Nassau County
Office of the Comptroller

Field Audit Bureau

Limited Financial Review of Museums at Mitchel

HOWARD S. WEITZMAN

Comptroller

FA-01-06
July 19, 2006

NASSAU COUNTY
OFFICE OF THE COMPTROLLER

HOWARD S. WEITZMAN
Comptroller

Elizabeth Botwin
Chief Deputy Comptroller

Susan D. Wagner
Deputy Comptroller
for Operations – Chief of Staff

Randolph Ghisone
Deputy Comptroller
for Accounting

Allen M. Morrison
Director of Communications

Judith Bejarano
Assistant Director of
Accounting

Kathy Kugler
Accounting Executive

Audit Staff

Bruce G. Kubart
Deputy Field Audit Director

Carol Khoury
Senior Project Manager

Douglas Hutter
Field Audit Supervisor

Sherly Gschweng
Field Auditor

Idowu Ogundipe
Field Auditor

Matthew Keller
Intern

Nadeea Zakaria
Intern

Background

Nassau County established the Cradle of Aviation Museum at Mitchel Field to honor and exhibit Long Island's contribution to aviation and aerospace. The county entered into a fifteen year memorandum of operational agreement (MOA), commencing July 1, 2001 and automatically renewable for another five years, granting Museums at Mitchel (MAM), formerly known as Nassau Heritage, a license and operational agreement to use the grounds, buildings and improvements known as the Mitchel North site. This site includes the hangars now housing the Cradle of Aviation Museum, Visitor Center and IMAX Dome Theatre, and the Nassau County Firefighter's Museum. The county has invested more than $40 million on facilities at the site.

The MOA created financial obligations between Nassau County and MAM. The county provided the building and grounds rent free along with a portion of utility costs. The county also agreed to pay MAM $500,000 per year for the years 2001-2005. MAM was obligated to pay the county:

- $2,500,000 at $250,000 per year for 2004-2006 and $350,000 per year for 2007-2011 for support services;
- from 2005 through 2011, one half of one percent of gross revenue from admissions, concessions and special events as a license fee, with 3% thereafter; and
- beginning January 1, 2004, 60% of building utility costs over a utility consumer price index adjusted base cost of $200,000.

In 2006, MAM and the County renegotiated the MOA. The County established benchmarks for successful operation of the museum including increased attendance and enhanced fundraising, and agreed to provide additional subsidies if targets were met. In addition, assuming achievement of the benchmarks, the County agreed to forgive the $2,500,000 MAM owed the County. MAM agreed to hire a consultant to advise on improving fundraising, operations and expenditures, develop a business and financial plan, cede control of certain property and to permit the County to terminate the MOA upon 90 days notice.

In connection with adoption of the amended MOA, the County paid MAM $250,000 in March 2006. The second additional subsidy payment of $100,000 is due July 15, 2006, assuming the County determines that MAM achieves compliance with certain benchmarks. This audit evaluates MAM's financial operations and controls for the period July 1, 2003 – April 30, 2006; therefore we do not evaluate whether MAM will reach the benchmarks for the July 15 payment. The audit was initiated at the request of Presiding Officer Judy Jacobs and Legislator Craig Johnson in connection with the anticipated payment of the second 2006 subsidy amount.

In connection with our audit, we analyzed past and projected future revenues and expenses. As shown on Table A, our analysis indicates a projected $1.4 million deficit of cash expenditures over cash revenue in the fiscal year ending June 30, 2007. The interim agreement with the county contains target goals which still result in unfunded losses. The FY 06 loss from operations target is $1.3 million, which MAM should be able to achieve based on their preliminary year end loss for 2006.

Table A

CRADLE OF AVIATION
Revenue vs Expense (Cash Items)
($ thousands)

	actual FYE Jun 03	actual FYE Jun 04	actual FYE Jun 05	forecast FYE Jun 06	forecast FYE Jun 07
REVENUES					
Admissions	2,433.9	1,777.5	1,427.7	1,480.2	1,480.2
Pledges released from restrictions	423.2	404.8	463.2	775.0	44.0
Contributions	81.1	69.2	54.9	89.2	98.1
Gala benefit		247.4	207.7	307.5	307.5
Rental income, including museum shop	386.7	370.6	402.0	493.8	493.8
County Support				350.0	150.0
Other revenue	189.2	148.5	267.6	345.8	345.8
net revenues	3,514.1	3,018.0	2,823.1	3,841.5	2,919.4
EXPENSES					
Payroll & Related Expenses	1,695.8	1,684.7	1,778.4	2,081.7	2,165.0
Equip, film rentals, and royalties	578.5	674.8	695.6	582.3	847.0
Insurance	172.2	134.6	130.8	138.0	151.8
Interest exp	155.2	141.2	142.5	155.3	161.5
Advertising & marketing	239.4	237.6	231.8	275.5	289.3
Utilities		63.0	168.0	173.5	187.4
Other expense	423.6	495.9	523.7	548.2	549.9
net expenses	3,264.7	3,431.8	3,670.8	3,954.5	4,351.8
NET INCOME (DEFICIT)	**249.4**	**(413.8)**	**(847.7)**	**(113.0)**	**(1,432.4)**
total visitors	246,415	184,469	139,339	161,191	161,191
avg receipt per visitor	$ 9.88	$ 9.64	$ 10.25	$ 9.18	$ 9.18

(1) Table excludes donated facilities use and depreciation.
(2) Projected expenses do not include re-payment of $2.5 million loan from Nassau County or $1.75 million bank loan.
(3) "Pledges released from restrictions" represents pledged revenues whose balance is substantially used up by the end of FY 06.

To date, the Cradle's fiscal performance has been poor. Our analysis indicates that deficits will continue in the future, and that those deficits will increase as expense growth outpaces revenue growth. One troubling trend revealed in this table is that MAM has drawn down its pledged donations as revenue over the last several years, increasing from $463,200 in fiscal 2005 to $775,000 in fiscal 2006. For fiscal 2007, only $44,000 of pledged but unpaid donations remain. Without that cushion, future deficits are likely to increase as demonstrated by Tables B and C.

