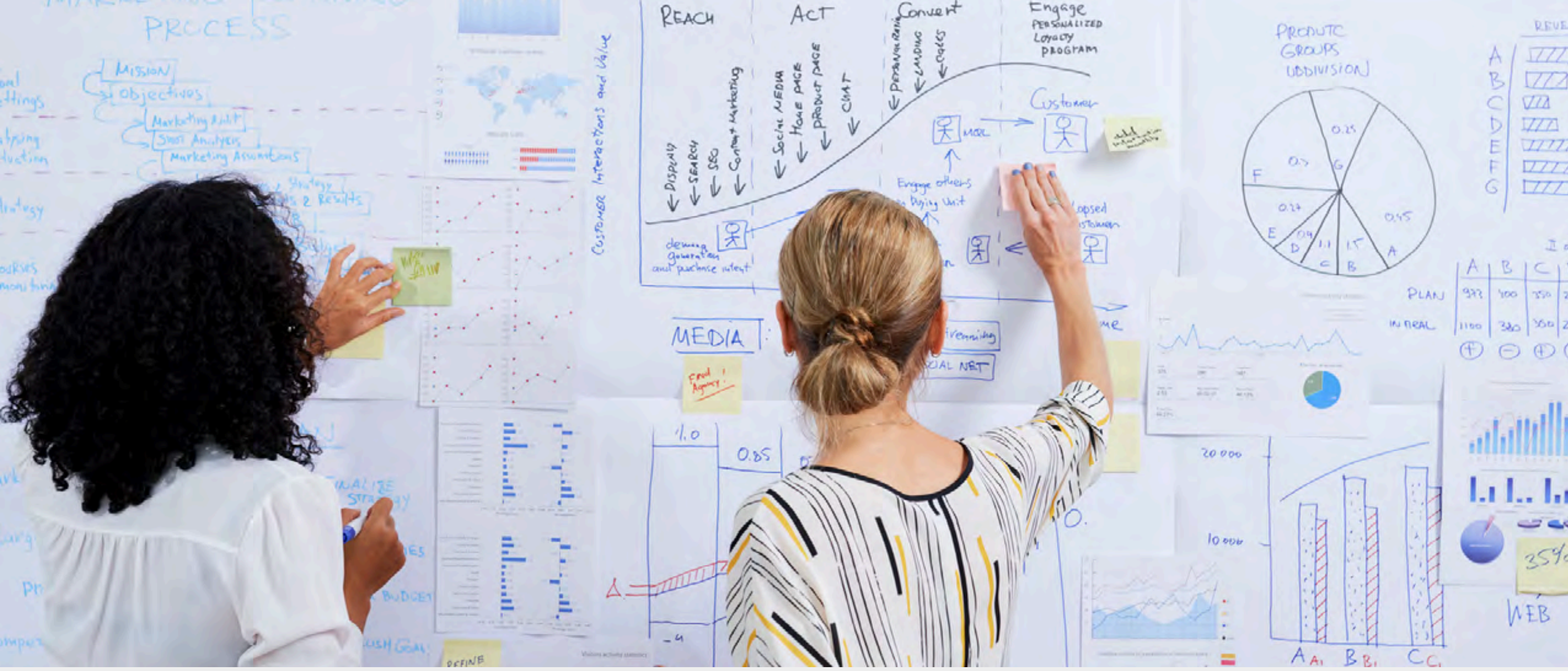
Don't forget your staff. Brief your leadership team so they're not blindsided by board questions or funder calls. Explain what changes are coming and why. Be honest without assigning blame publicly. Audit findings are almost always a systems issue, not a single-person failure, and treating them otherwise damages trust and morale.

Build A Real Corrective Action Plan

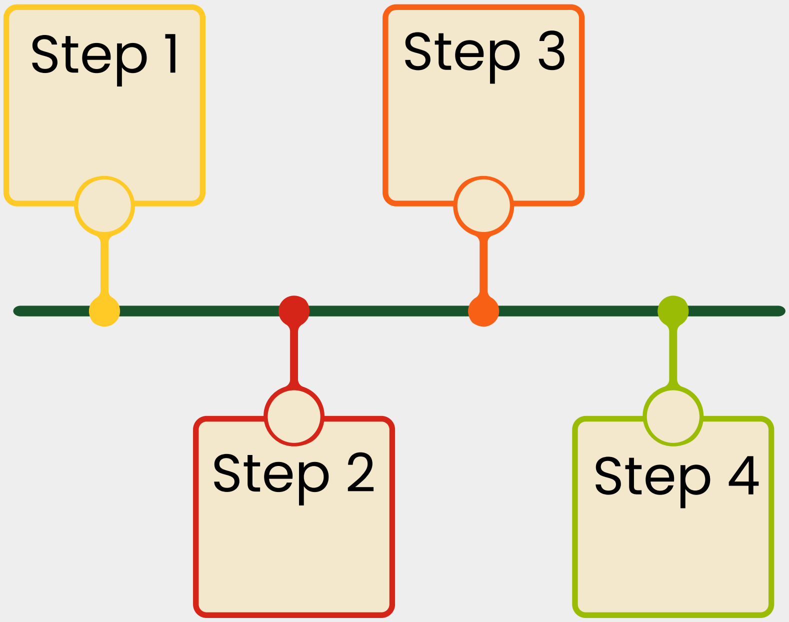
Your corrective action plan is not a compliance document. It's the story you tell your board, your funders, and next year's auditor about how your organization is moving forward. Treat it that way.

