



March 22, 2012

Mr. James Dougherty, CFO  
The Board of Directors  
The ManKind Project USA  
Glendale, CA

In planning and performing our audit of the financial statements of THE MANKIND PROJECT USA (the Organization) as of and for the period ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in THE MANKIND PROJECT USA's internal control to be material weaknesses:

A good system of internal control provides for a proper segregation of the accounting functions. During the period under audit, the Organization did not have the proper segregation of duties over cash receipts, cash disbursements, accounts receivable, and accounts payable. For example, the same person opens cash receipts and enters them in the accounts receivable subsidiary ledgers. We understand that proper segregation is not always possible in a small organization, but limited segregation to the extent possible can and should be implemented to reduce the risk of errors or fraud. We recommend that management review the current assignment of accounting functions and where possible, duties should be segregated to reduce the risk of errors or fraud. Compensating controls should be implemented through Board oversight and review of financial records. We noted that Board oversight appeared to be lacking during the period under audit.

We understand the turnover in the Organization's financial staff, and partly because of this, there was no individual with the capability to keep adequate financial records in accordance with the accrual basis of accounting, or to prepare financial statements in accordance with U.S. generally accepted accounting principles. As a result there were no controls in place to allow for proper cut-off of accounting transactions or financial information at year-end. This was evidenced by numerous adjusting journal entries to record pledges receivable, accrued payroll and related liabilities, prepaid expenses, receivables, related party payables, accumulated depreciation and amortization, deferred revenue, net assets, and related revenues and expenses. As such, the Organization should implement procedures into the financial close process which outlines the procedures specific to identifying cut-off issues near year-end and ensures appropriate classifications and reporting, including a review of receivables and accruals and financial reports by a member of the board or finance committee.

Journal entries were entered into the accounting system with little or no supporting documentation. Additionally, undeposited funds and reconciliation discrepancies accounts were misused and required significant adjustment. This results in a greater chance that a mistake or fraud could go undetected and could create a material misstatement. We again recommend another level of review of all journal entries recorded to the accounting records.

Net assets were not reconciled and adjusted to prior year amounts and certain transactions were directly entered to net assets rather than as restricted revenue or transfers to ManKind Project International. It is not good accounting practice to record entries directly to net assets.

The payment and recording of expenses should be closely monitored as the Organization did not maintain sufficient documentation. The miscoding of expenses may result in inaccurate monthly financial statements and increased time reconciling accounts at month and year-ends. Disbursements should be made only from approved documentation such as original invoices and expense reimbursement requests and this documentation should be retained for future reference.

Also, the receipt and recording of revenue should be closely monitored as the Organization does not maintain sufficient documentation. Revenue may be unrecorded or recorded incorrectly without notation of restrictions. This results in a greater chance that a mistake or fraud could go undetected and could create a material misstatement.

The Organization did not maintain effective controls over the recording of revenues, expenses and prepaids. We recommend the Organization implement effective control policies and procedures to ensure accurate financial reporting.

The Organization did not agree bank reconciliations to the bank statements and had several old outstanding checks and other transactions on the bank reconciliations. This may result in undetected mistakes or fraud within the Organization. We recommend the Organization put policies in place for the review of bank reconciliations by someone other than the preparer.

The Organization did not pay state payroll taxes timely, including amounts withheld from employees. The related liabilities were not fully recorded as of December 31, 2010 nor were related interest and penalties. We recommend the Organization implement a procedure to ensure timely reporting of payroll tax liabilities, timely filing of state payroll tax returns and timely remittance of employee's payroll tax withholdings. We understand that management has assessed compliance with all states and taken steps to ensure adequate reporting and remittance to certain states, and that they acknowledge that some states may not be aware of outstanding taxes but believe these amounts to be immaterial. Also regarding payroll, we recommend that 941s be reconciled to W-2s before filing to avoid discrepancy notices from the IRS.

The Organization did not record all expenses payable to Mankind Project International, nor record a restricted contribution received on its behalf. Due to the relationship of these two entities, it is critical that the organizations work together to reconcile related party activity.

