

THE TECH MUSEUM OF INNOVATION

**Management Letter Recommendations
Year Ended December 31, 2004**

January 21, 2005

Audit Committee
The Tech Museum of Innovation
145 San Carlos Street
San Jose, CA 95113

During the planning and testing stages for all audit engagements, we take into consideration internal control structure and how it functions to determine the extent of procedures we will use to conduct our audit. The intended purpose is not designed to provide absolute assurance related to the internal control structure but to bring matters to management's attention that can improve operating and reporting conditions. Any system improvements can translate into increased efficiency for the Organization.

Enclosed is a list of the issues that we encountered during our work together with our recommendations for their resolution.

We will be happy to assist you or your staff in any way to implement our recommendations. If you would like to discuss these matters further, please do not hesitate to call.

Very truly yours,



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CURRENT YEAR COMMENTS:

1. SB 1262: The non-profit integrity act of 2004

Observation:

In an effort to improve accountability, governance, and transparency among nonprofit organizations, on September 30, 2004, Governor Schwarzenegger signed SB 1262, known as the Nonprofit Integrity Act of 2004 (the "Act"). Effective January 1, 2005, the Act in many ways mimics for the California nonprofit community what the 2002 federal Sarbanes-Oxley Act has achieved for the for-profit sector. Following the corporate scandal that served as the genesis for the federal legislation governing publicly-traded companies, both the privately-traded and nonprofit sectors have watched closely to see whether similar legislation affecting these entities would be passed. California has taken a leading role as one of the first states to pass such legislation governing its charitable organizations.

Under the Act, there are significant new reporting and disclosure requirements for both charitable organizations and the commercial fundraisers and fundraising counsels that work with them. Two of the major provisions of the Act applicable to the Organization include the following:

Audit Committee Requirement for Charitable Organizations receiving or accruing over \$2M in any fiscal year

In years in which a charity is required to prepare annual audited financial statements, the charity must establish and maintain an audit committee, to be appointed by the Board of Directors. The audit committee will be responsible for the following: (1) making recommendations to the board on the hiring and firing of the outside auditors (2) negotiating the compensation of the auditor on behalf of the board, (3) conferring with the auditor to satisfy the committee members that the financial affairs of the charitable organization are in order, (4) reviewing and determining whether to accept the audit, and (5) approving any non-audit services to be performed by the auditing firm.

The audit committee may include non-board members, and it may include members of the finance committee (if one exists), but the chair of the audit committee may not be a member of the finance committee, and the members of the finance committee must constitute less than half of the audit committee. The audit committee may not include any member of the staff, including top management, or any person who has a material financial interest in any entity doing business with the organization. Additionally, if audit committee members are paid, they may not receive compensation in excess of the amounts received, if any, by members of the board of directors for service on the board.

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1. SB 1262: The non-profit integrity act of 2004 (continued)

Board Review and Approval of Officers' Compensation

The Act provides that board of directors (or an authorized committee) shall review and approve the compensation, including benefits, of the chief executive officer and the chief financial officer of the charitable organization. All organizations subject to the Act must conduct this review, regardless of revenue level, and the review must occur when the officer is hired, when the term of employment of the officer is renewed or extended, and when the compensation is modified, unless the modification applies to substantially all employees.

Recommendation:

The Organization and its management familiarize itself with SB 1262, begin implementing the provisions of the act applicable to the Organization and assign responsibility for compliance.

2. Report to the Senate Finance Committee

Observation:

The Panel on the Nonprofit Sector was convened at the encouragement of the U.S. Senate Finance Committee in October 2004 to aid in ensuring that charities and foundations remain a vital and responsive force in America and around the globe. The Panel seeks to help the nonprofit sector meet the highest ethical standards in governance, fundraising and overall operations. On March 1, 2005, the Panel submitted its Interim Report to the Senate Finance Committee, which sets forth the Panel's initial recommendations for strengthening the accountability of charities and foundations.

