

THE TECH MUSEUM
OF INNOVATION

Management Comments Letter
Year Ended June 30, 2009

**To the Audit Committee and Management of
The Tech Museum of Innovation**

In planning and performing our audit of the financial statements of The Tech Museum of Innovation (“The Tech” or the “Organization”) for the year ended June 30, 2009, in accordance with U.S. generally accepted auditing standards, we considered The Tech’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an 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.

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 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 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 financial statements will not be prevented or detected by the Organization’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, misstatements due to error or fraud may occur and not be detected by such controls.

During our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions.

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

The Audit Committee and Management of
The Tech Museum of Innovation

The Organization's written responses have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss these matters in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We want to express our sincere appreciation to The Tech staff for the cooperation and assistance received during the audit engagement and for the opportunity to serve The Tech Museum of Innovation.

Very truly yours,



San Jose, California
November 17, 2009

THE TECH MUSEUM OF INNOVATION

Management Comments Letter

June 30, 2009

CURRENT YEAR SIGNIFICANT DEFICIENCIES

Contributions and pledges receivable

Observation:

During our examination of contributions and pledges receivable, we noted various areas for improvement over tracking and recording of donor contributions and pledges receivable. Below are significant items we noted during our audit:

- *Cutoff of pledge receipts:* Upon examination of contributions, we noted that a \$50,000 payment made during the 2008 year was not properly removed from the pledges receivable ending balance. The error was due to a timing issue as the funds were received through a wire payment. As this amount applied to the 2008 year-end and is immaterial to the financial statements as a whole, ISF did not deem it necessary to propose an audit adjustment.
- *Signed pledge letters:* During our substantive testing over contributions and pledges receivable, we noted that various contributions did not have sufficient documentation from the donor acknowledging the pledge or contribution. In most cases, an email from the donor acknowledged the pledged amounts; however, for verbal pledges documentation was unavailable or inadequate.
- *Comingling of donor identification:* Contributions and pledges selected for testing and confirmation were difficult to agree to donor files. Upon further investigation and inquiry, it was noted that the donor and financial accounting systems used the same donor identification for multiple funding sources. For example, an individual donor may contribute funds to the Organization from their personal resources and in addition instruct an affiliated organization to contribute to The Tech in either the form of a private foundation or affiliated entity. Both donations are accounted for by The Tech with the same donor identification.

Recommendation:

Based on the above observations, we recommend the following:

- *Cutoff of pledge receipts:* As part of the year-end close, we recommend that the Organization review wire transfers and receipts to ensure that all pledges have been properly included or excluded in the year-end pledges receivable listing.
- *Signed pledge letters:* We recommend as a best practice that the Organization develop a formal letter to be completed by donors for confirmation of their pledges.
- *Comingling of donor identification:* We recommend that the Organization assign different donor identification codes for all donors.

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CURRENT YEAR SIGNIFICANT DEFICIENCIES (continued)

Contributions and pledges receivable (continued)

Management Response:

We agree with the recommendation and will implement the following:

- *Cutoff of pledge receipts:* We will review the year-end cash receipts to ensure proper cutoff.
- *Signed pledge letters:* Verbal pledges are never booked. Most pledges are communicated to us by email and in the future, all pledge emails will be printed and placed in the donor file so that complete documentation is easily available.
- *Comingling of donor identification:* We currently record and file foundation donations under the individual name in cases where the relationship began before the family foundation was formed but all acknowledgements are addressed to the proper donor (individual or the foundation). In the future, we will follow the recommendation and assign different identification codes to all donors.

Fixed assets and construction in progress

Observation:

During our examination of fixed assets and construction in progress, we noted a discrepancy with the fixed asset listing. Upon further inquiry, it was discovered that an in-kind donation was recorded in 2008 and 2007 in error. The error was not corrected until the property tax return was filed. This error resulted in an adjusting journal entry to construction in progress.

In addition to the above, errors were found in the capitalization of the Open Source project. The amount recorded as construction in progress in the prior year should have been moved to Exhibits and depreciated for the fiscal year ended June 30, 2009. Furthermore, current year operating expenses of the project should not have been recorded as construction in progress but expensed as labor costs as no fixed asset was generated. An audit adjustment was made to write-off current year expenses and to record depreciation.

Recommendation:

As part of the year-end close process, we recommend that the Organization review the fixed asset listing for accuracy, including amounts in construction in progress.

Management Response:

We agree with the recommendation and will implement the year-end review process.

