

[Date]

[To the Board of Directors/Management]

[Organization Name]

[Address]

[City, State, Zip Code]

RE: Advisory Management Letter - Internal Control Observations

Dear [Name],

In connection with our recent engagement, we have reviewed specific aspects of [Organization Name]'s internal control environment, specifically focusing on Fund Accounting and Grant Disbursement procedures. The purpose of this letter is to provide recommendations to strengthen operational efficiency and ensure compliance with donor restrictions.

1. Fund Accounting and Restricted Net Assets

Observation: [Describe current weakness, e.g., commingling of restricted and unrestricted funds or lack of separate tracking.]

Risk: Inadequate segregation of funds may lead to the unintended use of restricted grants for general operating expenses, resulting in non-compliance with donor mandates and potential repayment requirements.

Recommendation: We recommend implementing a multi-dimensional chart of accounts that allows for automated tracking of "With Donor Restrictions" and "Without Donor Restrictions" net asset classes. Monthly reconciliations should be performed to ensure the general ledger aligns with individual grant balances.

2. Grant Disbursement Controls

Observation: [Describe current weakness, e.g., missing dual-authorization or insufficient documentation for sub-grantees.]

Risk: Weak disbursement controls increase the risk of fraudulent payments or expenditures that do not qualify under the specific terms of the grant agreement.

Recommendation: The organization should establish a formal approval matrix requiring dual signatures for disbursements exceeding [Dollar Amount]. Additionally, all grant-related payments must be cross-referenced against the approved grant budget before processing.

3. Grant Reporting and Compliance Calendar

Observation: [Describe current weakness, e.g., missed filing deadlines.]

Risk: Failure to submit timely financial reports to grantors can damage the organization's reputation and jeopardize future funding eligibility.

Recommendation: We suggest the implementation of a centralized compliance calendar that tracks all reporting deadlines and required deliverables for each active grant. This should be reviewed by the Finance Director on a monthly basis.

We appreciate the cooperation of your staff during this process. We are available to discuss these findings and assist in the implementation of these improvements at your convenience.

Sincerely,

[Your Name/Firm Name]

[Title]