Recommendations of the Panel on the Nonprofit Sector can be grouped into the following issue areas:

- NPO financial activity and transaction information is not always transparent, readily available, or fairly presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Accessible information is necessary to help resource providers and other stakeholders make informed decisions.
- Governance issues, including conflicts of interest.
- Enforcement powers and remedies are needed to adequately monitor the tax-exempt arena and ensure compliance with rules and regulations. Directors, trustees, and members of the public require better methods and channels for raising concerns or otherwise submitting complaints about particular NPOs.

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2. Report to the Senate Finance Committee (continued)

Recommendation:

It is recommended the Organization familiarize itself with the report and its implications as it relates to the Organization. An individual should be assigned the responsibility to keep up to date with the progress of the Panel's findings and details of any actions voted on or to be voted on by the Senate Finance Committee.

3. Use a separate bank account for payroll

Observation:

The Organization uses one bank account for both operating checks and payroll checks.

Recommendation:

The Organization should consider setting up a second account as an imprest payroll account, whereby the account has a zero balance and transfers are made from the main account as needed for payroll checks and payroll taxes. Doing so would limit access to the main operating account for both the payroll service center and employees.

4. Accounts payable process – paying bills

Observation

We noted that after accounts payable checks are signed, they are returned to the Senior Accountant for mailing. This allows for the modification or misdirection of disbursements by an employee with access to the accounting records.

Recommendation

After checks are signed, they should be given to the receptionist, or other person without access to American Fundware, for mailing as to segregate duties.

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5. Authorize and maintain control over asset disposals

Observation:

The Company's procedures for disposing of property items do not provide adequate physical control over the assets. It was noted that hard drives that had been donated to the Tech and that were incapable of running the software used by the Tech, and were to be disposed of, were not tracked.

Recommendation:

It is recommended that a request for disposal be prepared that describes the asset, the reason for and means of its disposal, and any expected proceeds. An appropriate official who does not have custody of the asset or cash receipt duties should approve the request and send it directly to the accounting department to use as a basis for establishing control over the asset pending its disposal and any sales proceeds and for removing the asset from the records. This will allow the accounting department to prepare a shipping document to serve as authorization for releasing the asset and for preparing a billing invoice if the asset is sold.

6. Update job descriptions

Observation:

During inquiries of management, it was noted that although the Organization does have job descriptions, they are outdated.

Recommendation:

We recommend that written descriptions of job responsibilities be prepared for all personnel in accounting and administrative functions. This would provide management with a basis for redistributing workload, evaluating personnel requirements, and judging job performance.

7. Improve segregation of finance department duties

Observation:

Although the small size of the Organization's staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. One of the most critical areas of separation is cash, where we noted that the Finance Manager handles incoming checks, prepares the deposit slip, makes the deposit, has authority to post receipts to customer accounts, and receives and reconciles the monthly bank statement. The result is the danger that intentional or unintentional errors could be made and not detected.

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7. Improve segregation of finance department duties (continued)

Recommendation:

We recommend that the receptionist open the mail, prepare a prelist of the cash received, and prepare the deposit slip. An appropriate manager should receive and review the bank statements and canceled checks before turning them over to the Finance Manager to prepare the bank reconciliation. The Controller might also review the reconciliations after they are prepared. These simple steps would not require the addition of any new employees or add significant time to either the receptionist or manager's time. While we understand, the Organization takes every measure to ensure they have a strong set of internal controls in place the small number of employees in Finance department itself is an internal control weakness, which needs to be brought to your attention.

8. Improve segregation of payroll department duties

Observation:

One person is responsible for preparing payroll input, reviewing the payroll journals from the payroll system, and finalizing each payroll for employees and amounts. This combination of duties is incompatible and significantly increases the chance of an error or irregularity going undetected.

Recommendation:

We strongly suggest that some of these functions be segregated among other employees to protect the assets of the organization. At a minimum, we suggest having someone else finalize each payroll.

9. Implement control processes

Observation:

During the audit, it was noted the Organization does not have any policies in place to ensure its concession stand receipts are verifiable and reconciled.

