[Auditor Firm Name]
[Address]
[City, State, Zip Code]

[Date]

To the Board of Directors and Management
[Non-Profit Organization Name]
[Address]

RE: Management Letter - Internal Control Observations

In planning and performing our audit of the financial statements of [Non-Profit Organization Name] for the year ended [Fiscal Year End Date], we considered the Organization's internal control over financial reporting, specifically focusing on fund accounting and the restriction of assets.

Our consideration of internal control was for the limited purpose of expressing an opinion on the financial statements and was not designed to identify all deficiencies in internal control. However, during our audit, we noted the following matters involving internal control and other operational matters.

1. Classification of Net Assets

Observation: We noted instances where donor-restricted funds were incorrectly categorized as unrestricted net assets within the general ledger.

Recommendation: We recommend that management implement a monthly reconciliation process to ensure that all contributions are reviewed against grant agreements and donor letters to accurately reflect "With Donor Restrictions" and "Without Donor Restrictions" balances.

2. Tracking of Program-Specific Expenses

Observation: The current chart of accounts does not sufficiently distinguish between functional expenses and specific grant-funded activities.

Recommendation: Management should enhance the fund accounting structure to utilize "class" or "project" codes. This will ensure that expenses are systematically allocated to the correct restricted fund, facilitating accurate reporting for grant compliance.

3. Segregation of Duties in Fund Transfers

Observation: We observed that the same individual responsible for recording restricted contributions also has the authority to initiate transfers between restricted and operating bank accounts.

Recommendation: To strengthen internal controls, the person responsible for the accounting of funds should be separate from the individual with authorization to move funds between accounts. All inter-fund transfers should require secondary approval by the Executive Director or Treasurer.

4. Release of Restrictions

Observation: Documentation supporting the "release of restrictions" (moving funds from restricted to unrestricted once requirements are met) was missing for certain program expenditures.

Recommendation: We recommend maintaining a formal "Release Schedule" that maps specific qualifying expenses to the corresponding restricted revenue sources to provide a clear audit trail.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation and assistance provided by your staff during the audit process.

Sincerely,

[Engagement Partner Name]
[Auditor Firm Name]