

[Date]

To the Board of Directors and Management

[Organization Name]

[Address]

**RE: Management Letter on Donor-Restricted Fund Accounting and Grant Compliance Observations**

Dear [Name],

In connection with our recent engagement, we have reviewed the financial processes related to donor-restricted funds and grant compliance. Our observations and recommendations are intended to improve internal controls and ensure adherence to funding requirements.

**1. Observation: Tracking of Donor-Restricted Net Assets**

During our review, we noted that the current accounting system does not automatically segregate net assets with donor restrictions from unrestricted operating funds. This requires manual reconciliation at year-end.

**Recommendation:** We recommend implementing a fund accounting structure within your software to track temporary and permanent restrictions in real-time. This will ensure accurate reporting and prevent the inadvertent use of restricted funds for general operations.

**2. Observation: Documentation of Grant Deliverables**

We observed that documentation verifying the completion of non-financial grant milestones was inconsistent across different departments.

**Recommendation:** Management should establish a centralized grant compliance calendar. This tool should track both financial reporting deadlines and programmatic deliverables to ensure all terms of the grant agreements are met and documented.

**3. Observation: Allocation of Indirect Costs**

Costs charged to certain federal and private grants did not always align with the approved budget categories or the organization's indirect cost rate agreement.

**Recommendation:** Review the cost allocation methodology to ensure that only eligible direct and indirect costs are charged to grants. Periodic internal audits of expense allocations should be performed to maintain compliance with the Uniform Guidance or specific donor terms.

**4. Observation: Timeliness of Financial Reports to Donors**

Selected donor reports were submitted after the deadlines stipulated in the grant agreements.

**Recommendation:** Formalize a review and approval workflow that triggers reminders 30 days prior to report due dates to ensure timely submission and maintain positive donor relations.

We would like to thank your staff for their cooperation during this process. We are available to discuss these findings in further detail at your convenience.

Sincerely,

[Signature]

[Name/Title]

[Firm Name]