For each finding, document what the finding actually was in plain language, the root cause (not just the symptom), the specific corrective actions being taken, who is responsible, the timeline for implementation, and how you'll verify the fix is working. That last piece is what separates a real plan from a paper plan. Auditors and funders both look for evidence that corrective actions have measurable outcomes.

Take the time to identify true root causes. Most audit findings trace back to a small number of underlying issues: insufficient nonprofit accounting expertise on staff, a chart of accounts not built for fund accounting, weak or undocumented internal controls, manual processes prone to error, lack of monthly close discipline, missing written policies and procedures, restricted fund tracking done outside the accounting system, or unclear grant compliance ownership. Naming the root cause honestly is uncomfortable, but it's the only way to keep the same finding from appearing next year in a different form.



When you present the plan, give it teeth. Timelines should be realistic rather than aspirational. Funders would rather see a 12-month plan you actually execute than a six-month plan you miss. Assigned owners should have real authority to make changes. Build in board or finance committee oversight, and set a follow-up cadence for progress reporting. The credibility of the plan depends on the discipline of the execution.



Fix The System, Not Just The Findings

Here's the pattern we see most often: an organization gets a bad audit, addresses the specific findings, and gets a different set of findings the next year. The organizations that come back with truly clean audits are the ones that address the underlying system, not just the symptoms.

That means asking some hard questions:

- Does the person doing our books have real nonprofit accounting expertise, or are they a generalist doing their best?
- Is our accounting software configured correctly for fund accounting, restricted grants, and functional expense allocation?
- Are our internal controls documented, and are they actually being followed?
- Do we close the books every month and reconcile every account?
- Does our board or finance committee review meaningful reports on a consistent schedule?
- Do we have written financial policies and procedures?
- Are grant compliance responsibilities clearly assigned to specific people?
- Is anyone monitoring whether those responsibilities are being met?

Then...

Ask the honest follow-up: given all of that, can our current setup realistically pass a clean audit next year? If the answer is no — or even "probably not" — the corrective action plan needs to include structural changes, not just process tweaks. That might mean adding expertise, changing your accounting software, restructuring your chart of accounts, or bringing in an outside partner to help stabilize your books.

DIY Or Get Help?

Be honest with yourself about what your team can realistically handle on top of everything else they're doing.

If your findings were minor or observational, your accounting team has genuine nonprofit expertise, and your internal controls mostly need documentation rather than rebuilding, you may be able to recover internally. The corrective action work is meaningful but manageable, and you likely have the leadership bandwidth to drive it.

You probably need outside help if your findings included significant deficiencies or material weaknesses, if you're facing federal single audit findings requiring formal corrective action, if your current accounting setup contributed to the findings in the first place, or if the same or similar findings appeared in a prior year. You also probably need help if your team simply doesn't have the capacity to fix this while running the organization, or if you want real assurance that next year's audit will be clean.

There's no shame in bringing in outside help here. Audit recovery is a specialized skill, and doing it well the first time saves you from doing it again next year.

Evaluating Audit Recovery Partners

If you decide to bring in outside help, understand that this is a specialized moment. Not every accounting firm is equipped to guide a post-audit recovery. The right partner needs to speak the auditor's language, know how to translate findings into structural change, and have a real plan for making sure next year's audit tells a different story.

Before signing with anyone, ask them whether they work exclusively with nonprofits or share a team with for-profit clients. Ask whether they've supported nonprofits through post-audit corrective action before, and whether they know how to work directly with your auditor during and after cleanup.

Ask what their discovery and scoping process looks like for a situation like yours, whether pricing is fixed-fee or will grow as they uncover more, and who specifically will work on your engagement. Ask what their plan is for making sure next year's audit is clean, not just for fixing the specific findings you were flagged on. Finally, ask whether their team has specialized expertise in nonprofit accounting.

If a firm can't answer these questions clearly, keep looking.

Need A Guide?

Download Jitasa's free Buyer's Guide for a complete framework of what to look for, what questions to ask, and what red flags to avoid when seeking an accounting partner.

Download

You don't have to figure this out alone.

Jitasa works exclusively with nonprofits, and we've helped hundreds of organizations recover from tough audits, including material weaknesses, single audit findings, and going concern flags.

If you're in the middle of this right now, we'd love to help.

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