

[Date]

[Name of Executive Director/CEO]

[Organization Name]

[Organization Address]

[City, State, Zip Code]

RE: Management Letter Regarding State Grant Compliance and Fund Segregation Procedures

Dear [Name of Executive Director/CEO],

In connection with our recent [audit/review] of [Organization Name] for the fiscal period ending [Date], we are writing to communicate our findings and recommendations regarding your internal controls over state grant compliance and the segregation of funds.

1. Observation: State Grant Compliance

During our review, we examined the organization's adherence to the specific requirements set forth in State Grant Agreement(s) [Insert Grant ID Numbers]. We noted the following areas where compliance procedures could be strengthened:

- [Insert specific observation regarding reporting deadlines, eligible expenses, or documentation].

2. Observation: Fund Segregation Procedures

A critical component of managing state funds is the clear segregation of these assets from the organization's general operating funds. We observed that:

- [Insert observation, e.g., Grant funds are currently commingled in a single operating account without distinct sub-ledger tracking].

Recommendations:

A. Enhanced Compliance Tracking: We recommend implementing a compliance calendar to track all state reporting deadlines and a formal checklist to verify that all expenses charged to the grant meet the "allowable costs" criteria defined by the state agency.

B. Strengthening Fund Segregation: To ensure transparency and prevent the accidental misappropriation of restricted funds, we recommend [opening a separate bank account for state grant disbursements / implementing a dedicated class-tracking system within the accounting software] to isolate grant-related revenues and expenditures.

Management's Response:

[Space for Management to provide their corrective action plan].

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

Sincerely,

[Signature]

[Name of Auditor/Consultant]

[Title]

[Firm Name]