Table B

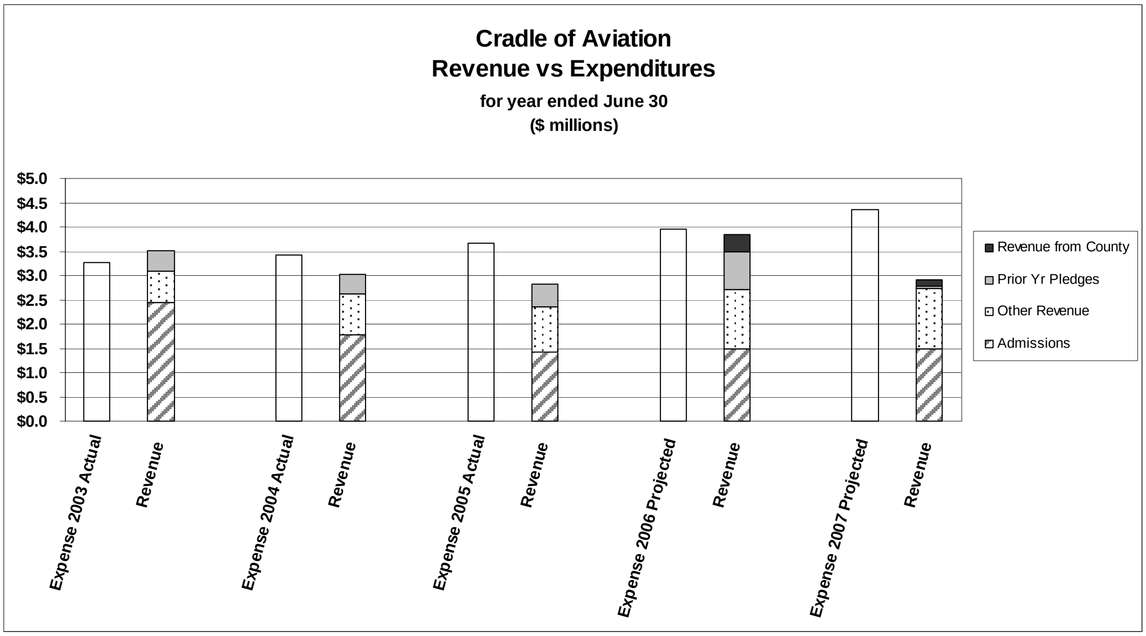
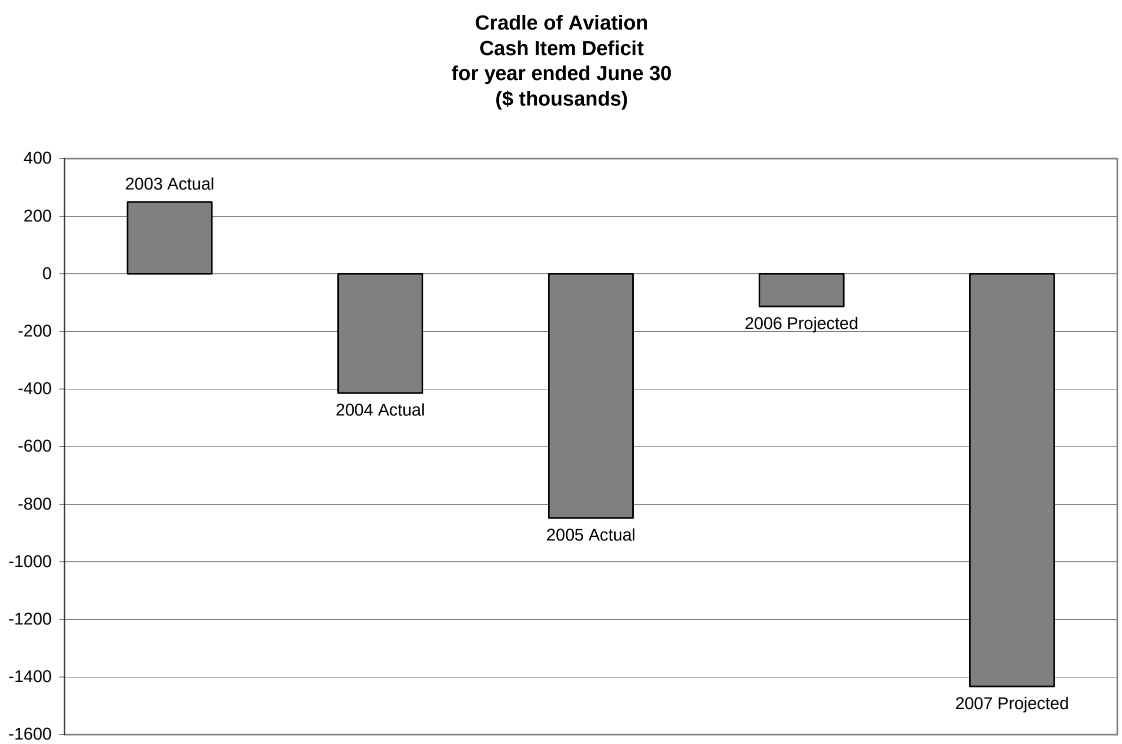
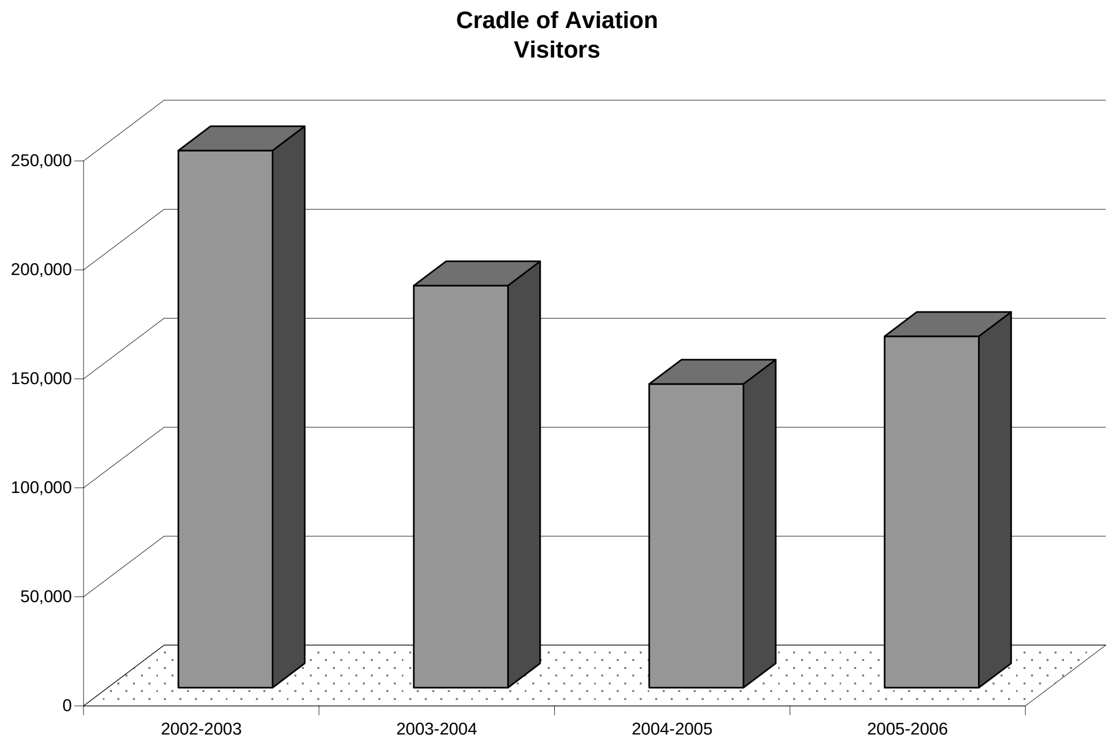


Table C



As indicated on Table D, visitor attendance has dropped from 246,415 in FY 03 to 184,469 in FY 04 and 139,339 in FY 05 before increasing to 161,191 in FY 06. The museum's preliminary 2006 attendance numbers show an uptick in visitors, yet a decline in average revenue per visitor.

Table D



Attendance statistics are unaudited - supplied by Museums at Mitchel

To ensure the ongoing fiscal viability of the institution, our analysis of expenses and revenues demonstrates that a material change in direction is required.

Audit Scope and Period

We performed an audit of MAM for the period July 1, 2003 through April 30, 2006. The scope of our audit was limited to an examination of MAM's administrative policies, procedures, procurement practices, contractual compliance and fundraising.

This audit was conducted in accordance with generally accepted government auditing standards. These standards require that the audit is planned and performed to obtain reasonable assurance that the audited information is free of material misstatements. The audit includes examining documents and other evidence to substantiate the accuracy of information tested, including all relevant records and contracts. It includes testing for compliance with applicable laws and regulations and any other auditing procedures necessary to complete the examination. We believe that the audit provides a reasonable basis for the audit findings and conclusions.

Summary of Significant Audit Findings

Compliance with Operating Agreement

MAM has not sought accreditation from the American Association of Museums as required by the MOA. Accreditation is an important seal of approval that brings national recognition to a museum for its commitment to excellence and it increases credibility with funding agencies, donors and other museums and can result in more loans of exhibits.

Accreditation has not been sought because certain required prerequisites, such as a code of ethics, policies and procedures, and a strategic plan are known to have not been met. Board Members and senior administrators interviewed did not identify a plan to achieve these milestones or apply for accreditation.

Fundraising

One of the major responsibilities of any museum's Board of Trustees is fundraising. We found that the Board has not ensured that MAM's fundraising activities were adequate for its needs. During the audit period it raised an average of approximately $136,000 per year from contributions and $167,000 per year from its annual gala. One of the major responsibilities of MAM's President, hired on February 2, 2005, is fundraising; however it does not appear that MAM's fundraising goal of $500,000 for fiscal year 2006 will be met. MAM's Organization/Constitution By-Laws require a Development Committee to "develop plans and policies for Board participation in fundraising" and to assist the staff in identifying, cultivating and soliciting major donors. We were told by senior management that they never met with the committee. In addition, MAM has not raised significant monies through grants.

Purchasing and Receiving

MAM took four years to establish a procurement policy even though the MOA required it to ". . . establish policies providing internal controls seeking competitive proposals for goods and services." These policies were issued on July 26, 2005 and provide that "purchases or services anticipated to result in an expenditure of more than $5,000 shall be made from or let by competitive bid proposals." We identified instances where MAM did not obtain competitive bids for purchases over $5,000 both before and after adoption of the policy.

The Vice President of Administration and Finance informed us that some vendors were considered "vendors of choice" and were selected without a competitive process because Board members had used them in the past. Other business relationships appear to result from Board Members' primary employment. Contracts let based on the recommendation of Board members without competitive bidding can result in favoritism. We noted payments of $6,428 to an architectural firm, where one of the architects billed was apparently the former president and Board member's son.

MAM had an ongoing no-bid, no-contract relationship with Mainline Electric Corp, with a total expenditure of $326,113 during the audit period, that was used to supplement ordinary staff. An electrician was on site for about 200 days between April 2004 and February 2005 at a cost of $144,380. The electrician was frequently used as a surrogate for a maintenance worker performing routine tasks, such as checking supplies, shopping, snow removal and calling for repairs. The Chief Operating Officer (COO) informed us that the Mainline Electric electrician was kept on site because MAM did not have a full time facility manager. However, we noted that after a facility manager was hired, the manager signed work orders authorizing Mainline to perform similar unskilled tasks.

Use of Debit and Credit Cards

During the audit period, MAM spent approximately $178,000 by using debit and credit cards. We found that the control over the use of these cards was inadequate and that sufficient documentation was often not provided to substantiate the legitimacy of the expenditures. Seventeen out of 27 debit card expenditures tested for the fiscal year 2004/2005 were unsupported by invoices and there often was no evidence of approval of the expenditures by an employee senior to the employee who made the purchase. MAM cancelled the debit cards in 2005.

We reviewed a credit card bill for the month of March 2006. There did not appear to be any detailed review of the individual charges. Charges during the month included employee's personal expenses that should not have been paid by MAM.

Lack of Internal Controls

MAM has not established adequate internal controls to ensure fiscal responsibility. Control weaknesses included:

Accounting Function

A contributing factor to the inadequacy of internal controls is the size and location of the finance department staff. The on site department consists of a part time accounts payable clerk and a full time accountant. The Vice President for Administration and Finance is a part time employee who works from her home in Virginia. As a result, she does not participate on site in the control process by ensuring that all disbursements are properly supported by vendor invoices, receiving reports, bids, or purchase orders, and that all necessary approvals have been obtained prior to payment. In addition, MAM has not promulgated adequate accounting policies and procedures covering the financial operations process.

Cash Disbursements

MAM's internal controls over cash disbursements were inadequate because there was a failure to document payment approvals and an inadequate segregation of duties. MAM routinely issued checks even though there were no approvals or approvals were incomplete on the payment vouchers, no vendor's invoices to support the payment and no evidence of receipt of the goods and services. MAM did not ensure an adequate segregation of duties because the purchasing function has not been separated from the receiving function and the accounts payable clerk performed conflicting duties.

Cash Receipts

Both the store and the box office turn over the daily receipts to another employee to deposit at the bank. However; there is no written receipt indicating the amount of cash turned over. Without written receipts, accountability cannot be fixed for any shortages.