Recommendation

It is very important that the Organization implement controls at the concession stand similar to those at guest services and the store. The implementation of controls will help to safeguard the Organization's assets and will provide the Organization with data for analysis in determining the true operating results of the stand.

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10. Develop written disaster recovery procedures

Observation:

The Organization does not have well-defined written disaster recovery procedures. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing IT facilities.

Recommendation:

We recommend that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

- Location of, and access to, off-site storage.
- A listing of all data files that would have to be obtained from the off-site storage location
- Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor, or a service center. The agreement should be in writing.)
- Responsibilities of various personnel in an emergency.
- Priority of critical applications and reporting requirements during the emergency period.

11. A-133 audit

Observations:

During ISF's audit of federal funding, ISF inquired of management regarding the Organization's internal controls over federal awards. Specifically identified was: 1) the Organization does not track or tag equipment purchased with federal funding; 2) for procurement contracts for goods or services, the Organization does not verify that the entity is not suspended or debarred; and 3) the Organization does not have a policy to identify *reporting* compliance in the absence of award documentation or incomplete documentation.

Recommendation:

It is recommended the Organization implement policies to 1) tag and track ALL equipment owned for control over its assets; 2) to ensure the status of vendors from whom the Organization will purchase goods or services, which total in excess of \$25,000 is verified; and 3) to ensure there is written documentation in the award agreement related to the timing and submission of reports. If nothing noted, the grant officer should be contacted and a written confirmation should be obtained and maintained in the files.

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12. Increased reporting requirements for non-cash charitable contributions

Observation:

The Jumpstart our Business Strength (JOBS) Act was signed into law on October 22, 2004 and imposes increased reporting requirements for certain charitable contributions of property other than cash, inventory, or publicly traded securities. The law also imposes new rules for charitable contributions for donations of patents and other intellectual property. Most provisions of the law were effective for contributions made after June 3, 2004.

For charitable contributions of vehicles starting on January 1, 2005, the JOBS Act changes the reporting requirements for vehicles (generally including automobiles, boats and airplanes) whose claimed value exceeds \$500.00 depending on the use of the vehicle by the donee organization. If the donee organization sells the vehicle without any significant intervening use or material improvement of the vehicle by the organization, the amount of the donation cannot exceed the gross proceeds received from the sale. The organization is required to provide a written acknowledgement of the donation that (1) provides a certification that the vehicle was sold in an arm's length transaction between unrelated parties and (2) states the gross proceeds from the sale. In all other cases, the acknowledgement must contain a certification of the intended use or material improvement of the vehicle and the intended duration of such use, and a certification that the vehicle will not be transferred in exchange for money, other property, or services before completion of such use or improvement. The donee organization must notify the Secretary of the information contained in an acknowledgement, in a time and manner provided by the Secretary.

Acknowledgements are required to be issued contemporaneously with the donation. In the case of a vehicle that is not significantly improved or materially used by the donee, contemporaneous is defined as within 30 days of the sale of the vehicle. For all other cases, the donation must be acknowledged with 30 days of the donation.

A penalty applies if a donee organization knowingly furnishes a false or fraudulent acknowledgement, or knowingly fails to furnish a contemporaneous acknowledgement in the prescribed manner showing the required information.

Recommendation:

We recommend that the Tech review its policies and procedures with respect to donations of property for compliance with the 2004 JOBS Act.

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13) Classification of permanently restricted assets

Observation:

The Organization could not readily determine that the amount classified as permanently restricted assets was comprised of funds received from donors with restrictions imposed by the donor.

Recommendation:

During the course of the upcoming year, the Organization should research the archives and obtain documentation to support the classification of assets as permanently restricted. Only those amounts received with donor-imposed restrictions should be included in this classification. All other amounts should be reclassified as unrestricted assets.