The Organization did not accrue vacation pay that vested to its employees.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in THE MANKIND PROJECT USA's internal control to be significant deficiencies:

Insurance expense was understated and missing expense amounts were reflected as reconciliation discrepancies. Also, the Organization is paying for auto insurance and no vehicles are reflected on the books. Upon inquiry of the Organization's personnel, no one appeared to know why the insurance was being paid and what vehicles it represented. Additionally, the policies are quite comprehensive and include coverage which may no longer be applicable. We recommend that the Organization do a complete assessment of its insurance policies for applicability and proper coverage limits.

During our audit procedures we also noted that deposits were not made to financial institutions on a timely basis. We recommend that the Organization adopt a policy of depositing monies received within one to two days of receipt. This would maximize interest earnings and reduce the risk of fraud.

### Management's Responses

We considered your recommendations in this letter which were for the year ended 2010, the period under examination. Since early 2011, the ManKind Project USA has secured the services of a certified public accountant, who is a partner of a firm, to improve and implement controls mentioned above, namely:

- Improved segregation of duties:
  - the bookkeeper's work is under the supervision of a certified public accountant.
  - the bookkeeper downloads data and views checks included with the deposits weekly.
  - the bookkeeper no longer has access to any live account except for PayPal.
  - the PayPal account is set up to wire money directly to MKPUSA's checking account.
  - the bookkeeper prepares all bank reconciliations.
  - bill payment occurs via cloud computing in bill.com and payment can only be made by the finance director after approval from the executive director.
  - very few checks have to be prepared manually – manual checks are prepared by the staff of the CPA, the CPA then signs the checks, the firm staff then stuffs the envelopes and mails the checks, these have generally been for tax payments.
  - donations received are received by the accounting firm; a staff of the firm prepares the deposits and scans the checks for the bookkeeper to see, as noted above.
  - the CPA then takes the deposit to the bank.
- Improved cut-off:
  - the bookkeeper is responsible for maintaining the daily transactions and he has established an accounting staff manual which includes instructions on weekly and month-end reporting.
  - the finance director reviews the financial information.
  - the CPA reviews the financial information via QuickBooks to ensure all entries necessary have been recorded for monthly, quarterly and yearly reports.
- Improved oversight:
  - several members of the finance committee have view access and approval/denial authority with respect to invoices being approved and paid in Bill.com.
  - payment of expenses are scrutinized by the finance committee and the board of directors.
  - the bank reconciliations are reviewed regularly by a supervisor of the bookkeeper.

- The ManKind Project USA and ManKind Project International have come to agreements on monies owed between the parties and there are regular communications regarding open payables and receivables between the two organizations.
- the insurance policy was reviewed during the latter part of 2011 and new more relevant policies were obtained for 2012.
- starting in 2012 weekly financial reporting is provided to the finance committee and board of directors.
- Improved documentation retention:
  - MKPUSA implemented a bill paying system in the cloud called Bill.com.
  - Once submitted to Bill.com, invoice images are retained and are matched to cleared checks and notifications of electronic fund transfers.
- Improved compliance:
  - the CPA has worked with the states where taxes have not been paid and has reconciled with most of the states where taxes were due and continues to push forward to final resolution the non-payment of payroll taxes issue.
  - the CPA has compared the 941s to the W-2s for the 2010 year and the 2011 year and has corrected the notification from the IRS regarding 2008 941 v W-2s comparison.
  - MKPUSA now has Paychex prepare and execute the payroll on a monthly basis.
- Improved timeliness:
  - checks received are deposited weekly on Friday for checks received during the week unless checks totaling greater than \$2,000 are received, then those checks are deposited the day received.
  - reconciliations of the cash accounts are done promptly after each period end.
  - financial reporting is done weekly now by the bookkeeper and it is communicated to the finance committee and the board of directors.
- Improved security:
  - the computer that is used by MKPUSA is housed in the offices of the CPA and is kept behind a locked door.
  - nightly the computer is backed up as part of the firm's disaster recovery plan.
  - payment of invoices via Bill.com insures that payments are visible to members of the finance committee.
  - Bill.com houses the images of invoices and their related support and the cancelled checks or electronic fund transfers and these are available for examination by the auditors or other members of the finance committee.
  - the records are now being maintained in the offices of the CPA and will be retained as part and parcel with the CPA's record retention policy.

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

*Ward & Davis LLP*