

Abstract

Federal enforcement targeting diversity, equity, and inclusion (DEI) programs has intensified dramatically, with the False Claims Act emerging as a primary tool against federal contractors and grantees. Simultaneously, major tax, audit, and governance developments—including new IRS group exemption procedures, revised Uniform Guidance audit standards, expanded state audit requirements, and heightened Form 990 scrutiny—are reshaping nonprofit compliance obligations nationwide. This February 16, 2026 Navigator News Update provides nonprofit executives and board leaders with a comprehensive, operationally focused analysis of federal regulatory enforcement trends, human resources risks, IRS and accounting changes, and emerging state transparency requirements. Immediate action, careful governance oversight, and proactive compliance planning are essential in this rapidly evolving regulatory environment.

February 16, 2026 Navigator News Update: Including False Claims Act DEI Enforcement, IRS Group Exemption Modernization and More!

From Nonprofit Management Navigator

Please see Understanding This Information and Disclaimer at the conclusion of the article

Introduction

This week's Navigator News Update reflects a pivotal moment for nonprofit governance, federal funding compliance, and organizational risk management. The federal government's expanding use of the False Claims Act to police DEI-related certifications represents a structural shift in enforcement philosophy, with potential financial and reputational implications for contractors and grantees. At the same time, IRS modernization efforts, revised audit thresholds, increased state transparency initiatives, and new tax law changes are reshaping financial oversight expectations. For nonprofit leaders, this is not simply a compliance cycle—it is an operational inflection point. Boards, executive directors, HR leaders, and finance teams must align legal review, governance documentation, grant compliance, and strategic planning. The developments summarized below require thoughtful prioritization, internal coordination, and in several instances, immediate action.

Priority Legend

Priority indicators help nonprofit leaders quickly identify which developments require their most immediate attention based on urgency and operational impact.

- Immediate Action
- Requires Organizational Response
- Monitor and Prepare

Federal News & Regulatory Developments

Executive Summary

Federal regulatory enforcement affecting nonprofits has entered a materially more aggressive phase. The Department of Justice is now deploying the False Claims Act as a civil rights enforcement mechanism targeting DEI-related certifications, creating substantial financial and reputational exposure for federal contractors and grantees. Simultaneously, new certification requirements, AI-driven grant screening, expanded foreign assistance conditions, SNAP eligibility changes, and federal funding instability are increasing operational volatility. Nonprofits must prioritize legal review, compliance documentation, and financial contingency planning.

Key Actions for This Section

Nonprofit leaders should take the following steps immediately:

- Conduct comprehensive DEI program legal reviews with counsel
- Review all federal grant certifications and compliance statements
- Prepare for potential False Claims Act exposure and whistleblower complaints
- Monitor cash flow and reimbursement timelines following shutdown disruptions
- Assess SNAP-related service demand increases and capacity planning
- Review foreign assistance funding conditions if operating internationally
- Ensure language in grant submissions complies with evolving federal guidance

● False Claims Act Emerges as Primary DEI Enforcement Tool Under DOJ

The Department of Justice is increasingly using the False Claims Act to police federal contractors' compliance with anti-discrimination laws, representing a paradigm shift in civil rights enforcement. Executive Order 14173 explicitly directed agencies to use the FCA against contractors and grantees engaging in "illegal DEI." However, no comprehensive definition of

"illegal DEI" exists, creating significant uncertainty. Recent DOJ and EEOC guidance indicates scrutiny of employment actions motivated even partially by protected characteristics, including quota-based hiring, demographic-specific mentorship programs, and facially neutral practices functioning as proxies for protected status. Federal contractors face substantial FCA investigation costs and reputational risks even without ultimate liability. Organizations should expect whistleblower complaints, prepare internal investigation protocols, and carefully review public DEI statements and program materials.

Source: <https://www.bclplaw.com/en-US/events-insights-news/doj-launches-investigations-into-government-contractors-dei-programs.html>

False Claims Act Enforcement: From Civil War Fraud to DEI

Enacted in 1863 to prosecute Union Army contractors selling sawdust as gunpowder, the False Claims Act traditionally targeted healthcare overbilling and defense fraud, recovering \$6.8 billion in 2025. The Trump administration now argues diversity programs violate civil rights laws by favoring certain racial or gender groups over others. When nonprofits certify civil rights compliance while operating DEI programs, the administration contends they submit fraudulent claims under "implied false certification" theory, exposing organizations to treble damages regardless of proper service delivery.