Petty Cash and Cash on Hand

MAM keeps $7,000 in the box office vault. The amount appeared excessive compared with the daily box office receipts and created unnecessary exposure. In addition, six employees have access to the vault. This may be excessive and no log is kept of vault entry.

We found that the visitor's services $500 petty cash fund was short by $200 because of a theft. There was no independent oversight of the fund and no one independent of the petty cash custodian reconciled the fund. Petty cash vouchers were not approved by management; and the petty cash voucher did not have a space for approval.

Leave Accruals and Time Records

MAM could not locate the Board approved employee handbook; therefore we relied on a policy dated July 8, 2005 as a basis for testing. We found errors in all nine employees' leave accrual records tested. Some of the errors resulted from senior employees granting exceptions for new hires by granting more vacation time than the policy called for without obtaining board approval. Other errors resulted from the apparent misinterpretation of offer letters by the accountant who maintained time and leave accrual records. There was an inadequate segregation of duties over the payroll functions performed by the accountant along with a lack of review of the payroll reports or leave accrual records to check their accuracy.

Staffing

We performed an analysis and found that there was no correlation between daily attendance levels and daily staffing. Since much of the weekday attendance is comprised of school field trips, booked in advance, attendance projections could be used to help determine daily staffing needs. We saw no evidence of analysis performed by management to plan staffing to coincide with expected attendance.

Contract with the Caterer, CulinArt Inc.

CulinArt provides food services to MAM and is an important revenue source. We found that MAM placed reliance on CulinArt to properly report and pay the revenues. MAM did not:

- exercise its right to audit in order to verify that revenues and expenses are correct;
- enforce the terms of a rent renegotiation resulting in a revenue underpayment of $8,640;
- require CulinArt to maintain its records in a manner to enable us to verify that MAM was being billed properly when MAM was a customer of CulinArt; and
- require CulinArt to adequately clean the premises after events. Instead, MAM's own funds were used for cleaning.

Compliance with IRS Regulations

MAM made numerous payments to lawyers, consultants, a lobbyist and other individuals where it was required to file 1099 forms; however we were told by the Vice President for Administration and Finance that none were issued.

In addition, MAM did not comply with IRS regulations in paying employees money other than wages. MAM terminated its self administered FLEX Spending plan and returned a total of $3,600 to three employees, and paid other employees compensation under a contract, but did not include the amounts in the employee's W-2 forms as taxable income.

Travel and Entertainment

MAM spent approximately $45,000 on conferences during the audit period. We found that MAM did not have any formal policies or procedures for pre-approval of travel expenses, or for time allowed for travel to and from conferences. In some instances, itineraries were issued, but we were told by the COO that all approvals were verbal. In addition, the post conference expense review process was weak. The COO attended a conference in 2006 and signed her own reimbursement check without the review and approval of the expenses by her supervisor.

Prior to July 26, 2005, MAM did not have formal limits to determine what constituted appropriate spending levels by employees while traveling. We found that some of the expenditures appeared unreasonable because the cost exceeded reasonable rates or should have been personal expenses of the employee. For several expenditures it was indicated on the voucher that the department head would reimburse MAM for the excessive portion of the charge, but there was no evidence that this was done. The July 26 policy adopted the per diem rates established by the Federal Government's General Services Administration. We reviewed the expenses of seven conferences attended and found that these limits were exceeded for two of them.

* * * * *

On June 30, 2006, we submitted a draft report to Museums at Mitchel's Board and management with a request for comments. Their comments were received on July 10, 2006. Museums at Mitchel's comments and our response to those comments are included as an addendum to this report (Appendix 1).

TABLE OF CONTENTS

Compliance with Operational Agreement

Audit Finding (1):

We found that MAM did not comply with certain requirements of the operational agreement.

The Memorandum of Operational Agreement between the County of Nassau and Nassau Heritage Article IV Section 4.1, executed June 21, 2001, requires Nassau Heritage to "seek to obtain within five years, accreditation from the American Association of Museums." MAM has not sought such accreditation. According to the American Association of Museums, accreditation is important because it is a widely recognized seal of approval that brings national recognition to a museum for its commitment to excellence, accountability, high professional standards and continued institutional improvement. Accreditation increases credibility with funding agencies and donors and improves relationships with other museums and can result in more loans of exhibits. It also results in peer review which will bring an outside perspective to the museum's operations.

The Chief Operating Officer informed us that the accreditation has not been sought because certain required criteria are known to have not been met. MAM does not have:

- a code of ethics;
- a ten year strategic plan;
- adequate policies and procedures; and
- environmentally adequate storage conditions for certain collections.

Board Members and senior administrators interviewed did not identify a plan to achieve these milestones or apply for accreditation.

In addition the Operational Agreement requires that MAM establish a council of representatives of all associate organizations at Mitchel Center, Friends for Long Island's Heritage and the general public to advise its trustees and management regarding the Nassau Heritage operations and activities. The County Executive, the County Comptroller, the Presiding Officer of the County Legislature and the Minority Leader of the County Legislature may each designate a representative on the Council. This council of representatives has not been established.

The Chair of MAM's Board of Trustees informed us that much of the Board's time was spent on the site development for other museums at *Museum Row* and that as a result, less time was devoted to fiscal and operational challenges facing the Cradle of Aviation. Had the council of representatives been established, it could have provided advice on site planning issues, giving the Board of Trustees additional time to devote to fiscal and operational issues.

Audit Recommendations:

MAM should:

a. present Nassau County with an action plan, with anticipated completion dates for achieving the criteria necessary for obtaining accreditation;
b. file for accreditation as soon as possible;
c. adopt a code of ethics; and
d. work with the County's elected officials to establish the required council of representatives.

Alternatively, the Board could consider establishing a separate entity and Board to manage the Cradle of Aviation, to focus exclusively on the needs of the museum.

Increasing Revenue through Fundraising and Grants

Audit Finding (2):

One of the major responsibilities of any museum's Board of Trustees is fundraising. We found that the Board has not ensured that MAM's fundraising activities were adequate for its needs.

During the audit period we found that MAM raised the following:

MAM FUND RAISING

	Fiscal Year Ending June 30			
	2003	2004	2005	2006*
Individuals	$32,022			$37,340
Corporations	49,077			
Honor Roll Contributions		$14,125	$4,375	5,625
Unrestricted Contributions		54,996	77,513	28,306
Restricted Contributions		47,164	54,000	38,960
Program Sponsorship		5,000	4,900	13,000
Corporate memberships		12,000	6,000	3,500
IMAX Sponsorship			2,000	
	$81,099	$133,284	$148,788	$126,731
Gala Benefit		247,390	207,736	307,526
Gala Expenses		110,193	101,304	49,442
		137,197	106,432	258,084
Total	$81,099	$270,482	$255,220	$384,815

* Through May 31

MAM hired a President on February 2, 2005. One of his major responsibilities was fundraising. MAM's Three Year Action Plan to Enhance Fund Raising Activities and Revenues calls for fund raising of $500,000, $625,000 and $750,000 for fiscal years 2006, 2007, and 2008 respectively. It does not appear that the 2006 goal will be met.

MAM's Organization/Constitution By-Laws require a Development Committee to "develop plans and policies for Board participation in fundraising" and to assist the staff in identifying, cultivating and soliciting major donors. We were told by the President, COO and the

Director of Development that they never met with the committee. Board members apparently do not regularly contribute to MAM other than purchasing Gala tickets.

MAM has also not raised significant money for the museum through grants. During the audit period it received an education program grant of $250,000, $159,246 from a $250,000 grant from New York State for the Firefighter's Museum and $21,800 from other state funds. No federal grant money was obtained.

The Board has not addressed issues that would apparently impede successful grant applications, such as:

- the issuance of certified financial statements. The audited annual reports for 2003-2004 and 2004-2005 have not been issued;
- creation of financial and strategic plans; and
- accreditation of MAM .

The President agreed when interviewed that he had not devoted his time to fundraising. He explained to the Executive Committee of the Board that before he could request others to give, he needed to ensure that MAM was not misspending its own funds and that he concentrated on achieving savings in-house. He provided a list of specific accomplishments with regard to both cost savings and revenue enhancements.

Responsibility for developing efficiencies within the organization should have been delegated to the Chief Operating Officer, since the President had been hired specifically to concentrate on fundraising responsibilities. The confusion of job responsibilities between the President and Chief Operating Officer has affected the museum staff. Through discussions with staff members, management and Board members it became apparent that there were divisions throughout the administration and Board over support for either the President or the COO. This split in leadership cannot help the organization achieve its revenue and accreditation goals.

<u>Audit Recommendations:</u>

The Board should ensure that MAM:

a. pursues both fundraising and operational efficiencies concurrently;
b. actively pursues grant funding;
c. issues audited financial statements timely;
d. develops both long and short term financial and strategic plans;
e. pursues accreditation;
f. has its Development Committee actively pursue fund raising from Board members and outsiders; and

g. determine the roles and responsibilities of the President and the COO and if the incumbents are not effectively carrying out assigned responsibilities, consider replacement hires.

Purchasing and Receiving

Audit Finding (3):

MAM took four years to establish a procurement policy even though the Memorandum of Operational Agreement dated June 21, 2001, between the County and Friends for Long Island's Heritage §4.4, states that Nassau Heritage ". . . shall establish policies providing internal controls seeking competitive proposals for goods and services." These policies were issued on July 26, 2005 and provide that "purchases or services anticipated to result in an expenditure of more than $5,000 shall be made from or let by competitive bid proposals."

We identified instances where MAM did not obtain competitive bids for purchases over $5,000 before and after adoption of the policy. In addition, the Vice President for Administration and Finance informed us that where bids were obtained, they were not always retained and therefore we could not be assured that purchases were made from the lowest responsible bidder.