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STATUS OF PRIOR YEAR COMMENTS:

1. General ledger

Observation:

The GL is a system by American Fundware, which was acquired in 2002 by Intuit. Since that time there have been software upgrades installed to allow for more effective project based costing analyses. Up to date system maintenance should be part of the allocated maintenance budget for the accounting department as a matter of course. However, there may be more system improvements that can be made once an analysis of the current operating environment has been undertaken.

Recommendation:

We recommend the Audit Committee approve a thorough review of the accounting systems. Any required or requested system enhancements should be approved by the Committee before being undertaken to ensure the Committee has oversight of the systems involved in financial recording. This is a fiduciary duty of the Board and Audit Committee.

Current status:

As part of the annual maintenance agreement with Intuit, bug fixes and normal upgrades are included as a matter of course. A thorough review of all accounting systems will be performed by the Audit Committee prior to any future major system enhancements.

Observation:

Per review of the trial balance, it was noted the Organization has “payable(receivable) between net assets categories” set up from when The Tech first opened its doors. The amounts net to zero but per inquiry, there are no amounts truly due to or due from the various funds listed.

Recommendation:

When The Tech first opened, not-for-profit entities maintained its accounts under the fund accounting system. With the implementation of Statement of Financial Standards No. 117, *Financial Statements of Not-for-Profit Organizations*, although the use of fund accounting is not prohibited or required, it does require providing information about three classes of net assets: (a) restricted, (b) temporarily restricted, and (c) unrestricted. Fund accounting may not accomplish the goal of informing the reader about donor restrictions, as required by SFAS 117, and merely accounting for transactions in a separate fund does not satisfy the requirement. It is recommended The Tech review its chart of accounts, adjust the balances against net assets and close those funds that are not being used.

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1. General ledger (continued)

Current status:

A review of the chart of accounts was performed in 2004, at which time “payable(receivable) between net asset categories” were reconciled and funds that were no longer being used were closed, leaving only three classes of net assets: (a) restricted, (b) temporarily restricted, and (c) unrestricted.

2. Bank reconciliations

Observation:

Through early 2003, the bank reconciliations were being completed several months after the periods to which they related before Terry Boyle started reviewing the operations. Since then, the system has been tightened up and reconciliations are performed regularly and as early as possible. There has been a consistent unidentified difference on the reconciliations since the middle of 2003. This difference may be effectively unidentifiable at any reasonable effort or cost as it appears to relate back to periods before December 2002. The difference was consistent from November 2003 to December 2003 and was written off as part of the December 2003 adjustments.

Recommendation:

We recommend that the bank reconciliations continue to be completed in a timely manner. Any unidentified differences should be maintained on the books for a reasonable period of time to allow for proper investigation. Any differences on an ongoing basis should be brought to the Audit Committee for write-off approval if they are over a certain threshold, to be set by the Committee at their discretion.

Current status:

Bank reconciliations are now being performed on a timely, monthly basis. Differences have been minor in nature and non-recurring.

3. Inventory

Observation:

The Museum has been experiencing retail store losses of about 3% per year traditionally. With the hiring of a new Director of Operations in late 2003 and the subsequent implementation of new retail store techniques the Museum hopes to reduce the “shrinkage” greatly over 2004. For 2003, the shrinkage was 5.5% whereas the general stores within similar museum environments experienced shrinkage between 1.5% and 2%.

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3. Inventory (continued)

Recommendation:

Shrinkage is an operational issue across all areas of retail. We recommend that the Museum implement additional procedures to deter against future shrinkage such as installation of cameras in the store. Currently, there are cameras over the cash register.

Current status:

In addition to the new retail store techniques implemented in 2003, a focus on reducing inventory levels was instituted in 2004 that should help result in lower breakage / shrinkage.

Observation:

While reconciling the detailed inventory for the Museum's store to the ledger, it was noted there was a variance due mainly to the fact the physical inventory was taken approximately fifteen days after year-end. Consequently, the inventory had to be rolled back to December 31, 2003 numbers.

