

[Date]

[Name of Management/Board of Directors]

[Organization Name]

[Address]

[City, State, Zip Code]

Subject: Management Letter Regarding Federal Grant Compliance and Restricted Fund Accounting Deficiencies

Dear [Recipient Name],

In connection with our audit of the financial statements of [Organization Name] for the fiscal year ended [Date], we considered the organization's internal controls over financial reporting and compliance with federal award requirements. While our audit was not designed to provide assurance on internal control as a whole, we identified certain deficiencies that require your immediate attention.

1. Federal Grant Compliance Deficiencies

During our testing of federal awards, we noted the following issues regarding compliance with the Uniform Guidance (2 CFR 200):

- **Inadequate Documentation:** Specifically regarding [list specific grant, e.g., Title I or NSF funding], there was insufficient documentation to support personnel costs and time distribution records.
- **Procurement Standards:** The organization failed to maintain written evidence of competitive bidding or price analysis for purchases exceeding the micro-purchase threshold.
- **Subrecipient Monitoring:** There is currently no formal process for reviewing the audit reports or performance metrics of sub-recipients.

2. Restricted Fund Accounting Deficiencies

We observed the following weaknesses in the management and reporting of restricted funds:

- **Commingling of Funds:** Donor-restricted funds were not sufficiently segregated from general operating funds, increasing the risk of unauthorized use of restricted assets.
- **Revenue Recognition:** Several instances were noted where restricted grant revenue was recognized before the underlying performance obligations or time requirements were met.
- **Release of Restrictions:** There is a lack of a formal reconciliation process to ensure that "net assets released from restrictions" accurately reflect the actual expenses incurred for the specified purposes.

Recommendations

To address these deficiencies, we recommend that management:

- Implement a robust time-and-effort reporting system that complies with federal standards.
- Update the internal procurement policy to align with current federal thresholds and documentation requirements.
- Establish a separate general ledger tracking system (fund accounting) for each restricted grant or donation to ensure transparency and accountability.
- Perform monthly reconciliations between restricted fund balances and the corresponding restricted cash accounts.

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

Sincerely,

[Your Name/Audit Firm Name]

[Title]