

Client Advisory Comments

The Tech Museum of Innovation

Year ended December 31, 2001

May 15, 2002

To the Finance Committee
The Tech Museum of Innovation

In planning and performing our audit of the financial statements of The Tech Museum of Innovation (the "Organization") for the year ended December 31, 2001, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. The matters discussed herein are those that we have noted as of April 19, 2002 and we have not updated our procedures regarding these matters since that date to the current date.

We have previously discussed our observations and suggestions with various Organization personnel and would be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. This memorandum is intended solely for the information and use of board of directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Grant Thornton LLP

The Tech Museum of Innovation
CLIENT ADVISORY COMMENTS
Year ended December 31, 2001

Current Year Comments:

Application of Cash Receipts to Pledges Receivable

During our testing of contributions, we noted three instances in which the Organization wrote-off as bad debt expense, pledges receivable in 2001 that were collected in cash from donors in 2000. These cash receipts of approximately \$98,000 were not applied to pledges in 2000, but instead were recorded as contribution revenue in that year.

We recommend that management implement additional internal controls over cash receipts, to reduce the risk that donor pledge payments are recorded again as revenue rather than as a reduction of outstanding pledges. Though not material in 2001, similar errors could become material in future years.

Recognition of Unrealized Investment Gains and Losses

During our testing of investments, we noted that unrealized gains and losses on investments were not recorded as of year-end. This was corrected via an audit adjusting journal entry.

We recommend that investments be marked to market on a monthly basis as the Organization is required to record its investments at fair market value per Statement of Financial Accounting Standards No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations.

Federal Grants

We understand the Organization has been recently awarded some grants from the National Science Foundation that will benefit fiscal 2002 and future periods. As you are aware, federally funded grants come with many restrictive rules and regulations regarding allowability of costs, employee time reporting requirements, involved overhead rate and fringe benefit rate applications and reporting, among other things. When expenditures of federal monies exceed \$300,000 in a fiscal year, compliance with these rules and regulations must be tested as part of the annual audit in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-for-Profit Organizations*.

Being that The Tech has not had a large volume of federal grants in the recent past yet sees this revenue source as a significant opportunity for the future, we recommend the Organization establish an infrastructure to administer a grants management function. In its early stages, this would involve designating an existing employee as the grants management specialist, providing some training regarding OMB Cost Circulars and other federal regulations and establishing an internal control environment to ensure compliance. As the volume of grants increases, this function may become a full-time position. We would be happy to recommend certain training courses and resource manuals that should facilitate this process.

The Tech Museum of Innovation
CLIENT ADVISORY COMMENTS (continued)
Year ended December 31, 2001

Status of Prior Year Comments:

Campaign Pledges

During the testing of pledges, we noted two pledges that were recorded as revenue in 2000 without the existence of complete supporting documentation. One pledge did not have written supporting documentation until management corresponded with the donor, who responded favorably, in 2001. The other pledge was documented on The Tech's standard endowment form, but was not signed by the donor. The donor did pay more than half of this pledge during 2000.

We recommend donations only be recorded as revenue when complete documentation is received from the donor to support the pledge. We strongly suggest all donations be in written form with the donor's signature, amount of the donation, terms of payment and details of any restrictions. This will help ensure that the donations are recorded at the correct amount, and in the correct fiscal period in accordance with the donor imposed restrictions.

Current Status:

In the current, pledges were recorded in the correct fiscal period and all contributions tested were accompanied by appropriate written agreements stating any restrictive designations and total amounts donated.

Payroll Processing

During the testing of our payroll, we noted that the payroll accountant sets up employees and transmits bi-weekly payroll via the ADP software. This same individual also receives the bi-weekly payroll summary reports and payroll checks, and direct deposit advices directly from ADP.

There appears to be a lack of segregation of duties with the payroll cycle. We recommend someone other than the individual responsible for preparing the payroll and recording payroll entries, actually receive payroll checks for distribution. We also recommend that a formal process be developed whereby changes to employee information submitted to ADP (e.g., salary, name, address) are approved by someone other than the individual responsible for processing payroll.

Current Status:

This recommendation has not been implemented.