Source: [The False Claims Act Confronts DEI and DBE Programs \(Troutman Pepper, January 26, 2026\)](https://www.troutman.com/insights/the-false-claims-act-confronts-dei-and-dbe-programs)

GSA Proposes Mandatory Illegal DEI Certifications for Federal Grant Recipients

The General Services Administration proposed January 28, 2026, revising SAM.gov registration requirements to mandate federal grant recipients certify they operate no illegal DEI programs, aligning with controversial July 2025 DOJ guidance defining unlawful discrimination. The proposed certification creates compliance risks as what constitutes illegal DEI remains legally undefined, with public comment period open until March 30, 2026. Nonprofit grant applicants face uncertain certification requirements potentially conflicting with state laws, necessitating legal review of all diversity initiatives, careful documentation of compliance rationales, and strategic decisions about program modifications before final regulations take effect.

<https://www.venable.com/insights/publications/2026/02/gsa-proposes-adding-illegal-dei-certifications>

HHS Deploys AI to Screen Grants for DEI Content

Health and Human Services has used Palantir and Credal AI tools since March 2025 to audit grants, applications, and job descriptions for compliance with executive orders targeting "gender ideology" and diversity initiatives, according to HHS's 2025 AI inventory published in February 2026. The department did not publicly announce this AI screening program, which automatically flags perceived alignment with prohibited concepts. Grant-seeking nonprofits in health and social services face automated screening of applications for DEI-related content. Organizations must carefully review language in submissions while understanding AI tools may identify violations based on keyword detection rather than legal analysis.

<https://startupnews.fyi/2026/02/03/hhs-is-using-ai-tools-from-palantir-to-target-dei-and-gender-ideology-in-grants/>

● **Federal Funding Through the Remainder of FY 2026**

As you are well aware, Congress ended the partial government shutdown on February 3, 2026, funding most federal departments through September 30. However, the Department of Homeland Security received only a two-week extension. As far as the lingering impact of the two shutdowns on nonprofits is concerned, organizations should expect continuing payment delays—agency staff face backlogs responding to inquiries, processing reimbursements, and issuing new awards. Grant competitions paused during the shutdowns have resumed with compressed timelines, requiring rapid proposal preparation. Organizations relying on federal funding must monitor cash flow closely and maintain communication with program officers.

Source: <https://www.npr.org/2026/02/03/g-s1-108506/house-vote-end-government-shutdown>

● **State Department Implements Expanded Mexico City Policy Affecting Foreign Assistance Recipients**

The State Department issued a final rule on January 27, 2026, implementing the Protecting Life in Foreign Assistance award term under the broader Promoting Human Flourishing in Foreign Assistance Policy. The expanded Mexico City Policy now applies to all non-military foreign assistance—approximately \$40 billion affecting 2,562 organizations in 160 countries—far beyond previous family planning-focused applications. Recipients must certify they will not perform or actively promote abortion as a method of family planning, promote "gender ideology" (including gender-affirming care or legal protections based on gender identity), or engage in discriminatory DEI programs. The policy extends beyond foreign NGOs to U.S. NGOs, public international organizations, foreign governments, and parastatals receiving State Department grants, cooperative agreements, or voluntary contributions. Organizations must decide whether to accept these conditions or decline U.S. foreign assistance.

Source: <https://www.federalregister.gov/documents/2026/01/27/2026-01519/protecting-life-in-foreign-assistance>

USAID Innovation Division Relaunches as Independent Nonprofit

USAID's Development Innovation Ventures relaunched February 5, 2026, as the independent DIV Fund with \$48 million in philanthropic backing from two private donors. The new nonprofit will grant \$25 million annually to cost-effective development interventions, continuing work halted when the Trump administration eliminated the division. The transition demonstrates how private philanthropy can sustain evidence-based programs after federal funding cuts. Nonprofits working in international development face an evolving landscape where private funding increasingly fills gaps left by reduced government support, potentially requiring partnerships with new philanthropic intermediaries.