Recommendation:

It is recommended the physical inventory be counted as close to the end of the fiscal year as possible. In doing so, this will eliminate any errors that can occur when rolling the count back to the end of the year. Additionally, after the physical count has been taken, any discrepancies between the count and the ledger should be investigated and the ledger adjusted to the physical count. The Tech may also want to consider periodic cycle counts for the high dollar items.

Current status:

As part of the fiscal closing of 2004, a physical inventory is being scheduled for the first week of January 2005, resulting in a shorter period of rollback to December 31, 2004. The general ledger will be adjusted to the physical count prior to final fiscal closing of the books.

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4. Fixed assets

Observation:

The Museum keeps track of fixed assets using FAS software. The fixed assets register is an area that had not received regular review until Terry's hiring in 2003. As part of the preparation for the audit, Terry and his staff were to review the entire FAS report to identify and write off obsolete, damaged and previously disposed of assets.

Recommendation:

We recommend that such a review be carried out at regular intervals with a physical inventory of assets performed for 2004.

Current status:

A physical inventory of fixed assets was performed in August and reconciled to the general ledger.

Observation:

Another issue for fixed assets, relating specifically to non-profit organizations, is the valuation of donated fixed assets. The donor has the opportunity to value assets given to the Museum. The valuation may impact the tax deduction to be taken by the donor and as such the donor has a bias to increase the declared value of the goods to the maximum allowable. The Museum, if recording the assets at the declared value, may then "suffer" from high depreciation expenses relating to that asset for many future periods.

Recommendation:

We recommend that the Museum staff carefully review the value at which donated assets are to be recorded in the Museum books. For large donations, third party appraisals should be requested. For other assets, comparisons to known sources of resale may be possible, such as auction houses, including on-line resources. Donations of new assets should be compared to manufacturer's catalogs taking into account the usual customer discount rates allowed.

Current status:

For all donated assets in 2004, appropriate supporting documentation for valuation levels is being required.

Observation:

While reconciling the detail of fixed assets to the general ledger, it was noted the Organization had been carrying an amount classified as "Genetics Collection" for \$12,750. Upon inquiry, this amount has been carried on the Organizations ledger for several years.

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4. Fixed assets (continued)

Recommendation:

It is recommended this amount be researched to substantiate the carrying amount, if possible. Otherwise, the matter should be brought up to the audit committee to consider writing off this amount in the upcoming fiscal year.

Current status:

The "Genetics Collection" fixed asset category was reviewed as part of the August fixed asset inventory and determined to be a write-off.

5. Employee manual

Observation:

Although there is an employee manual given to new employees as part of the new hire process, there is no museum-wide training relating to areas of ethics and fraud. These areas are left to each employee's manager to convey to their staff. Staff is required to receive training in areas such as harassment and discrimination. Staff signs no conflict of interest policies.

Recommendation:

We recommend that a system of employee training be implemented to include ethics and fraud in addition to other required human resources training obligations. For all Board members, Audit Committee members, Directors and staff, a conflict of interest policy should be discussed and signed. This increases the focus on behavior patterns related to the good of the non-profit as a whole while accepting that conflicts of interest do arise and need to be dealt with in an appropriate and realistic manner.

Current status:

As part of new hire orientation and training, the areas of ethics and fraud have been incorporated as subject matters. Additionally, a conflict of interest policy and statement is required of all new Board and Audit Committee members.

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6. Organization policies

Observation:

Per review of the organizations policies regarding processing of receipts, disbursements, purchase orders, and asset capitalization, it was noted most were dated in 1998.

Recommendation:

It is recommended the Organization review all of its policies to ensure they have been updated for changes over the prior five years and are revised as needed on an annual basis. The Organization should have all policies and procedures in one manual for ease of access and all personnel should be made aware of all of the Organization's policies so they are followed regularly.

Current status:

A review and update of the organization policies regarding (1) Accounts Payable; (2) Receivables Cash / Credit Cards; (3) General Ledger; (4) Procurement Procedures; and (5) Fixed Assets was undertaken during 2004 and incorporated into one manual for ease of access.

