

GIFT OF ADOPTION FUND, INC.

LETTER TO THE BOARD OF DIRECTORS

YEAR ENDED JUNE 30, 2008

**Tentative and Preliminary
for Discussion Purposes Only**

Board of Directors
Gift of Adoption Fund, Inc.
Techny, Illinois

In planning and performing our audit of the consolidated financial statements of Gift of Adoption Fund, Inc. (the Organization) for the year ended June 30, 2008, 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 consolidated 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 would not necessarily identify all deficiencies in internal control that might be control deficiencies, significant deficiencies or material weaknesses. However, as discussed in the memorandum that accompanies this letter, we identified a deficiency in internal control that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency or a combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's consolidated financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the consolidated financial statements will not be prevented or detected by the Organization's internal control. We did not note any material weaknesses.

In addition, we noted other matters involving the internal control and its operation and other best practices. The memorandum that accompanies this letter summarizes our comments and recommendations concerning those matters.

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

January ____, 2009

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GIFT OF ADOPTION FUND, INC.

COMMENTS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2008

Significant deficiency

Financial statements performed in conformity with U.S. GAAP:

The Organization engages Ostrow Reisin Berk & Abrams, Ltd. (ORBA) to assist in preparing its consolidated financial statements and accompanying disclosures. However, as independent auditors, ORBA cannot be considered part of the Organization's internal control system. To establish proper internal controls over the preparation of its consolidated financial statements, the Organization would need to design and implement a review procedure to ensure that the consolidated financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of accounting principles generally accepted in the United States of America and knowledge of the Organization's activities and operations. Currently, the Organization personnel lack sufficient U.S. financial reporting knowledge to perform a review of the Organization's consolidated financial statements and related disclosures to provide a high level of assurance that any potential material omissions or other errors would be identified and corrected.

Control deficiency

Segregation of duties:

The Grants and Accounting Manager is involved in most of the roles surrounding the Organization's handling of payroll, including the receipt of the payroll package, which creates a segregation of duties issue.

Complete segregation of duties can be difficult or impractical in small organizations. However, this control deficiency may be improved by modifying the employee roles to the extent possible to separate conflicting duties such as authorization, custody and recording financial information.

We recommend that the payroll package be sent directly to the Chief Executive Officer at the Organization's office to strengthen the controls in place over the payroll function.

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COMMENTS AND RECOMMENDATIONS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Other matters

Redesign of IRS Form 990:

In December 2007, the IRS issued a redesigned Form 990 for the 2008 tax year (returns filed in 2009). The redesigned Form 990 includes a core form comprised of 11 pages required for all filers plus up to 16 schedules to be completed depending on the type of filer and the activities conducted. The redesigned Form 990 focuses on three guiding principles: enhancing transparency, promoting tax compliance and minimizing burden on the filing organization.

The redesigned Form 990 asks many new questions focused on governance policies. Some of the questions include whether the filing organization has written policies in place for the following: conflicts of interest, whistleblower protection, document retention and destruction, expense reimbursement, gift acceptance and monitoring grant and scholarship funds. Many of these policies are also discussed in detail in the Panel on the Nonprofit Sector's *Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations*. The Guide includes 33 principles for good governance and a copy of this report can be downloaded at www.nonprofitpanel.org. We recommend that the Organization review its current policies and consider updating the policies as needed.

The redesigned Form 990 also asks if Form 990 was provided to the organization's governing body before it was filed and describe how the organization reviews Form 990. We recommend that Form 990 be provided to the Audit/Finance Committee and/or the full Board of Directors before it is filed. We also recommend that the Audit/Finance Committee and Board members receive training on Form 990 and items to look for.

Another series of questions focuses on compensation, namely asking if the process for determining executive compensation includes a review and approval by independent persons, use of comparable data and contemporaneous substantiation of the deliberation and decision. See further discussion of executive compensation below.

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COMMENTS AND RECOMMENDATIONS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Other matters (continued)

Executive compensation:

The IRS continues to focus on executive compensation and a series of questions specific to this topic is included in the redesigned Form 990.

We recommend that the Organization review its procedures regarding determining executive compensation to make sure that the Organization has developed a formal process to determine executive compensation and establish a “rebuttable presumption of reasonableness” by including the following in the compensation review of key employees:

- The governing body (or an appropriate committee) should review and approve all compensation and benefits awarded to key employees. Members of the governing body must not have a conflict of interest.
- The governing body must rely on appropriate data, depending on the Organization’s size and complexity. Relevant compensation comparables include compensation paid by similarly situated organizations, both taxable and tax-exempt.
- The decision and deliberation of the governing body must be documented thoroughly and contemporaneously.

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