<https://abcnews.go.com/Business/wireStory/48m-philanthropic-backing-division-usaid-relaunches-nonprofit-129914337>

Expanded SNAP Work Requirements Drive Food Bank Demand Surge as Benefits Terminate

SNAP work requirements effective February 1, 2026, expanded to adults ages 55-64 and parents with children 14 or older, eliminating previous exemptions for homeless individuals, veterans, and foster youth. Congressional Budget Office projects 2.4 million people will lose benefits over ten years. Nonprofits operating food banks and emergency assistance programs face substantial client increases as newly ineligible individuals seek alternative food sources while navigating 80-hour monthly work, volunteer, or training requirements to maintain benefits.

<https://abcnews.go.com/US/new-snap-work-requirements-set-effect-feb-1/story?id=129698605>

Federal Funding Threats Target Sanctuary Jurisdictions Serving Immigrant Communities

Trump administration threatens significant federal funding cuts to sanctuary cities and states limiting immigration enforcement cooperation, creating financial uncertainty for jurisdictions including Minnesota, California, and New York. Proposed "No Bailouts for Sanctuary Cities Act" would eliminate funding for programs serving undocumented immigrants including school nutrition, emergency Medicaid, and food assistance. Nonprofits partnering with affected jurisdictions face potential grant disruptions, contract modifications, and service capacity reductions as local governments navigate federal funding threats while maintaining community trust and public safety policies.

<https://www.npr.org/2026/01/17/nx-s1-5679562/trump-sanctuary-cities-ice-immigration>

AI Executive Order Challenges State Nonprofit Regulations

President Trump's December 11, 2025, executive order "Ensuring a National Policy Framework for Artificial Intelligence" directs federal agencies to challenge state AI laws deemed "onerous" and conditions federal broadband funding on states not enforcing AI regulations conflicting with federal policy. The order mobilizes DOJ to litigate against state laws and requires FCC and FTC actions within 90 days. Nonprofits using AI tools or receiving federal grants must navigate conflicting federal and state compliance requirements. Organizations should monitor litigation developments and maintain compliance with existing state laws until legal challenges resolve, as the order cannot independently invalidate state statutes.

<https://www.whitehouse.gov/presidential-actions/2025/12/eliminating-state-law-obstruction-of-national-artificial-intelligence-policy/>

Nonprofit Human Resources Developments

Executive Summary

Federal employment enforcement priorities have shifted sharply toward scrutiny of DEI-related employment practices. DOJ litigation targeting affirmative action programs, coordinated EEOC-DOJ guidance on diversity discrimination, and public encouragement of majority-group complaints signal heightened enforcement risk. Additionally, DOL rescissions and EEOC investigative strategies targeting archived web content expand exposure. Nonprofit employers must reassess hiring practices, mentorship programs, recruitment strategies, volunteer oversight, and public-facing DEI language to mitigate legal risk while maintaining mission-aligned workforce objectives.

Key Actions for This Section

- Conduct privileged legal review of DEI-related employment practices
- Review recruitment, mentorship, and employee resource group structures
- Ensure website and archived language reflect actual operational practices
- Train HR teams on evolving EEOC enforcement posture
- Evaluate risk exposure related to affirmative action-style initiatives
- Develop internal response protocols for discrimination complaints
- Establish AI governance oversight for volunteer and HR automation tools

Justice Department Challenges Minnesota Affirmative Action Employment Program

DOJ filed suit January 14, 2026, seeking to dismantle Minnesota's statutory affirmative action program requiring state agencies to consider race and sex when hiring. The lawsuit challenges nearly 50-year-old Supreme Court precedent permitting remedial affirmative action plans, with DOJ requesting expedited three-judge panel review enabling direct Supreme Court appeal. If successful, the lawsuit could invalidate affirmative action programs nationwide for public and private employers. Nonprofit organizations with similar voluntary programs face heightened legal risk and should conduct comprehensive compliance reviews while monitoring this potentially precedent-setting litigation.

<https://www.justice.gov/opa/pr/united-states-department-justice-files-lawsuit-against-minnesotas-affirmative-action-regime>

EEOC and DOJ Issue Joint Technical Assistance on DEI Discrimination

The EEOC and Department of Justice released coordinated one-page guidance documents clarifying the administration's enforcement positions on DEI-related discrimination. The technical assistance identifies specific practices deemed unlawful including demographic-based employee resource groups, mentorship programs targeting underrepresented populations, and recruitment strategies considering race or sex. Nonprofit employers should review the joint guidance carefully while recognizing it represents agency interpretation rather than binding law. Organizations must balance federal enforcement positions against state anti-discrimination requirements and ongoing judicial interpretations that may diverge from current administrative positions.