The Vice President of Administration and Finance informed us that some vendors were considered "vendors of choice" and were selected without a competitive process because Board Members had used them in the past and had been pleased with the price and quality of the goods or services.

Examples of contracts let without competitive procurement include:

- $127,143 paid over the audit period to Rubenstein Associates, a public relations firm;

- approximately $130,000 per year for insurance. MAM uses MRW Group, Inc., a broker recommended by a Board Member to determine insurance needs and to bid the insurance. MAM has not issued or solicited proposals from other brokers or insurance companies to compare against their current costs and coverage; and

- $13,000 to Friends for Long Islands Heritage for painting, paid on September 19, 2003.

Other business relationships appear to result from a Board Member's primary employment. Contracts let based on the recommendation of Board Members without competitive bidding can result in favoritism. We noted payments of $6,428 in April 23, 2004 to an architectural firm, Sear Brown, where one of the architects billed had the same last name as the former President and Board member. The Vice President for Administration and Finance told us that the architect was the former president and Board member's son. We requested copies of the contract and bid documents, however they were not provided. There was no evidence that bidding took place.

We found that MAM hired three employees (two maintenance employees and an aerospace technician) as outside contractors to construct a wall for an exhibit for $3,900, paid on February 1, 2005 MAM did not use a proper bidding process to contract for the job. MAM did receive one other bid for $5,000, but the employees were apparently aware of this offer when they submitted a written offer to do the construction for MAM.

We also found that MAM had an ongoing no-bid vendor relationship with an electrical company that was used to supplement ordinary staff. MAM engaged Mainline Electric Corp. during the audit period with a total expenditure of $326,113. We requested the underlying contract and the bid documents that resulted in MAM's decision to hire this vendor. There was no evidence that a bidding process was used or that the terms of the work performed was established through a contract.

We reviewed several invoices and found that MAM used the contractor to perform work unrelated to that normally performed by electricians and that it was performed at an exorbitant cost. The vendor billed MAM at a labor rate of $80.64 per hour plus overhead and profit of $10.48 per hour, for a total of $91.12 per hour. A review of the invoices covering the period April 2004 through February 2005 showed that an electrician was on site for about 200 days during this period, working 1,584.5 hours at a cost of $144,380 (based on the hourly rate of $91.12).

It appears that the $91.12 per hour electrician was frequently used as a surrogate for a maintenance worker who could have performed routine tasks, such as checking supplies, shopping, snow removal and calling for repairs at a much lower cost.

Examples taken from the work orders attached as vendor invoice support include:

Date	Description of Work Performed
5/3/04	Check paint supplies
5/10/04	Put up banner in RPC
5/26/04	Pick up material at Lowe's
5/27/04	Change lamps on floor 1, pick up materials at Lowe’s
8/16/04	Measure and order rug for hangar 4 south display area
8/18/04	Get price on generator maintenance
9/1/04	Parking lot patrol, check lights in hangar 3 & 4
6/3/04	Put up banners on 3rd floor, pay bills, adjust setting in both computers.
7/23/04	Repair rug in hangar 3& 4
8/12/04	Put up firemen sign in hangar 2
1/17/04	Remove snow from front of building, move Arlene’s desk around, unload new filters
9/17/04	Call for elevator repairs
10/28/04	Pick up materials, change lamps

The Chief Operating Officer informed us that the Mainline Electric electrician was kept on site because MAM did not have a full time facility manager. However, we noted that after the facility manager was hired he signed work orders authorizing Mainline to perform such tasks as:

- *get price on carpet, window and time card system;*
- *pick up tools at Lowes;*
- *put out no student parking sign in front;*
- *install ceiling tile in coat room;*
- *unload kite display;*
- *move abandoned car from parking lot; and*
- *remove snow from front of building.*

Audit Recommendations:

MAM should:

a. ensure that it purchases goods and services from the lowest responsible bidders. It should periodically solicit proposals from other professional service vendors to determine if it is receiving the best value in its business relationships;

b. retain documentation of the bidding process;

c. assign work to employees within their job description instead of permitting employees to bid on jobs with knowledge of the other bids received; and

d. reexamine the relationship with Mainline Electric Inc. At a minimum, MAM should use the services of an electrician to perform only those tasks that require the special training, knowledge and license of that trade.

Use of Debit and Credit Cards

Audit Finding (4):

Widespread use of debit and credit cards in a weak control environment appears to have resulted in inappropriate or unnecessary expenditures being made. During the audit period MAM spent approximately $136,000 by using a debit card and approximately $42,000 by credit cards. A review of MAM's expenditures for the period July 2003 through June 2005 showed that the debit card was used at Lowes and Home Depot almost 200 times. It should be noted that MAM terminated the use of debit cards in 2005 and the COO informed us that only department heads had access to the debit card; however, controls should have been in place to hold employees who used the cards accountable for obtaining pre-authorizations and for providing appropriate documentation to support the expenditure. We found that the control over the use of these cards was inadequate and that sufficient documentation was often not provided to substantiate the legitimacy of the expenditures incurred.

- There was no evidence of approval of the expenditures by an employee senior to the employee who made the purchase. Instead of using an expense report, MAM used a form titled "Credit Card Receipt Voucher" for each individual transaction. The form does not include a space for, or require, a senior employee to approve the charge.

- Employees often did not provide vendor's invoices to substantiate expenditures. Seventeen out of 27 debit card expenditures tested for the fiscal year 2004/2005 were unsupported by invoices. We noted expenditures that included:

o Full Stage Production	$1,361.76
o Network for Good	$ 100.00
o Rialto Restaurant	$ 393.30
o Rossini's Restaurant	$ 181.00
o Pep Boys (Tinting)	$ 50.94

Without vendor's invoices and approvals, MAM cannot be assured that the expenditures were authorized business related expenses.

- A scan of the debit card transaction listing for July 2004 showed that there were four purchases at gasoline stations totaling $100 for which no receipts were submitted. Without supporting documentation, MAM cannot ensure that all the gasoline purchased was used for museum business.

We reviewed a credit card bill for the month of March 2006. We found that MAM had provided credit cards to nine employees and that most expenditures were under the $100 limit set for petty cash expenditures. While the Chief Operating Officer approved the transaction listing for payment, there did not appear to be any detailed review of the individual charges. Charges during the month included:

- a personal charge of $37.15 for an oil change with a notation that it would be reimbursed by the employee to petty cash. We saw no evidence of the reimbursement. In addition, because the expenditure did not come out of petty cash, it should not be reimbursed to petty cash; and

- $52.15 for flowers for an ill employee. This should be a personal expenditure rather than an expense incurred by the museum.

These expenditures should have been flagged prior to payment and explanations of business purpose should have been obtained.

<u>Audit Recommendations:</u>

We concur with MAM’s elimination of the use of debit cards.

MAM should:

a. strengthen control over the use of credit cards or eliminate their use entirely. Expenses of less than $100 should be reimbursed through petty cash;

b. require pre-authorization for incurring expenditures and use a credit card expense form for each employee to report monthly purchases and submit them for approval. Information/documentation provided should include:
   - the original invoice;
   - description of what was purchased;
   - business purpose;
   - name of employee who authorized the expenditure; and
   - the signature of the employee reviewing and approving the expense report.

c. obtain reimbursement from employees for expenses that should have been paid by the employees.

Lack of Internal Controls Over the Accounting Function

Audit Finding (5):

MAM has not promulgated adequate accounting policies and procedures covering the financial operations process. We were provided with a copy of MAM's procedures; however rather than describing processing and workflow, it was a list of job duties. Examples include "reconcile vendor statements", "prepare for mailing", "transfer daily information to Excel spreadsheet to be calculated". The list did not provide adequate information to describe the steps in the functions to be performed. Lack of written accounting policies increases the possibility of accounting errors due to misunderstandings or misapplication of policy.

A contributing factor to the inadequacy of internal controls is the size and location of the finance department staff. The on site department consists of a part time accounts payable clerk and a full time accountant. The Chief Operating Officer signs the checks. The Vice President for Administration and Finance is a part time employee who works from her home in Virginia. As a result she does not participate on site in the control process by ensuring that all disbursements are properly supported by vendor invoices, receiving reports, bids, or purchase orders, and that all necessary approvals have been obtained prior to payment. It is important for a senior employee to be involved in this process on a daily basis and enforce the policies and procedures established by MAM. Some of the errors noted throughout the report could have been avoided or detected and corrected if the position were staffed with an on site employee. Additionally, a letter from the COO to the personnel records authorizing this arrangement indicates that the Vice President for Administration and Finance will be responsible for managing the accounting staff and reviewing their weekly work. This function is not being fully performed.

Bank Accounts

We identified deficiencies in carrying out the bank reconciliation function, as follows:

MAM did not reconcile its bank accounts fully. We reviewed five bank reconciliations prepared at fiscal year ends 2004 and 2005 and noted that three of them had unreconciled differences. The June 30, 2004 Roslyn Savings Bank reconciliation had an unreconciled difference of $1,656.52. The balance per the books was higher than the balance per the bank after taking into account outstanding checks and known adjustments. For June 2005, the difference was $0.11. The Merrill Lynch account for June 30, 2005 had an unreconciled difference of $244.76.

In addition to not fully reconciling the accounts, we found internal control weaknesses in the reconciliation process:

- The reconciliations were not signed or dated by the preparer to fix accountability for their timely preparation.

- There was no evidence that the reconciliations were reviewed and approved by an employee other than the preparer.

- Old outstanding checks were not voided. The Roslyn Savings Bank June 30, 2005 reconciliation listed three checks totaling $470 that had been outstanding for more than one year.