7. Investments

Observation:

Upon review of the investments it was noted realized gains/losses were netted with unrealized gains/losses on the trial balance. Per review of the investment policy and inquiry of management, it was noted the investment policy was not being adhered to. Specifically, the portfolio is concentrated with one investment manager who is not actively pursuing the best investment strategy for The Tech as is stipulated in the policy. It is The Tech who is being proactive and advising the investment manager where to invest their funds.

Recommendation:

It is suggested that realized and unrealized gains/losses be segregated on the trial balance as opposed to being netted. In doing so, the gross amount of each is readily visible and the appropriate information can be easily obtained. We also strongly recommend the investment policy be reviewed and the organization research other investment managers to ensure The Tech's investments are handled properly and the best return on its funds be obtained. The investment policy is crucial since there is a significant amount of resources invested with the investment manager.

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7. Investments (continued)

Current status:

Investment realized and unrealized gains/losses are now segregated on the trial balance and reconciled monthly. During 2004, The Tech's investments were reviewed and investment vehicles modified to help ensure the best return on its funds. Additionally, the Investment Committee has conducted several interviews of potential new investment managers with a decision to be finalized in early 2005.

8. Earnings classification between restricted and unrestricted

Observation:

All earnings are entered into the accounting system initially as unrestricted (except for Endowment pledges received) and are then reviewed to determine whether any items relate to future dates or events. In such cases, items of income are then reallocated as necessary to temporarily restricted categories.

Recommendation:

We recommend that all items of income should be reviewed and allocated directly to temporarily restricted or restricted funds, if applicable, as soon as they are entered into the system. This will reduce that chance that such items will not be correctly allocated during a later review. The system should be able to allow such categorization of income.

Current status:

The classification of earnings between restricted and unrestricted is now being determined upon receipt and prior to system entry.

9. Contributions

Observation:

Contributions from individuals almost always hit current year earnings; the Museum has not solicited pledges from individuals since the endowment campaign (which was in fact aimed more at corporations and foundations). If pledges exist, then Terry Boyle reconciles the reports given to him by the Development department with the contributions he received.

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9. Contributions (continued)

Recommendation:

We recommend that the Development and Accounting departments develop a consistent system to allow both to use one database to record and review pledges. The wording of pledges should be such that the pledge intention is unmistakable and the period over which the pledge is to be paid should be clear. After this has been achieved, pledges should be recorded in the accounting records in a manner consistent with FAS 116, *Accounting For Contributions Received*.

Current status:

A consistent system of contributions reconciliation between the Development and Accounting departments has been established on a monthly basis. New pledges contain clearer wording as to their intention and period of payment.

Observation:

During 2003, the Organization conducted joint activities that were partly a fund-raising function and partly another function (for example, program, management and general, or membership development function). Statement of Position 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising*, requires the evaluation of the following, in order, to determine if the purpose criterion has been met for joint activities so the allocation of joint costs can be determined:

- Whether compensation or fees for performing the joint activity are based on the amount of contributions raised
- Whether a similar program or management and general activity is conducted separately and on a similar or greater scale
- Whether other evidence indicates that the purpose criterion is met

For the two fundraisers in 2003 (GIZMO and the Tech Awards) the purpose criterion was met since compensation or fees for performing the joint activity are not based on the amount of contributions raised. In addition, the program component of the joint activity calls for specific action by the recipient that will accomplish the Organization's mission and the Organization conducts that program component without the fund-raising component in a different medium. As such the costs should be allocated between fund-raising and the appropriate program or management and general function.

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9. Contributions (continued)

Recommendation:

Since the direct fundraising costs in 2003 were \$748,327 which accounts for only 3.9% of the total 2003 expenses of \$19,190,539, it was determined the cost of accounting for the indirect costs allocable to the fundraising would far exceed the benefits. Granted the total expenditures were immaterial when looking at the total expenses for the year, however, this may not be the case in future years. It is recommended, management consider implementing procedures to be able to allocate the indirect costs of the joint activity as a fund-raising expense.