<https://www.vorys.com/publication-eeoc-chair-encourages-white-men-to-file-workplace-discrimination-charges>

EEOC Chair Solicits White Male Discrimination Complaints via Social Media

EEOC Chair Andrea Lucas posted a social media video December 19, 2025, directly encouraging white men to file discrimination complaints, stating they may recover money under federal civil rights laws. The unprecedented public solicitation marks a strategic shift toward prioritizing majority-group discrimination claims and signals aggressive enforcement against diversity programs the administration characterizes as illegal. Nonprofit employers should anticipate increased EEOC scrutiny of diversity initiatives and prepare for potential discrimination complaints from majority-group employees, requiring careful review of all employment practices with legal counsel.

<https://www.nbcnews.com/politics/trump-administration/equal-employment-opportunity-commission-head-asks-white-men-report-dis-rcna249939>

● EEOC Targets Archived Web Content to Identify DEI Program Changes

Chair Lucas announced the EEOC will search archived websites to identify organizations that changed DEI language without substantively altering underlying practices, signaling skepticism about cosmetic compliance efforts. This investigative approach supplements traditional enforcement methods with technological tools to detect organizations attempting to disguise prohibited programs through rebranding. Nonprofit organizations that modified diversity program descriptions should ensure actual practice changes align with revised communications. Inconsistencies between historical and current web content could trigger investigations, requiring comprehensive documentation demonstrating genuine programmatic modifications rather than superficial rebranding efforts.

<https://ogletree.com/insights-resources/blog-posts/eeoc-consolidates-power-signaling-aggressive-america-first-agenda-enforcement/>

● Department of Labor Rescinds Worker Non-Displacement Protections

DOL published a final rule December 22, 2025, rescinding regulations requiring successor federal service contractors to offer right-of-first-refusal employment to predecessor contractor employees. The rescission eliminates protections designed to prevent workforce displacement during federal contract transitions, effective immediately without traditional notice-and-comment procedures following Executive Order 14148's directive. Nonprofit service contractors gain hiring flexibility but face increased workforce instability risks when bidding on federal contracts. Organizations should reassess staffing strategies, competitive positioning, and employee retention approaches in anticipation of higher turnover during contract transitions.

<https://www.federalregister.gov/documents/2025/12/22/2025-23626/nondisplacement-of-qualified-workers-under-service-contracts-rescission-of-regulations>

● AI Automates Volunteer Tasks But Lacks Proper Oversight

Eighty percent of nonprofits use AI to automate volunteer coordination, donor communications, and administrative tasks, saving 15-20 hours weekly at \$100-200 monthly cost. Supervision requires three levels: boards establishing ethics committees, executives setting AI strategy, and 0.5-1 FTE operational staff managing daily oversight. Benefits include 20-30% fundraising increases and hundreds of annual hours recovered for mission work. Critical risk: only 10% have governance policies, exposing organizations to algorithmic bias, privacy breaches, and donor distrust without proper controls.

[Source: Goldin Group \(January 5, 2026\)](#)

IRS, Accounting and Finance Developments

Executive Summary

IRS modernization efforts, revised federal audit standards, expanded disclosure obligations, and new charitable tax law changes are materially reshaping nonprofit financial governance in 2026. The reopening of group exemption applications under stricter procedures, release of the delayed 2025 Compliance Supplement, increased Single Audit thresholds, and intensified Form 990 scrutiny elevate documentation and oversight expectations. At the same time, donor deduction changes and UBIT payment requirements complicate fundraising and tax compliance planning, respectively. Boards and finance leaders must align governance, audit readiness, and financial transparency practices immediately.