During the period July 1, 2003 to April 30, 2006, MAM maintained an average daily bank balance in its operating account of $363,275. The Federal Deposit Insurance Corporation insures deposits for $100,000 only. The Museum did not require the bank to collateralize the balances in excess of $100,000 to protect them from loss in the event of a bank failure.

We also noted that MAM's operating funds were maintained in a non-interest bearing account. Had MAM established a sweep account, it could have earned interest income.

<u>Audit Recommendations</u>

MAM should:

a. promulgate accounting policies;

b. physically locate the Vice President for Administration and Finance at the administrative offices so that the staff member can take a proactive role in the control process;

c. require the bank to collateralize account balances greater than $100,000;

d. consider the use of an interest bearing account;

e. reconcile all bank accounts fully;

f. require the employee preparing the bank reconciliation to sign and date the reconciliation;

g. require the reconciliation to be reviewed by another employee; and

h. investigate and stop payment on checks outstanding for more than a year.

Internal Control - Cash Disbursements

Audit Finding (6):

MAM's internal controls over cash disbursements were inadequate because there was a failure to document payment approvals and an inadequate segregation of duties.

We found that MAM:

- did not require written approvals prior to making payments. MAM uses a "Request for Payment" form which includes lines for approvals by both the department incurring the expense and the finance department. We noted that MAM routinely issued checks even though there were no approvals on the vouchers, or when only one of the two approvals needed was obtained;

- made payments even though there were no vendor's invoices to support the payment. These included:

April 16, 2004	Aaron Express	$ 990
October 6, 2003	Creative Juices	$ 280
June 10, 2005	Checkered Flag Sports	$ 875
October 10, 2004	P.C. Richard and Son	$2,909
September 14, 2004	Howard Kroplick	$ 375

- did not require employees to evidence the receipt of goods and services either by use of receiving reports or by requiring them to sign the vendor invoices to attest to the receipt;

- did not properly sign checks. We requested a copy of MAM's corporate resolutions to determine who was authorized to sign, but did not receive a copy. The June 21, 2001 Board minutes state that checks over $5,000 require two signatures, however during the audit period they were only signed by one signatory. A check to AVP Projector Depot in the amount of $9,035 was released to the payee and honored by the bank even though it did not contain a signature at all;

- frequently did not cancel paid invoices to prevent repayment; and

- paid the wrong vendor for valid charges. An internet service bill for the period 10/16/04 through11/15/04 for $ 878.57 was paid to CulinArt, and at the time of the end of our field work, MAM had not been reimbursed by CulinArt.

The procurement policy states that “Upon receipt of material, originator shall verify that order has been received. Indicate any changes, omissions, etc. different from order. Attach any related packing slips, invoices, receipts, and send to Accounts Payable with full details of purchase noted on the invoice” We noted that this policy was not adhered to. A payment to Born Aviation Products for $743.84 was made even though there was no vendor invoice, signed purchase order or receiving report. The “Request for Payment Voucher” did not contain any approvals.

MAM policy does not ensure an adequate segregation of duties because the purchasing function has not been separated from the receiving function. Under the policy as written, the originator of the purchase order is responsible to verify that the order has been received, the price is correct and that the invoice is mathematically correct. This is not a sufficient internal control to prevent abuse of the purchasing function.

We found an inadequate segregation of duties because the Accounts Payable clerk has too many conflicting duties. The clerk:

- receives invoices in the mail;
- records the account payable;
- prepares the “Request for Payment” form;
- prepares the checks;
- receives the signed checks back from the Chief Operating Officer;
- mails the checks to the payees; and
- enters the disbursements into the cash disbursements book.

The employee who prepares the checks and has access to the accounting records should not receive back and mail out the signed checks.

<u>Audit Recommendations:</u>

MAM should:

a. require the payment voucher to be completed in full, with approvals of both the department head and the finance department;

b. require vendor’s invoices to be presented as supporting documentation for disbursements;

c. require employees to evidence the receipt of goods and services through the use of receiving reports;

d. cancel invoices to prevent repayment;

e. separate the purchasing function from the receiving function and the invoice approval function;

f. separate the duties of the accounts payable clerk so that the same employee does not prepare the checks, have access to record transactions in MAM financial records and receive and distribute the signed checks; and

g. ensure that all required documents and approvals are obtained before making payments.

Internal Control – Cash Receipts and Petty Cash

Audit Finding (7):

There was an internal control weakness over the process used to deposit receipts from the box office and the museum store. Both the store and the box office reconcile their cash receipts to reports generated by the point of sale systems. The cash is then given to another employee to deposit at the bank, however there is no written record or receipt indicating the amount of cash turned over to the employee to deposit. The deposit slip is given to the accountant who reconciles the deposits to the journal entries of sales. Without written receipts to evidence the transfer of cash, accountability cannot be fixed for any shortages.

MAM keeps $7,000 in the box office vault for the box office. The Vice President of Finance and Administration told us that this amount was based on what they thought would be necessary to give change and that it was determined when the museum opened. We found that:

- the $7,000 amount has not been reconsidered. It appeared excessive compared with the box office receipts and creates an unnecessary exposure;

- six employees have access to the vault. This may be excessive and no log is kept of vault entry; and

- $56 to reimburse patrons who lose money on a video game machine are also kept in the vault and is accessible to any employee with vault access. This amount was not recorded in the financial statements.

We performed a cash count of the two $500 petty cash funds and found that the visitor’s services fund was short by $200. The visitor’s service petty cash custodian and the receptionist told us that there was a theft, which occurred over a year ago. The Vice President of Administration and Finance was unaware of the theft and the loss was not recognized in MAM financial statements. The petty cash custodian is the only one to reconcile the fund and request replenishment of the fund. There are no surprise counts by another employee and the funds were expended and replenished without management approval of the expenditures. The petty cash vouchers are not approved by management and in fact, the voucher does not have a space for approval.

Audit Recommendations:

MAM should:

a) reevaluate the amount of cash kept in the vault;

b) reconsider whether six employees should have vault access;

c) give financial statement recognition to the refund money and to the petty cash shortage;

d) perform surprise counts of the petty cash fund; and

e) require petty cash vouchers to be submitted to management for review and approval of business purpose and necessity and supporting documentation.

Internal Control – Personnel

Audit Finding (8):

Personnel Policies

A review of the minutes of the Board of Trustees meetings disclosed that it adopted Personnel Policies and Procedures on January 24, 2002; however, MAM could not locate a copy of it, nor was management aware that a Board approved employee handbook existed. Instead one employee provided us with a copy marked "draft" dated 2002. We could not determine if the draft reflected the Board's intentions. We also saw an Employee Handbook dated July 8, 2005; however there was no evidence in the minutes that this version had been approved by the Board of Trustees.

Leave Accruals

We relied on the policy found in the July 8, 2005 handbook to determine if employees were being granted the proper amount of leave. We tested nine employees' leave records. We found errors in the computation of leave for every employee tested.

The handbook states: "Upon the successful completion of the six-month evaluation period, new employees are granted five vacation days. Thereafter, vacation is earned at the rate of one day per month to a maximum of 11 days for employee's first calendar year of service." We noted that exceptions were granted, however Board approval for those exceptions were not documented. For example:

- the COO granted the Facility Manager two weeks vacation upon the start of full time employment plus another five days to be accrued over the last six months of his first year of full time employment; however, there was no evidence in the minutes that the Board approved this arrangement. The Treasurer to the Board did not recall the approval of additional vacation time. In addition , the accountant apparently misinterpreted the offer letter and granted a fourth week of vacation on his six-month anniversary;

- according to her offer letter from the former president, the COO was entitled to "vacation leave at the end of her first years service will be considered as your 5th anniversary for a total of 15 days.' Through her first anniversary she was granted 26 days.
  - There was no evidence of approval by the Board for this offer; and
  - an apparent misinterpretation by the accountant led to the granting of 11 additional days.

- One employee who worked for Nassau County prior to being hired by MAM in July 2005 was permitted to carry forward 88 accumulated leave days. There was no evidence of approval by the Board for this offer.

- Two employees in our sample worked for Nassau County prior to being hired by MAM in May and July of 2002 were granted vacation leave based on their Nassau County hiring dates rather than the MAM date of hire. There was no evidence of Board authorization for this treatment.

- Two employees who transferred from full time employment to part time employment continued to accrue benefits based on full time employment.
  - The Vice President of Administration and Finance switched from full time to part time beginning July 2004 and according to the employee handbook, became ineligible for any benefits. She continued to accrue 25 days of leave (through April 2006) based on a verbal agreement with senior management; however, there was no evidence that the Board approved this exception to policy.
  - An employee transferred from full time to a four-fifths schedule is still receiving full benefits.

Records of Hours Worked

MAM keeps track of employee hours worked by requiring each employee to fill out a daily time sheet and by use of a swipe card system. A February 21, 2006 e-mail from the President to all e mail users stated that payroll procedures were being revised to ensure that time sheets coincide with swipe card system reports before authorizing the payroll.

The manual time sheet is considered the official record and is used in preparing the payroll. It is reviewed and signed by the employee's supervisor. We noted that not all employees use the standard time sheet. Some of the sheets used to support the payroll consisted of only the employee's name and the total number of hours worked; for example, '35' indicating that they worked thirty-five hours. We also noted some instances in which a department head was paid with no time sheet at all.

We attempted to audit the manual time sheets by comparing them to reports printed from the swipe card system. Evidence that the revised policy was implemented was not retained. Both the COO and other managers told us that they discard the swipe card reports after each payroll and that the prior weeks' reports can not be regenerated by the system. The use of both a time sheet and the swipe card system appears duplicative, especially since the swipe card reports do not appear to be used for reconciliation purposes. We also noted that not all employees always maintained time sheets.

An employee was terminated because he falsified time sheets by reporting time worked while he was not working. The department head who documented many of the violations had approved the time sheets that were later claimed to be false.

