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To the Board of Directors of  
Animals Asia Foundation Limited  
San Francisco, California

In planning and performing our audit of the financial statements of Animals Asia Foundation Limited (the "Foundation") as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Animals Asia Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

We noted the following deficiencies in internal control that we believe should be addressed by management:

#### **CURRENT YEAR COMMENT**

##### **Net Assets Reconciliation**

We noted that the beginning balance of total net assets for 2017 did not agree to the ending balance of total net assets from the 2016 audited financial statements. As a part of the annual close process, we recommend that the Foundation's trial balance is reconciled with the audited amounts.

#### **PRIOR YEAR COMMENTS**

##### **Debit Card Authorization**

During our audit, we noted that purchases made by debit card over \$2,000 do not require dual approval. This is inconsistent with the Foundation's check policy which requires all payments over \$2,000 to have two signatures. We therefore recommend that dual approval be required for purchases over \$2,000 on debit cards. This will help to ensure control over cash disbursements and keep a consistent policy for approval of expenditures across the Foundation.

##### **Electronic Transfer Approvals**

Currently, wire transfers are processed on the Foundation's banking platform and they are able to be initiated and approved by one individual. This creates an opportunity for an employee to process unauthorized wire transfers without the knowledge or oversight of another individual. We recommend the electronic transfer process involve two separate individuals to segregate the duties of initiating and approving a transfer within the banking platform to eliminate the possibility of an unapproved wire being process by one individual.

## **In-Kind Contributions**

In the current year, the Foundation established a Donation of Services Agreement with the Hong Kong entity to clearly define the services they provide to the Foundation with no remuneration. Additionally, a letter is provided annually by the Hong Kong entity to the Foundation which specifies the value of the service provided that is used to record gift-in-kind services in accordance with GAAP. We noted during the audit that a formal review of the value of in-kind contributions received from the Hong Kong entity is not performed by the Foundation. We recommend that the Foundation develop a formal process to review, verify, and approve the value provided for the in-kind contribution of services. This will ensure that the value assigned to the professional services is appropriate and deemed acceptable to the Foundation and is appropriately stated in their financial statements.

In addition to deficiencies in internal control, we noted the following suggestion for management:

### **CURRENT YEAR COMMENT**

#### **New Accounting Standards**

Two new accounting standards have been recently issued around leases and not-for-profit financial reporting, and are likely to have a noticeable impact for the Foundation in the next several years. These standards will require dedicated time, resources, and analysis to implement before the effective dates that range from 2018 to 2020. The following is a brief summary of the new standards and some related matters:

- **Not-for-Profit Financial Reporting (Effective December 2018):** The main provisions of this standard include increased liquidity disclosures, reducing net asset classes from 3 to 2, additional disclosures about board-designated fund activities, changes to investment expense disclosures, and requirement to present expenses by functional and natural classifications.
- **Leases (Effective December 2020):** The standard will require all lessees to recognize the rights and obligations under the lease as assets and liabilities on the balance sheet, regardless of whether the lease is a capital or operating lease.

We suggest management follow these standards closely and develop a plan for a successful implementation that covers a review of customer contracts, systems requirements, reporting capabilities, and other areas impacted.

### **PRIOR YEAR COMMENT**

#### **Written Policies and Procedures Manual**

During our review we noted that there was no written, formalized policies and procedures manual governing a range of important issues, including accounting for cash receipts, disbursements, payroll, PTO/liability accruals, time tracking procedures, expense reimbursement procedures, etc. Instead, most of this vital information is transmitted orally on an ad-hoc and need-to-know basis. We recommend that the Foundation develop, document, and maintain a written, formalized policies and procedures manual.

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

BPM LLP

BPM LLP  
San Francisco, California  
November 5, 2018