Key Actions for This Section

- Review group exemption status and compliance under Revenue Procedure 2026-8
- Coordinate with auditors regarding 2025 Compliance Supplement changes
- Confirm applicability of revised Single Audit threshold
- Conduct internal Form 990 risk review prior to filing
- Evaluate document retention policies for legal sufficiency
- Ensure required public disclosure documents are readily accessible
- Monitor UBIT exposure and quarterly estimated tax obligations
- Update donor communications regarding 2026 charitable deduction changes
- Review insurance coverage adequacy and cyber risk protection
- Confirm proper fund accounting segregation and reporting practices

OMB Releases Final 2025 Compliance Supplement After Six-Month Delay

The Office of Management and Budget released the final 2025 Compliance Supplement on November 25, 2025, enabling completion of delayed Uniform Guidance audits. Effective for fiscal years beginning after June 30, 2024, the supplement incorporates the revised \$1 million audit threshold and updates compliance requirements across federal programs. Organizations with multiple grants must track which Uniform Guidance version applies to each award, potentially complicating compliance as transitional rules operate simultaneously. Nonprofits receiving federal awards should immediately review updated compliance requirements with auditors and update internal policies around procurement, costs, and equipment management. Organizations must ensure staff training on revised standards and prepare for potential shifts in audit priorities. First audits under the 2025 Supplement are due March 31, 2026.

Source: <https://www.bnncpa.com/resources/changes-in-the-2025-compliance-supplement-for-uniform-guidance-audits/>

IRS Reopens Group Exemption Applications with Stricter Requirements

The IRS issued Revenue Procedure 2026-8 on January 15, 2026, modernizing group exemption procedures and resuming applications after a nearly six-year moratorium. Effective January 20, 2026, central organizations must have at least five subordinates to obtain a group ruling and maintain at least one to keep it. New requirements include electronic filing on Form 8940, annual Supplemental Group Ruling Information submissions, stricter affiliation and supervision standards, and mandatory uniform purpose statements for subordinates. Each central organization is limited to one group exemption letter. Organizations with existing group rulings have until January 22, 2027, to comply with transition requirements. The updated procedures impose significantly more documentation burdens on both central organizations and subordinates, requiring immediate review to ensure compliance.

Source: <https://www.morganlewis.com/pubs/2026/02/internal-revenue-service-issues-updated-group-exemption-procedures>

Boards and Funders Drive 2026 Governance Improvements Through Form 990 Part VI

Nonprofit boards and funders increasingly demand Form 990 Part VI governance disclosures as accountability benchmarks in 2026. Required for organizations with gross receipts exceeding \$200,000 or assets exceeding \$500,000, Part VI disclosures improve governance by: requiring board independence documentation, conflict of interest policies, whistleblower protections, document retention, compensation review procedures, and pre-filing board review. Charity watchdogs (Candid, Charity Navigator, BBB) use Part VI responses to rate nonprofits. Funders routinely examine Form 990 during grant vetting, assessing fiscal responsibility and governance strength. Forward-thinking boards treat Part VI as strategic governance assessment tool, improving transparency, donor confidence, internal accountability. Noncompliance penalties: \$20/day failure to file; automatic tax-exempt revocation after three years.

Source: [IRS.gov – Exempt Organizations Annual Reporting Requirements \(Form 990, Part VI\)](https://www.irs.gov/charities-non-profits/exempt-organizations-annual-reporting-requirements-form-990-part-vi)

IRS Leverages Form 990 Disclosures to Improve Nonprofit Governance Standards

The IRS promotes nonprofit accountability through Form 990 Part VI governance questions, encouraging adoption of conflict-of-interest policies, whistleblower protections, and document retention procedures. While these policies aren't legally required for most organizations, their absence signals governance weaknesses that may trigger scrutiny from regulators, donors, and the public. The Form 990 serves as both a compliance tool and marketing document, with organizations facing reputational risks and potential investigations if governance disclosures reveal inadequate oversight structures or practices.

Source: <https://www.irs.gov/charities-non-profits/exempt-organizations-annual-reporting-requirements-governance-form-990-part-vi>

● Form 990 Errors Trigger Most IRS Nonprofit Audits Despite Low Overall Audit Rates

Form 990 is primary IRS audit trigger for nonprofits. IRS computer systems use 200+ queries analyzing Form 990 for red flags. Top triggers: incomplete/inaccurate returns, acknowledging asset diversion (embezzlement), prohibited political activity, unrelated business income exceeding \$1,000 without Form 990-T filing or exceeding 20% total revenue, excess benefit transactions with disqualified persons, unreasonable compensation (excessive or unusually low), foreign grant activity inconsistencies, fundraising income/expense discrepancies, missing 1099-NECs for contractors, loans to insiders. Cure methods: file complete accurate returns, work with tax professionals specializing in nonprofits, maintain proper governance, implement internal controls. Audit likelihood: IRS audits relatively few nonprofits annually. State audits: vary by state, typically triggered by charitable solicitation registration violations, high-revenue thresholds requiring audited financial statements.