The Vice President for Administration and Finance maintains her own time and leave records and does not report her hours worked on a day-to-day basis. We requested a copy of current records, but were informed that they had not been updated since December 2005 and eventually provided it to us after updating it.

Payroll

There was an inadequate segregation of duties over the payroll function. The accountant:

- enters all payroll information into the ADP system;
- enters all payroll information into the general ledger; and
- distributes the payroll checks.

In addition, there was no evidence of review of the payroll reports to check the payroll's accuracy. This resulted in an employee being paid a $3,000 stipend twice and a part time employee being paid at the wrong pay rate for eight weeks. We found no evidence that either overpayment was recovered.

Staffing

We performed an analysis of staffing levels to attendance and found that there was no correlation between daily attendance levels and daily staffing. Since much of the weekday attendance is comprised of school field trips, booked in advance, this information could be used to help determine daily staffing needs. We saw no evidence of analysis performed by management to plan staffing to coincide with expected attendance.

Audit Recommendations:

MAM should:

a) obtain approval from the Board of its employee handbook and issue it to all employees;

b) adhere to the policies set forth in the handbook and obtain Board approval prior to granting any exceptions;

c) ensure that the work of the accountant is reviewed and approved by a senior employee;

d) have an employee senior to the accountant review all leave accrual balances and make necessary corrections;

e) require the Vice President for Administration and Finance to maintain a log of hours worked. She should call in and out to a senior employee so that the hours worked can be verified;

f) use the swipe card system as the official record of employee's time worked and require the system reports to be approved by the employee's supervisors;

g) require supervisors to only approve timesheets that they are confident are correct;

h) request the Board of Trustees to approve personnel policies;

i) ensure that payrolls are reviewed and approved by an employee senior to the accountant. The payroll checks should be distributed by someone other than the employee that processes the checks;

j) recover salary overpayments from employees;

k) correct the accumulated time records of those employees who were granted excessive vacation days; and

l) use visitor projections to efficiently staff the museum.

Contract Compliance

Audit Finding (9):

Contract with the Caterer, CulinArt Inc.

We reviewed MAM's monitoring of its November 16, 2001, food service management agreement with CulinArt Inc. The contract was not monitored in a manner to ensure CulinArt's compliance with the contract terms. Article XXI § 21.01 and 21.02 of the contract requires CulinArt to "keep books of account in a manner satisfactory to the Chief Financial Officer or Vice President of Administration and Finance of MAM. It also provided MAM with the right to audit the books and records of CulinArt.

MAM has not:

- exercised its right to audit and has relied on CulinArt to properly calculate revenues paid to, or costs paid by, MAM. Since the CulinArt contract requires payment of a percentage of revenues, and CulinArt income is a substantial component of MAM's revenue, MAM should actively monitor basic elements of the catering service such as number of guests at events and the contract terms for events, and audit the reported receipts;

- ensured that CulinArt maintained its records in a manner to enable us to verify that MAM was being billed properly when MAM was a customer of CulinArt. CulinArt provided food services to MAM for its 2005 Gala fundraiser based on a contract which permitted CulinArt to bill MAM on a cost plus 10% basis. We attempted to verify the costs billed, but found that the costs could not be readily substantiated;

- required CulinArt to adequately clean the premises after events. Article XIV §14.04 makes CulinArt responsible for "cleaning the Cafeteria Areas and Catering Areas , including related rest rooms used in connection with Catering Service" prior to the beginning of the next day's public hours. A review of MAM's payments to cleaning contractors showed that MAM paid its own contractors to provide cleaning services after events. A review of supplemental bills covering just the three week period October 30, 2005 to November 19, 2005 showed that the vendor provided cleaning at a total cost of $682 for six different dates;

- ensured that CulinArt included Nassau County as an additional insured on its insurance policies. We reviewed CulinArt's liability policy covering October 2005 to September 2006 and found that the county was not named as an insured party;

- required CulinArt to provide its own telephone service as required under Article XIV §14.01 of the agreement. We noted that CulinArt uses a County of Nassau telephone number. CulinArt informed us that MAM's prior president agreed to this arrangement;

- ensured that CulinArt made contractual payments timely. CulinArt is supposed to pay commissions on food and beverage before the 25th of the following month; however, this was not done. The payment covering events from October through December 2005 was not paid until February 24, 2006 and we saw no evidence of follow up to encourage prompt payment;

- charged the permitted 9% interest on late payments of commissions from CulinArt;

- required CulinArt to promote the venue in accordance § 13.01 of the agreement. It requires CulinArt to spend 2.5% of gross receipts from catering toward marketing the venue. We noted that for the years 2003, 2004 & 2005 CulinArt under budgeted promotional activities by more than $49,000. We requested an analysis of spending from CulinArt, but it was not received; and

- enforced the terms of a rent renegotiation. MAM President told us that he renegotiated a November 15, 2003 addenda to the agreement which permitted CulinArt to use 2,000 square feet of space in Hanger 2 for $1,700 per month as well as a workstation for $130 per month. Both the President of MAM and the Chief Financial Officer of CulinArt said that they agreed to a retroactive 3% increase per year; however there was no written agreement. MAM did not bill CulinArt for this incremental rent and therefore has been underpaid $8,640.

Audit Recommendations:

MAM should assure itself that CulinArt is complying with the terms of the contract by:

a) exercising its right to audit;

b) requiring CulinArt to maintain records in a manner so that the accuracy of receipts can be verified;

c) requiring CulinArt to name Nassau County as an insured;

d) terminating CulinArt's use of the county telephone system;

e) encouraging timely payment by CulinArt and charge it interest when payments are late;

f) requiring CulinArt to meet its marketing commitment; and

g) requiring CulinArt to pay the agreed upon rent escalation charges.

Furniture Purchase Financing Agreement

Audit Finding (10):

MAM purchased furniture with a part of the purchase cost financed by the retailer. The financing was on a floating interest rate based on the prime rate over the period July 16, 2002 through January 16, 2004. As interest rates decreased, MAM did not adjust its payments and continued to make loan payments based on the 5.75% interest rate in effect on the loan origination date. Although the overpayment was immaterial, it is significant that there was no monitoring of the agreement.

Audit Recommendations:

MAM should:

a) monitor contract payments to ensure that payments made are in accordance with contracts; and

b) request a refund from the vendor.

Adherence to Internal Revenue Service Regulations

Audit Finding (11):

Internal Revenue Service Form 1099

The Internal Revenue Service (IRS) requires entities to file a Form 1099-MISC (1099) for each consultant to whom it has paid at least $600 for services. In our test of cash disbursements we found numerous payments of $600 or more for contracted services to a lobbyist, lawyers, MAM employees, and other individuals where MAM was required to file 1099s. We requested that MAM provide us with copies of the 1099s issued during the audit period and were told by the Vice President for Administration and Finance that none were issued.

In addition, MAM paid employees amounts other than salary for contracted services similar to their job specifications. MAM paid three employees $1,300 each on February 1, 2005 for a contract to build a wall, but did not issue 1099's to the employees or include the payment in their taxable income on their W-2s.IRS Revenue Ruling 58-505, 1958-2 C.B. 728 permits dual status of individuals as employees as well as contractors, but only when their services are not interrelated, that is when they act in two separate and distinct activities.

Failure to file 1099s may subject MAM to IRS penalties of $50 per form not filed, while intentional disregard of filing requirements calls for a penalty of at least $100 per occurrence, with no maximum penalty.

<u>Flex Spending Plan</u>

The MAM did not comply with IRS regulations in the self administration of its FLEX Spending Plan. We noted that during 2004 MAM returned a total of $3,600 to three employees who were participants in the plan when, according to the Vice President of Administration and Finance, MAM decided to terminate its self administered plan and transfer this function to a third party administrator.

If returned to the employee, these non taxable contributions should have been included on the employee's W-2 as taxable income. As a result, MAM may have underreported the employees' taxable income to the IRS and underpaid the required payroll taxes.

<u>Audit Recommendations:</u>

MAM should:

a. comply with IRS regulations and issue Form 1099s for all consultants paid $600 or more in a year; and

b. consult with outside auditors or legal counsel concerning compliance with IRS reporting requirements for the terminated flexible benefits plan payments.

Travel and Entertainment Expenditures

Audit Finding (12):

Entertainment Expense

MAM may have incurred unnecessary expenditures at local restaurants. A review of cash disbursements showed that during the audit period MAM paid approximately $4,700 for meals purchased locally. We noted that many of these meals were paid for by MAM even though the employees incurring the charges did not provide supporting receipts or indicate a business purpose for the meal.

MAM's procedure *Purchasing Materials, Supplies & Services* dated July 26, 2005 set criteria for reimbursement of meals purchased using MAM's credit card. It states that, "When the credit card is used for the purchase of meals, the number of outside diners must exceed or equal the number of Museum staff diners. Museum staff may not use the card when no outside diners are present at the meal. Noted on meal receipts should be the names of each diner and the purpose of the meal." We reviewed MAM's meal reimbursements after the policy was issued and found that 10 of 13 did not contain the required information.

Travel Expense

MAM spent approximately $45,000 on conferences during the audit period. The COO attended four conferences in 2004, four conferences in 2005 and three conferences through April of 2006. One conference in Washington D.C. was attended by four employees.

We noted that MAM did not have any formal policies or procedures for pre-approval of travel expenses, such as for conference attendance. In some instances, itineraries were issued, but we were told by the COO that all approvals were verbal. In addition, the post conference expense review process was weak. The COO attended a conference in 2006, signed the reimbursement check and the expenses were not approved by a supervisor. As a result, there appeared to be no oversight. We were provided with a form that is used by MAM "Conference Expense Report"; however it only had a space for a "requested by" signature and did not include a space for supervisory approval.

