



COMMON (AND COSTLY) MISTAKES NONPROFITS MAKE **KSCPA Governmental Nonprofit A&A Conference**

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Introductions



René Larsen

Director

René leads the Forvis Mazars' Kansas City office Nonprofit Advisory Services team. She has more than 30 years of experience with both nonprofit and for-profit organizations. Her expertise includes audit preparation, financial reporting, identifying best practices, and operational assessments. René works with her clients to provide an understanding of the financial health of their organizations along with recommendations on how to continuously improve.



Shannon Mitchell, CPA

Manager

Shannon is a manager in the firm's assurance practice. She provides assurance services to a variety of clients primarily in the nonprofit and commercial services industries. She also has experience working on SEC and PCAOB engagements. She has been serving clients with Forvis Mazars' Kansas City office for more than five years.

She has been on the firm's team for implementing and training on changes in audit software as well as audit methodology.

OPENING: WHY NONPROFITS FAIL



Nonprofits Rarely Fail from Fraud Alone

Root Causes of Nonprofit Failure

Nonprofit failures stem from systems breakdowns and governance gaps rather than outright fraud.

Operational Challenges in Nonprofits

Complex funding, volunteer boards, and compliance demands strain nonprofit resource management.

Role as Risk Advisors

Proactively identify risks and guide nonprofits to strengthen governance and finances.

Practical Solutions for Stability

Implementing solutions focused on governance, compliance, and communication improves nonprofit resilience.

 Chat prompt

In one word, what do you see most often causing nonprofit breakdowns? (e.g., cash, board, systems, people)

NONPROFIT RISK RADAR



Five Core Risk Areas CPAs Should Continuously Monitor

Governance Risk

Includes board engagement, oversight, conflict-of-interest management, and financial literacy essential for nonprofit health.

Finance Risk

Encompasses cash flow forecasting, revenue concentration, reserves, and fiscal sustainability for financial stability.

Compliance Risk

Covers federal and state filings, grant compliance, registrations, and unrelated business income tax awareness.

Reporting Risk

Focuses on accuracy, timeliness, and clarity of financial statements and management reports to leadership.

Operational Risk

Involves technology platforms, staffing capacity, processes, and internal controls to ensure smooth operations.

MISTAKE #1: WEAK
GOVERNANCE &
BOARD OVERSIGHT

When Boards Exist in Name Only

Signs of Weak Governance

Rubber-stamp boards approve recommendations without discussion, missing minutes, outdated bylaws, and no conflict-of-interest documents.

Causes of Governance Issues

Volunteer board members recruited for passion lack governance expertise; staff hesitate to enforce stronger oversight.

Intervention Actions

CPAs conduct governance checkups, review board minutes, facilitate financial literacy, and create conflict-of-interest tracking systems.

Recommended Follow-up

Request past 12 months' board minutes, verify conflict forms, review committees, and identify financial oversight gaps.

MISTAKE #2: CASH
FLOW BLIND SPOTS

Why Nonprofits Run Out of Cash Despite Positive Results

Cash Flow Blind Spots

Nonprofits often focus on budget variance rather than actual cash timing, leading to cash flow blind spots and liquidity issues.

Delayed Revenue and Risks

Grant reimbursements and donor pledges often delay, increasing vulnerability due to revenue concentration and outdated budgets.

Proactive Financial Forecasting

Create 13-week rolling cash forecasts, model scenarios, and identify risks to avoid cash shortages and borrowing.

Action Steps for Cash Management

Map cash inflows/outflows, categorize cash types, stress-test assumptions, and educate leadership on cash flow indicators.

MISTAKE #3:
RESTRICTED
FUNDS & NET
ASSET
MISCLASSIFICATION

Donor Restrictions Misunderstood

Common Fund Mismanagement Issues

Misunderstanding donor intent and improper restriction releases cause compliance risks and audit exposure.

Consequences of Mismanagement

Misstated financials and donor mistrust lead to repayment risks and nonprofit credibility loss.

Support Strategies

Develop tracking tools, reviewing agreements, training staff, and aligning systems.

Recommended Action Steps

Review net asset balances, reconcile schedules, confirm policies, and implement fund tracking immediately.