Source: [Foundation Group – Top 10 Form 990 Audit Triggers](#)

● Document Retention: Critical 2026 Governance Compliance with Individual Liability

Document retention emerged as significant 2026 compliance priority: boards increasingly view written retention policies as transparency benchmark, governance tool, and fiduciary duty fulfillment mechanism. Form 990 Part VI disclosure requirements reinforce accountability expectations. Individual liability: Sarbanes-Oxley (18 USC 1519) criminalizes intentional document destruction by "whoever" (board members, officers, employees, trustees) who knowingly destroys records to obstruct federal investigations—penalties include imprisonment up to 20 years, fines. Civil spoliation penalties: default judgment, adverse inference instructions, monetary sanctions against individuals and organizations. State requirements vary (California/Illinois 10-year statute of limitations, New York 6 years payroll). Boards emphasize retention policies facilitate transparency, demonstrate good governance, protect against criminal prosecution and civil sanctions. Permanent retention: Articles of Incorporation, IRS determination letters, Form 990s, board minutes, audit reports.

Source: [Minnesota Council of Nonprofits – Document Retention Requirements](#)

● Federal Law Mandates Public Disclosure of Nonprofit Tax Returns and Exemption Applications

Tax-exempt organizations must make their three most recent Form 990 annual returns and IRS exemption applications available for public inspection upon request. Organizations face penalties of \$20 daily for noncompliance, up to \$10,000 per return. While nonprofits need not disclose contributor names and addresses on Schedule B, all other financial information remains subject to mandatory disclosure requirements under federal regulations. Nonprofits should proactively post Form 990s and exemption applications on organizational websites to streamline compliance and demonstrate commitment to transparency. Failure to maintain proper document availability or respond timely to disclosure requests exposes organizations to regulatory penalties and undermines stakeholder confidence in organizational accountability and financial stewardship.

Source: <https://www.councilofnonprofits.org/running-nonprofit/ethics-accountability/financial-transparency-and-public-disclosure-requirements>

Federal Single Audit Threshold Increases to \$1 Million for Awards After October 1, 2024

The Office of Management and Budget raised the Single Audit threshold from \$750,000 to \$1 million in April 2024, effective for federal awards issued after October 1, 2024. This 33% increase applies to fiscal years ending on or after September 30, 2025, reducing audit burdens for thousands of smaller nonprofits while maintaining accountability standards. Organizations must carefully track when federal awards were granted, as different compliance standards may apply simultaneously. Nonprofits approaching the new threshold must implement proactive monitoring systems distinguishing between pre-October and post-October 2024 awards. Organizations may need to document and follow two different standards under transitioning federal awards, requiring careful expenditure tracking to determine which compliance provisions apply to specific funding streams.

Source: <https://www.bpm.com/insights/single-audit-threshold-2025-nonprofits/>

Nonprofits Must File Quarterly Estimated Tax Payments When UBIT Exceeds \$500

Organizations expecting unrelated business income tax liability of \$500 or more must make quarterly estimated tax payments using Form 990-W, following the same rules applicable to corporate income tax. Missing these quarterly payments triggers underpayment penalties, adding financial burden to organizations already managing complex UBIT calculations. The requirement applies in addition to annual Form 990-T filing obligations, creating multiple compliance touchpoints that demand careful tax planning and cash flow management throughout the year.

Source: <https://www.irs.gov/charities-non-profits/estimated-tax-unrelated-business-income>

2026 Tax Law Changes Create New Charitable Deduction Opportunities and Restrictions

Starting in 2026, taxpayers taking the standard deduction can claim up to \$1,000 (individuals) or \$2,000 (married couples) for cash donations to public charities, potentially benefiting 87% of taxpayers. However, itemizers face a new 0.5% AGI floor, requiring charitable giving to exceed this threshold before deductions apply. Donor-advised funds and private foundations don't qualify for the standard deduction benefit. These changes require nonprofits to educate donors about new giving strategies while navigating more complex tax conversations.