Prior to July 26, 2005, MAM did not have formal limits to determine what constituted appropriate spending levels by employees while traveling. We found that some of the expenditures appeared unreasonable because the cost exceeded reasonable rates or should have been a personal expense of the employee. Examples include charges for alcoholic beverages, a meal at the Ruth Chris Steakhouse, hotel room movies, and the rental of a luxury car during a four-day conference. For several expenditures it was indicated on the voucher that the department head would reimburse the MAM for the excessive portion of the charge, but there was no evidence that this was done.

The July 26 policy adopted the per diem rates established by the Federal Government's General Services Administration. We reviewed the expenses of seven conferences attended and found that these limits were exceeded for two of them.

Meal reimbursement rates are also higher than those allowed by Nassau County. MAM allows a daily meal reimbursement rate of up to $48 whereas Nassau County allows $30 per day.

MAM does not have a policy regarding compensation for use of personal vehicles and it was inconsistent in the methodology of reimbursement, allowing either reimbursement on a per mile basis or for gasoline purchased. In addition, during our review of disbursements by check we noted one instance on April 13, 2005 where an employee charged $152 on a per mile basis for a 376 mile round trip to Albany along with $72 for gasoline for the same trip.

We also found that MAM does not have a policy regarding time allowed for travel to and from conferences. We noted one occasion where the COO listed a day off as "conference day", however the president required that the day be considered vacation because a travel day was not necessary. A clearly defined policy would help avoid misunderstandings of time permitted for travel.

<u>Audit Recommendations:</u>

MAM should:

a) set reasonable spending limits for business meals with specific criteria as to when they are appropriate;

b) consistent with Nassau County, reimburse employees' personal use of vehicles in accordance with IRS regulations;

c) not reimburse employees for personal expenses such as alcoholic beverages or in room movies;

d) conform to meal reimbursement limits established by Nassau County;

e) follow up to ensure that amounts to be paid toward excessive costs by employee are received by MAM; and

f) establish policy to determine the travel time permitted before and after a conference.

Health Insurance

Audit Finding (13):

MAM pays $250 towards its employees' health insurance premiums and deducts the balance of the cost from its employees' salary. We reviewed the September 2005 invoice for health insurance and tested to see if the correct amounts were being deducted from paychecks. We determined that incorrect deductions were being made on four of the eleven employees receiving health insurance. The errors had been noted by the accountant and three of the four employees reimbursed MAM for the overpayment. However, MAM did not seek reimbursement from the fourth employee. For the 10-month period after the annual premium increase in 2005, MAM should have deducted $191.39 from each of the employee's paychecks and only deducted $39.48. This resulted in MAM overpaying $3,190 in health insurance costs for that employee in that period alone.

There was no evidence that the accountant's work was reviewed by a senior employee to prevent or detect errors timely.

Audit Recommendations:

a) MAM should recover the $3,190 from the employee; and

b) The accountant's supervisor should review and approve his work to detect and correct errors timely.

Museums at Mitchel (MAM) Response and Auditor's Follow-up

The MAM Board of Trustees has reviewed the draft report of the Comptroller's Office audit of the Cradle of Aviation and would like to submit the following responses:

MAM's Response to Audit Finding (1):

Recommendations a, b: The earliest a museum can consider applying to the American Association of Museums for accreditation is two years after opening to the public. Therefore, May 20, 2004 was the first eligible date for the Cradle to apply. For the reasons identified in the audit report, the Cradle is not ready to begin this lengthy and costly process. In addition to the organizational issues requiring attention, a major drawback involves the physical plant – particularly the lack of humidity control in hangars 3 and 4, the main museum area. According to the Cradle of Aviation's COO, who has served as a museum accreditation reviewer, curatorial climate control and storage is a critical component in the evaluation. This deficiency must be addressed prior to the accreditation application. Since this involves the physical plant, the Board will be meeting with the County to evaluate the situation and determine the course of action.

Once all the identified items have been addressed, the expense of the accreditation process must be budgeted. Hard costs include the $400 application fee, $300 annual accreditation fee (if successful), and the expense of a three-day site visit for two accreditation reviewers (approximately $2,500). Additional indirect costs would include preparing the physical plant to meet standards, staff time to prepare the lengthy self-study, printing and binding multiple copies of the self-study and, if necessary, the costs of a strategic planning process. The total estimated expense is $20,000-$30,000.

The Board will review with the County the accreditation process and the required elements to determine an appropriate plan of action for obtaining accreditation.

Recommendation c: We agree with the audit recommendation. The Board already is reviewing a draft and will distribute a final version in the near future.

Recommendation d: The original operating agreement called for MAM to be responsible for total site development. The Council was intended to have broad representation. As a result of the new operating agreement, the concept of establishing a Council may be obsolete. The Board will meet with County representatives to determine the Council's viability.

Auditor's Follow-Up Response:

We concur with the corrective actions to be taken by MAM.

Museums at Mitchel (MAM) Response and Auditor's Follow-up

MAM's Response to Audit Finding (2):

The amount of grants identified during the audit period is incorrect. The museum received the entire $250,000 grant for the Firefighter's Museum. The terms of the grant required the museum to submit expenses for reimbursement. Accordingly, the following payments were received:

June 2003 -	$90,754
Sept. 2003-	$67,248
Dec. 2003 -	$28,335
June 2004-	$32,751
Aug. 2005-	$30,910

More important, the audit does not identify grants the museum applied for that either were not received or are pending. From February 2003 through May 2006, the Cradle applied for 17 grants requesting $ 1,704,944 in funding with $892,000 still pending.

The Cradle of Aviation Museum actively pursues public and private grants, despite not having a staff member dedicated to identifying and applying for potential grants. As a result, this responsibility is shared by several employees. While the museum has not received any federal grants to date, it should be noted that the first ever federal appropriations grant for $750,000 was submitted March 2006. If successful, the grant will not be awarded until May 2007.

Auditor's Follow-Up Response:

The June 2003 payment of $90,754 was not included in the report because it was prior to our audit period. We stand by our finding that fund raising has been inadequate to meet MAM's financial needs.

Recommendation a: We agree with this recommendation. A more detailed approach will be implemented once the Board receives and reviews the report from the independent museum consultant recently retained to review the museum's operations.

Recommendation b: As previously explained, the museum actively pursues grants; however, the current financial constraints make it difficult to hire an additional employee dedicated to identifying and writing grants. Based on recommendations from the museum consultant, the Board will explore other potential options.

Recommendation c: The issuance of the 2003-2004 and 2004-2005 certified financial statements have been delayed due to negotiations between MAM's Board and Nassau

County relating to the revised operational agreement, particularly regarding the "debt" and whether it would be forgiven. This determination would significantly change the Cradle's financial position.

It was agreed that the museum would release the financial statements once the negotiations were concluded and the new operating agreement adopted. This agreement was signed April 26, 2006 and the museum's outside auditing firm is in the process of finalizing its reposts for issuance.

Recommendation d: The Board in 2005 began the process of creating a five-year strategic plan focusing on the museum's long-term finances and operations. A final document is expected by year-end.

Recommendation e: This was addressed in our response to Audit Finding 1 a, b.

Recommendation f: Fund raising at this time is difficult, given the museum's financial state and the continued repercussion from recent negative publicity; however, the Board recognizes its responsibility and will be working to broaden its fund raising efforts as soon as possible.

Recommendation g: The Board is awaiting the report from the independent museum consultant, who recently completed a review of the museum's operations.

Auditor's Follow-Up Response:

We concur with the corrective actions to be taken by MAM. The audited financial statements could have been issued with a disclaimer of opinion and management could have included a discussion of the ongoing negotiations.

MAM's Response to Audit Finding (3):

As a 501 (c) 3, MAM is a separate nonprofit organization and does not operate under the same guidelines as Nassau County. Accordingly, many of its accepted practices differ from the County. This includes the competitive bidding process. It is important to note that the two contracts highlighted in this section were for personal services, which do not require bidding. The Board believes it acted appropriately in awarding these contracts since the firms selected had particular expertise in providing the required services.

Auditor's Follow-up Response:

We highlighted three contracts, including one for painting and one for obtaining insurance. We believe that there are many firms with expertise to provide these services and that competitive bidding would have helped ensure that MAM obtained the best value.

Under an agreement initiated by the former President between MAM and Mainline Electric, the chief electrician during the museum construction and a Mainline employee became the museum's building manager. Accordingly, he performed all duties related to the general maintenance of the building, not just electrical work. This arrangement ended February 28, 2005.

Auditor's Follow-up Response:

We concur with MAM's decision to end the arrangement. We stand by our finding that MAM chose a very uneconomical method to provide routine maintenance services.

Recommendations a, b, c: The museum will continue to evaluate its procurement process to ensure it receives the best possible product or service at the most reasonable cost.

Recommendation d: This was completed February 2005. Mainline Electric only provides electrical service when necessary.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by MAM.

MAM's Response to Audit Finding (4):

Recommendations a, b, c: The museum credit cards have been eliminated**.** Additionally, the Board will ask the President to review all credit card expenditures during the audit period to determine if they were appropriate business expenses. The current President will seek reimbursement from the respective employees for expenses he identifies as non-business related.