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CURRENT YEAR OTHER MATTERS

Accounting for and reconciliation of investments

Observation:

During our audit we noted that the Organization's controls over the accounting and reconciliation of the investment accounts could be improved:

- *Investment rollforward:* The schedule provided did not agree to the trial balance. Upon further inquiry, it was noted that amounts recorded for realized/unrealized gains (losses) were incorrectly recorded to the appropriate account. This resulted in a reclassifying journal entry.
- *Alternative investments:* The Organization was not able to provide a schedule for alternative investment fair value calculation in compliance with SFAS No. 157, *Fair Value Measurements*.

Recommendation:

We recommend that the Organization perform a year-end review over the investment rollforward to ensure amounts are properly recorded to the proper account. In addition, we recommend that the Organization monitor the alternative investments and implement procedures to be able to calculate fair value of these investments at year-end.

Management Response:

We agree with the recommendation and will implement the following:

- *Investment rollforward:* We will implement the recommendation of a year-end review to ensure accuracy of all general ledger accounts
- *Alternative investments:* We will install procedures so we are able to calculate fair value of alternative investments at year-end.

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PRIOR YEAR OTHER MATTERS

Transparency over the approval of expenses for the President

Observation:

For the purposes of ensuring transparency, we recommend enhancing the process for authorization and approval of reimbursing the President's expenses. During our audit, we noticed that, per The Tech's current policy, the Chief Operating Officer approves the President's expense reimbursement requests and corporate credit card expenditures.

Recommendation:

The Organization should authorize the Chairman of the Board of Directors and Chairman of the Audit Committee to examine and approve the President's reimbursement requests, to determine if the items are legitimate expenses incurred in the furtherance of The Tech's business or mission. In addition, the President's business related travel should be conducted in accordance with the Organization's current travel policy; any exception should be pre-approval by one of the Chairmen. All approvals should be documented and retained in the Organization's records.

Management Response:

Management agrees with this recommendation.

Status:

Implemented.

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PRIOR YEAR OTHER MATTERS (continued)

Documentation of significant actions during Executive Sessions

Observation:

To document governance and oversight of an organization, the Board of Directors and its committees should document all significant actions timely in minutes that are signed and approved. Per inquiry of management regarding approval of bonuses and compensation of the President, it was noted that the approvals were done by the Executive Committee in an executive session. However, these approvals, as well as the research done in establishing the President's compensation, were not documented in the minutes.

Recommendation:

We recommend that the Organization document significant results of executive sessions in bullet form, stating that items such as bonuses and compensation were approved. In addition, the Organization's Secretary (or other selected officer) should retain research related to officer compensation studies in a confidential manner.

Management Response:

Management agrees with this recommendation.

Status:

Implemented.

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PRIOR YEAR OTHER MATTERS (continued)

Evaluation of items for proper classification

Observation:

Certificates of Deposit (“CD”), with original maturities of greater than 90 days at the date of purchase are not considered cash equivalents per Statement of Financial Accounting Standard 95. These amounts were reclassified to investments at year end for financial statement disclosure. Accrued income on these CD’s was reclassified from cash to receivables. Receivables need to be thoroughly evaluated for collectibility (write-offs should be made as part of the closing process). An evaluation of the current effective rate for the multi-year receivables discount should be performed. A roll-forward of receivables should be reviewed to ensure starting balances agree with the prior year audited balances.

Recommendation:

We recommend as part of the Organization’s year-end close process, the evaluation of assets be examined for accuracy, classification, and collectibility.

Management Response:

Management agrees with this recommendation.

Status:

Implemented.

THE TECH MUSEUM OF INNOVATION

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PRIOR YEAR OTHER MATTERS (continued)

Accounting Manual

Observation:

The purposes of such a manual are to ensure that proper accounting principles are being applied, that similar transactions are treated consistently, and that financial reports are produced in the form desired by management. A well-written accounting manual will aid in the training of new employees and assist management in delegating and segregating duties. The manual should include:

- An organizational chart
- Finance department job descriptions, outlining duties and responsibilities
- Duties and responsibilities (as contracted) of The Health Trust staff
- Descriptions of methods, procedures, and accounting principles to be followed, including explanations and examples of principle transactions
- A chart of accounts with detailed explanation of the items to be included therein
- Any other documents or forms for which uniformity of use is desired

Recommendation:

We recommend that the Organization develop a comprehensive accounting policies and procedures manual.

Management Response:

Management agrees with this recommendation.

Status:

Implemented.