Source: <https://blog.carnegieinvest.com/charitable-giving-tax-changes-coming-in-2026-what-you-should-know>

Nonprofit Insurance Requirements Intensify Amid Rising Liability and Cyber Threats

Nonprofits confront expanding insurance requirements including general liability, directors and officers coverage, professional liability, employment practices liability, cyber insurance, and volunteer accident coverage. Adequate insurance serves as prerequisite for volunteer protection laws under federal and state statutes. Organizations operating without comprehensive coverage face significant legal exposure, reputational damage, volunteer recruitment challenges, and potential financial ruin from uninsured claims. Cyber insurance becomes critical as data breaches surge, with 3,322 compromises reported in 2025 affecting 80% of consumers and generating substantial remediation costs.

<https://www.worldinsurance.com/blog/nonprofit-insurance-coverage-for-volunteers>

Proper Fund Accounting Practices Critical for Nonprofit Financial Transparency and Donor Trust

Fund accounting enables nonprofits to segregate financial activities by funding source and restriction type, ensuring compliance with donor intent and grant requirements. Organizations must track restricted and unrestricted funds separately, maintain detailed financial statements including statements of activities, financial position, cash flows, and functional expenses. The Financial Accounting Standards Board's Generally Accepted Accounting Principles provide the framework for nonprofit financial reporting, with recent updates simplifying presentation requirements. Nonprofits should implement reliable accounting software to manage fund accounting complexity and ensure accurate allocation of revenues and expenses across multiple funding streams. Proper fund accounting demonstrates fiscal responsibility to stakeholders, facilitates audit preparation, supports grant compliance, and enables strategic decision-making regarding resource allocation and mission advancement.

Source: <https://www.netsuite.com/portal/resource/articles/accounting/nonprofit-accounting.shtml>

State Nonprofit News

Executive Summary

State-level legislative and regulatory developments are adding another layer of compliance complexity for nonprofit organizations in 2026. Proposed transparency expansions, evolving audit thresholds, and heightened scrutiny of federally funded nonprofits demonstrate growing state oversight expectations. Differences between state and federal audit standards require careful jurisdiction-by-jurisdiction analysis, particularly for multi-state organizations. Legislative proposals in Maryland and Pennsylvania signal continued modernization efforts, while high-profile audit failures highlight enforcement risk. Nonprofits must proactively assess state compliance exposure alongside federal obligations.

Key Actions for This Section

- Conduct state-by-state audit threshold analysis
- Review charitable solicitation registration compliance
- Monitor Maryland public records legislation if receiving state funds
- Track Pennsylvania audit threshold legislation
- Confirm Single Audit completion status where federally required
- Develop contingency plans if operating in sanctuary jurisdictions
- Review fiscal agent arrangements and audit oversight protocols
- Strengthen internal financial transparency systems

Minnesota Legislature Prepares for February 17 Session Amid Federal Funding Concerns

Minnesota's 2026 legislative session commences February 17 with lawmakers preparing to address threats of federal funding cuts to sanctuary jurisdictions and heightened immigration enforcement operations. The administration has threatened to withhold significant federal dollars from Minnesota after identifying the state on a list of sanctuary locations, raising urgent questions about potential budget impacts for nonprofits dependent on federal grants. Minnesota nonprofits receiving federal funds should closely monitor legislative developments and assess vulnerability to potential funding disruptions. Organizations may need to develop contingency financial plans and consider diversifying revenue sources to mitigate risks associated with threatened federal cuts.

Source: <https://mndaily.com/city/minnesota-legislators-prepare-for-start-of-session/02/03/2026/>

● State-Level Audit Requirements Vary Significantly, Demanding Careful Compliance Navigation

Approximately one-third of states mandate audits for nonprofits meeting specified revenue thresholds when soliciting donations from state residents. California requires audits for organizations with gross income exceeding \$2 million, while other states set lower thresholds. These state requirements operate independently of federal Single Audit rules and charitable solicitation registration laws, creating layered compliance obligations that vary dramatically by jurisdiction. Nonprofits operating across multiple states must conduct comprehensive jurisdiction-by-jurisdiction analyses of audit obligations. Organizations should consult state-specific nonprofit associations and legal counsel to understand requirements, as noncompliance risks penalties, reputational damage, and potential loss of solicitation privileges. State audit laws often tie to total revenue or charitable contributions rather than just federal expenditures.