This section of the audit report also cited several expenditures unsupported by invoices. Some of these invoices have been located. The following is the explanation for each expenditure identified in the report:

Museums at Mitchel (MAM) Response and Auditor's Follow-up

Full Stage Production	$1,361.76	Metal support for the F3F aircraft displayed in the museum
Network for Good	$ 100	Two tickets for a reception honoring Horace Hagedorn, noted Long Island philanthropist and a museum supporter, attended by COO Claudia Oakes and Carol Nelson, Director of Development.
Rialto Restaurant	$393.30	Dinner with Apollo Astronaut Fred Haise prior to the 35th Anniversary of Apollo XI Lunar Landing that was held at the Cradle. Attending were Program Speakers Fred Haise and Joe Gavin (and Mrs. Gavin), as well as Dick Dunne, Northrop Grumman consultant; Tom Gwynne, Vice President for Programs; and Carol Nelson, Director of Development.
Rossini's Restaurant	$181	Dinner prior to attending IMAX preview of Aliens of the Deep. Attending were Sean Fanelli, Board Chair; Claudia Oakes, COO; Andy Parton, Vice President for Marketing; and Gary Monti, Director, Visitor Services.
Pep Boys (Tinting)	$50.94	Tinting of windshields to reduce heat and reduce deterioration of aircraft exhibited outdoors.

The employee who made personal charge of $37.15 for an oil change said he reimbursed the museum by submitting the amount to petty cash. The $52.15 for "flowers for an ill employee" was incorrect. The individual receiving the flowers was a hospitalized volunteer, not an employee, and the Board believes this was an appropriate expenditure.

Auditor's Follow-up Response:

These were just five examples out of the17 of 27 unsupported debit card expenditures. The invoices noted were not included with the supporting documentation presented to us. We stand by our finding that MAM did not properly control the use of these cards.

There was no evidence of the reimbursement in petty cash. The funds did not come out of petty cash and should not have been reimbursed to petty cash. The Board should establish a policy regarding such expenditures.

MAM's Response to Audit Finding (5):

Recommendation a: The Board will continue meeting with the representatives from the Legislature and County Budget Review offices and the museum's auditing firm to determine the most effective policies for implementation.

Auditor's Follow-up Response:

We concur with the corrective action to be taken.

Recommendation b: The Vice President for Administration and Finance was hired as CFO at the beginning of MAM's operations. She was not replaced when she moved to Virginia from Long Island in January 2005 because of her knowledge of the institution and expertise that was needed at a time of extreme financial pressure. She has proved invaluable in terms of her knowledge of the institution and ability to monitor cash flow, which is crucial to MAM's survival. In this day and age where computer access is relatively easy MAM believed it was an appropriate trade off to have the Vice President for Administration and Finance continue to perform her role as CFO while we recognized there would be less site monitoring.

While the issue of segregation of duties is well understood by MAM, the budget pressure does not afford the museum the luxury of hiring additional staff. The MAM Board Treasurer believes that the off-site location of the Vice President for Administration and Finance does not compromise greatly the museum's system of internal controls. Given the current fiscal constraints, the Board intends to review with its independent auditors the structure of the Accounting and Finance Department and make appropriate changes to ensure a proper segregation of duties as soon as the museum has the financial means.

Auditor's Follow-up Response:

We stand by our recommendation that MAM's Vice President of Administration and Finance work in the administrative offices. Given the lack of internal controls cited throughout the audit, and the staffing levels, her presence is necessary for proper segregation of duties and staff supervision.

Museums at Mitchel (MAM) Response and Auditor's Follow-up

Recommendations c, d e, f, g, h: The museum will review these recommendations with its independent auditing firm and will evaluate the level of implementation and the feasibility based on current staffing.

Auditor's Follow-up Response:

We do not believe that recommendations such as fully reconciling bank accounts, signing and dating reconciliations and subjecting them to review and approval or stopping payment on stale dated checks need to be reviewed by the audit firm. We urge MAM to implement our recommendations.

MAM's Response to Audit Finding (6):

The audit report cites several payments where the invoice was missing. The museum staff located several missing invoices. The following is an explanation of the expenditures identified in the audit:

April 16, 2004	Aaron Express	$990	Fee for returning **Woman in Flight** exhibit
Oct. 6, 2003	Creative Juices	$280	Introductory panel for art exhibit in Aurora Gallery
June 10, 2005	Checkered Flag Sports	$875	Purchase of NASCAR promotional items for opening of **NASCAR** movie
Oct. 10, 2004	P.C Richard and Son	$2,909	Purchase of flat screen monitor for museum gallery
Sept. 14, 2004	Howard Krolick	$375	Purchase of copies of Vanderbilt Cup Book for re-sale in Museum Store

Museums at Mitchel (MAM) Response and Auditor's Follow-up

Recommendations a, b, c, d: We agree with these recommendations and will implement them immediately.

Recommendations e, f: We agree with these recommendations; however, the execution may require additional personnel. The Board will evaluate the staffing needs and implement the appropriate actions, subject to the availability of funds.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by MAM. The invoices found after the completion of field work should have been included with the supporting documentation provided to management for review and approval before the checks were signed.

MAM's Response to Audit Finding (7):

Recommendations a, b, c, d, e: We will review these recommendations and make any necessary changes.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by MAM.

MAM's Response to Audit Finding (8):

Recommendations a, b, h: The Board will review the employee handbook and personnel policies, make any necessary revisions, and distribute to all employees by year-end. Senior management has the authority to grant special exemptions. The Board will be notified if an exemption is requested.

Recommendations c, d, i: We agree with the recommendation and will discuss with senior management the appropriate method for executing.

Recommendation e: The Vice President of Administration and Finance maintains a daily log of the hours worked and records it on her time sheet. MAM believes it is impractical and unnecessary for her to call in and out daily and her production supports the hours recorded on her time sheet.

Recommendations f, g: These policies already have been implemented. The Board will discuss with senior management procedures for improving the oversight.

Recommendation j: This recommendation already is being implemented.

MUSEUMS AT MITCHEL

Museums at Mitchel (MAM) Response and Auditor's Follow-up

Recommendation k: The Board will be reviewing this recommendation with senior management to determine if any adjustments are required.

Recommendation l: This recommendation was partially implemented in September 2005, when the President significantly reduced part-time staffing during this historically slow period. The Board will request the President to conduct an additional analysis of the attendance patterns and make recommendations for improving staffing efficiencies.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by MAM; however the Vice President of Administration and Finance is paid on an hourly basis. MAM should have a procedure in place to monitor the hours that she works.

MAM's Response to Audit Finding (9):

Food services for 2005 Gala – In October 2005, the new President required Culinart to provide food service for the Gala according to the contract terms. Culinart provided a detailed description of the items and quantities purchased.

Recommendations a, b, c, d: We will review these recommendations with Culinart to arrange periodic audits of the food service and catering, determine a more accurate process for verifying records, and ensure that Nassau County is named as an additional insured in all catering contracts.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by MAM.

Recommendation e: Catering is a vital link in the museum's telephone chain, enabling potential customers to access this service when calling the main telephone number. The museum staff believes segregating this telephone number could negatively impact the catering operation and reduce the museum's control. The cost of the local telephone usage appears to be insignificant; however, we will evaluate this recommendation.

Auditor's Follow-up Response:

MAM does not have the authority to allow its vendors use of Nassau County's telephone system. It should obtain county approval or require CulinArt, Inc. to reimburse Nassau County for the telephone service.

Timely payments from Culinart – This audit finding is misleading. Culinart had been delinquent in commission payments prior to 2005; however, shortly after being hired in 2005, the museum President met with Culinart representatives to address the delinquency and ensure ongoing prompt payment. The auditors requested and were provided documentation for the following payments and dates to verify Culinart's payment history under the new President:

Commission Month	Deposit Date
June 2005	July 28, 2005
July 2005	Aug. 25, 2005
Aug. 2005	Oct. 6, 2005
Sept. 2005	Nov. 10, 2005
Oct.-Dec. 2005	Feb. 28, 2006
Jan. 2006	March 31, 2006
Feb. 2006	May 2, 2006
March 2006	May 19, 2006
April 2006	June 2, 2006
May 2006	June 27, 2006

The payments had been timely, with the exception of the delay in October –December 2005. According to the President, this period identified by the auditors was an anomaly, resulting from a protracted difference of opinion regarding the method for Culinart's payment of $15,000 for a Gala sponsorship. Once this was clarified, prompt payments resumed.

We will continue to monitor Culinart's payments and will consider charging interest if and when it becomes necessary.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by MAM. We also note that only one of the payments listed above was deposited by the due date.

Recommendation g: The Board has asked the museum's Vice President for Marketing to contact Culinart and request a detailed summary of the marketing activities and expenditures. He will review this information to determine if Culinart is meeting its obligation. The vice president also will meet with Culinart to ensure a more accurate and timely method for documenting the company's marketing activities.

Recommendation h: This recommendation already has been implemented.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by MAM.

MAM's Response to Audit Finding (10):

Recommendation a: We agree with the recommendation and will implement it.

Recommendation b: We agree that the agreement should have been monitored. We also agree with the auditors that the overpayment of $162 is immaterial. Accordingly, we will enhance monitoring but forego requesting a refund from the vendor.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by MAM.

Audit Finding (11)

Recommendations a, b: We agree with the recommendations and will implement them.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by MAM.

MAM's Response to Audit Finding (12):

Recommendations a, b, c, d, e, f: The Board will establish a policy addressing travel, business, and meal expenses, which will be included in the Employee Handbook. This will include prior review and authorization by the President for any travel or business expense exceeding an established limit. The President will be asked to review all requests and periodically share them with the Board.

MUSEUMS AT MITCHEL

Museums at Mitchel (MAM) Response and Auditor's Follow-up

Additionally, the Board will ask the President to review all previous submissions for travel and conference reimbursements and seek restitution from employees for expenditures he determines were excessive or non-business related.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by MAM. However, the Board should consider assigning the review of past travel and entertainment expense to the COO so that the President can concentrate on fundraising.

MAM's Response to Audit Finding (13)

Recommendation a: This recommendation already has been implemented.

Recommendation b: We agree with the recommendation and will implement it.

Auditor's Follow-up Response:

We concur with the corrective actions taken by MAM and its plans to implement a review process.