MISTAKE #4: REVENUE
RECOGNITION
MISUNDERSTANDINGS

Contributions vs. Exchange Transactions

Common Revenue Errors

Misclassifying contributions and exchange transactions causes revenue and compliance issues in nonprofits.

Role

Develop matrices, review agreements, document findings, and train staff on revenue recognition distinctions.

Recommended Action Steps

Inventory revenue streams, evaluate recognition criteria, and coordinate accounting with development teams.

Actionable Item

Review largest grants, confirm recognition treatments, and document conclusions promptly each week.

MISTAKE #5:
INDIRECT COST
ALLOCATION
ERRORS

Program vs. Administrative Spending Confusion

Indirect Cost Allocation Challenges

Nonprofits often face errors due to unclear methods for allocating shared expenses between programs and administration.

Risks of Under-Allocation

Minimizing administrative costs pressures lead to under-allocation, which increases audit and grant compliance risks.

Best Practices

Create policies, document allocation methods, and train leadership on allocation importance.

Action Steps for Improvement

Review classifications, validate allocation bases, and ensure reporting aligns with grant requirements to reduce errors.

MISTAKE #6:
UNDERINVESTING
IN INTERNAL
CONTROLS

Segregation of Duties in Resource-Constrained Environments

Challenges in Nonprofits

Staff constraints often lead to underinvestment in internal controls, increasing risk of fraud and errors.

Role

Design compensating controls, perform risk assessments, and document control activities to mitigate risks.

Action Steps for Controls

Mapping transaction flows and identifying gaps help implement oversight mechanisms and compensating controls.

Immediate Review Recommendations

Review cash handling processes and recommend immediate compensating controls.

MISTAKE #7:
COMPLIANCE
MISSES

Filings, Registrations, and Grant Compliance

Causes of Compliance Misses

Decentralized responsibility and lack of tracking systems often cause missed compliance filings and registrations.

Role in Compliance

Build compliance calendars, review grant requirements, and monitor regulatory changes to prevent penalties.

Action Steps for Compliance

Creating master compliance lists and assigning ownership help ensure timely filings and registrations.

Weekly Filing Status Review

Confirm filing status and identify deadlines every Monday morning to maintain compliance.

MISTAKE #8: POOR
FINANCIAL
STORYTELLING

Boards Need Insight, Not Spreadsheets

Challenges with Financial Reports

Boards often receive complex reports that obscure key risks and performance metrics.

Transforming Reporting

Enhance reports using dashboards, KPIs, and clear variance explanations.


Actionable Steps

Redesign reports and coach management on storytelling to simplify board communications.

Review

Review board packets early in the week to find simplification opportunities.

MISTAKE #9:
TECHNOLOGY &
PROCESS DEBT



When Spreadsheets Replace Systems

Risks of Spreadsheet Reliance

Overuse of spreadsheets leads to inefficiencies and increases the risk of errors in financial processes.

Role

Standardize accounting systems and streamline financial workflows for better accuracy.

Recommended Actions

Key steps include reviewing charts of accounts and documenting the close process to reduce manual errors.

Identifying Manual Workarounds

Identify and address manual workarounds early to improve efficiency.

MISTAKE #10: AUDIT READINESS ISSUES

Avoiding the Annual PBC Fire Drill

Audit Readiness Challenges

Late reconciliations and missing documentation create audit readiness issues and increase last-minute pressure.

Implementing Tools

PBC checklists, close calendars, and reconciliation schedules to improve preparation and reduce errors.

Proactive Pre-Audit Actions

Pre-audit reviews and assessments help ensure reconciliation timeliness and readiness.

RECAP & NEXT STEPS



Top 10 Mistakes and Action steps

What's one action step you could realistically take within the next 30 days?

Common Mistakes Recap

Highlighting the most frequent errors encountered and the impact on nonprofit financial management.

Recommended Actions

Providing clear action steps leaders should take to address and correct these mistakes effectively.

Next Steps and Resources

Offering immediate next steps along with nonprofit accounting guides and governance best practices.

Professional Development

Encouraging ongoing education and training opportunities to deepen expertise and skills.

Contact

Forvis Mazars

Rene Larsen

Director

P: 816.905.3610

rene.larsen@us.forvismazars.com

Shannon Mitchell

Manager

P: 816.915.3615

shannon.mitchell@us.forvismazars.com

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