Source: <https://www.councilofnonprofits.org/running-nonprofit/nonprofit-audit-guidec/state-law-nonprofit-audit-requirements>

● State Audit Thresholds Remain Independent of Federal Requirements Despite Single Audit Increase

While the federal Single Audit threshold increased to \$1 million in 2024, state audit requirements operate independently with varying thresholds. California mandates audits at \$2 million gross revenue, while New York requires them at \$1 million, creating a complex compliance matrix for multi-state organizations. Nonprofits must navigate approximately one-third of states with mandatory audit requirements, each with different revenue triggers and reporting deadlines, significantly complicating financial planning and potentially requiring audits even when federal requirements don't apply.

Source: <https://www.bpm.com/insights/single-audit-threshold-2025-nonprofits/>

● Maryland Considers Expanding Public Records Access for Nonprofits Receiving State Funds

Maryland House Bill 0015 would classify certain nonprofit documents as public records when organizations receive \$50,000 or more annually from state grants, bond proceeds, or local impact grants. The proposed legislation extends Public Information Act requirements to nonprofits, subjecting them to the same disclosure rules and limitations that apply to governmental entities under Maryland law. Maryland nonprofits accepting substantial state funding should prepare for potentially expanded transparency obligations. Organizations need to review document retention policies and internal governance materials to ensure compliance readiness, as the legislation could significantly alter operational privacy expectations for state-funded charitable entities.

Source: <https://mgaleg.maryland.gov/mgaweb/Details/HB0015>

Pennsylvania Introduces Bipartisan Bill to Modernize Nonprofit Audit Requirements

Pennsylvania Senators introduced Senate Bill 1183 on February 5, 2026, raising audit thresholds for registered charitable organizations. The legislation increases the audit requirement from \$750,000 to \$1 million in annual contributions, while establishing tiered requirements at \$500,000 (review/audit) and \$150,000 (compilation/review/audit). Organizations receiving under \$150,000 would face no mandatory financial statement requirements, aligning Pennsylvania more closely with neighboring states and federal single audit standards. Pennsylvania nonprofits should reassess their financial reporting obligations under these proposed changes. Organizations near threshold boundaries must carefully track contribution levels, as crossing these markers triggers different compliance requirements. The updated standards may provide cost relief for smaller organizations while maintaining accountability expectations for larger charities.

Source: <https://senatorculver.com/2026/02/05/culver-pisciottano-introduce-bipartisan-bill-to-update-charitable-audit-thresholds/>

Baltimore Nonprofit Managing \$60 Million in Federal Funds Faces Scrutiny Over Missing Audits

A Maryland nonprofit administering over \$60 million in Ryan White HIV program funds has failed to complete federally mandated audits for three consecutive years, according to investigative reporting. Connections Thru Life, selected by Baltimore City Health Department to manage taxpayer dollars, disclosed on Forms 990 from 2022-2024 that no required audits were completed. Federal regulations mandate Single Audits for organizations expending such substantial federal funding, raising significant oversight and accountability concerns. Maryland nonprofits receiving federal awards must ensure timely Single Audit compliance to avoid regulatory violations and reputational damage. The spotlight on audit failures demonstrates heightened scrutiny of nonprofit fiscal agent arrangements and emphasizes the critical importance of maintaining robust financial oversight systems and transparent reporting practices.

Source: <https://foxbaltimore.com/spotlight-on-maryland/md-nonprofit-60-million-no-required-audits>

Summary

The February 16, 2026 Navigator News Update highlights a period of significant regulatory, legal, and governance transformation affecting nonprofit organizations. Federal enforcement

priorities have intensified around DEI-related certifications, with the False Claims Act emerging as a central compliance risk for contractors and grantees. Human resources enforcement actions signal heightened scrutiny of employment practices, while IRS modernization, revised audit standards, and expanded disclosure requirements raise financial governance expectations. State-level audit and transparency initiatives add further complexity, particularly for multi-state organizations. Nonprofit boards and executive leaders must align legal review, financial oversight, documentation practices, and strategic planning to navigate this evolving operating environment.

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