Current status:

For all 2004 fundraising events, the new timekeeping procedures and project accounting system were utilized which will enable a better allocation of indirect costs of the joint activities as a fund-raising expense.

10. Audit Committee

Observation:

The Audit Committee has responsibility for financial matters.

Recommendation:

We recommend that the Audit Committee review its policies and procedures to ensure that its fiduciary care of the Museum is as complete as possible. Areas to consider include:

- Developing a mission statement and code of ethics for members
- Updating of Board composition to include industry specialists
- Reviewing employee training in ethics, fraud and whistleblower protection
- Testing the whistleblower reporting system to ensure it is truly anonymous
- Reviewing the finance departments risk evaluation systems – business and fraud risk
- Reviewing reports to be provided to the Board, including industry statistics or other benchmarking information

Current status:

An Audit Committee separate from the Finance Committee was established in 2004 and is in the process of reviewing its policies and procedures to help ensure that its fiduciary care of The Tech is as complete as possible.

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11. Grant Agreements

Observation

During our review of compliance with grant agreement, it was noted reports to be filed in compliance with grant agreement had not been filed with the appropriate agency.

Recommendation

All grant agreements should be monitored regularly to ensure compliance. It is suggested once a grant is received, it be reviewed for conditions of compliance. For those that require reports to be filed, the individual delegated the responsibility for this task should mark it on their calendar, as should their immediate supervisor.

Current status:

All reports required by various grant agreements have been filed with the appropriate agency in a timely manner.

12. Federal Grants

Observation:

It was observed during our testing of compliance of federal grants, that the file containing all the relevant data did not have an executed grant agreement, a grant award or conditions of the grant. It was noted that the file contained various e-mails from the granting agencies stipulating the award amount, the approved budget, and some grant specific conditions.

Recommendation:

If the Organization is to continue applying for federal funding, it is recommended the federal grant files be complete with executed agreements. If, as in the case of the 2003 federal grants received, all communiqué was via e-mail, the Organization should request in writing specifics as to where the funding can and cannot be spent. In doing so, the Organization has taken measures to ensure they comply with the grant conditions and avoid any potential situations where the granting agency denies claims for reimbursement. If this were to happen, future funding could be jeopardized, as granting agencies will look to see if the applicant has had instances of non-compliance in the past as it related to federal funding.

For the upcoming fiscal year, the threshold for determining whether the Organization will require an audit in compliance with the Single Audit Act has been increased from \$300,000 to \$500,000 of expenditures of federal awards.

Current status:

For federal awards received in 2004, all appropriate documentation was obtained, including compliance requirements.

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13. Benefits Plan

Observation:

As part of the Organization's defined contribution plan, there is an annual Form 5500 that is required to be filed. In addition, if the Organization's eligible participants is greater than 100, the plan may require an independent audit. It was noted the Form 5500 filed for this plan was incomplete and did not appear to contain the pertinent data required. Furthermore, the number of eligible participants exceeded 100 for the 2003 year.

Recommendation:

The Organization should contact the entity responsible for preparing the Form 5500 to ensure that it was filed properly, and a copy of the Form that was actually filed should be obtained for the Organization's records. In addition, the Organization should inquire of the administrator as to the need for an audit of the plan. The plan audit, if required, would be due by July 31 or, if extended, by October 31 following the end of the fiscal year. We would be happy to discuss the particulars of an audit with you.

Current status:

Form 5500 for 2003 was filed properly and a copy has been obtained for the Organization's records. Based upon inquiries made to the plan administrator, no audit was required.

14. Payroll records

Observation:

During our review of The Tech's employee personnel file, it was noted the Employment Eligibility Verification Form (I-9) for one employee was not available to review and one was not signed by the authorized representative.

Recommendation:

It is suggested that all employment forms be completed and retained by the human resource department prior to the start date of any employee to ensure The Tech is hiring eligible employees.

Current status:

The Human Resources Department has increased its vigilance to help ensure that all employment forms are properly executed and filed.