

GAO

Testimony
Before the Senate Committee on Rules
and Administration

For Release on Delivery
Expected at 10:00 a.m. EST
Wednesday, December 12, 2007

SMITHSONIAN
INSTITUTION

Status of Efforts to Address
a Range of Funding and
Governance Challenges

Statement of Mark L. Goldstein, Director
Physical Infrastructure Issues



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Highlights

Highlights of [GAO-08-250T](#), a testimony to the Senate Committee on Rules and Administration

Why GAO Did This Study

The Smithsonian Institution (Smithsonian) is the world's largest museum complex. Its funding comes from its own private trust fund assets and federal appropriations, with the majority of funds for facilities coming from federal appropriations. In 2005, GAO reported that the Smithsonian's current funding would not be sufficient to cover its estimated \$2.3 billion in facilities projects through 2013 and recommended that the Smithsonian Board of Regents, its governing body, develop and implement a funding plan. Recently, problems related to a lack of adequate oversight of executive compensation and other issues have raised concerns about governance at the Smithsonian.

This testimony discusses GAO's recently issued work on the Smithsonian's real property management efforts and its efforts to develop and implement strategies to fund its facilities projects. In addition, it describes preliminary results of GAO's ongoing work on the Smithsonian's governance challenges.

The work for this testimony is based on GAO's September 2007 report, *Smithsonian Institution: Funding Challenges Affect Facilities' Conditions and Security, Endangering Collections*, which included recommendations. For ongoing governance work, GAO reviewed Smithsonian documents and interviewed Smithsonian officials, academics, and representatives of nonprofit associations.

To view the full product, including the scope and methodology, click on [GAO-08-250T](#). For more information, contact Mark L. Goldstein at (202) 512-2834 or goldsteinm@gao.gov.

SMITHSONIAN INSTITUTION

Status of Efforts to Address a Range of Funding and Governance Challenges

What GAO Found

While the Smithsonian has made some improvements to its real property management, the continued deterioration of many Smithsonian facilities has caused problems, and the Smithsonian's real property management efforts face challenges. The deterioration of facilities has caused access restrictions and threatened collections. In addition, the Smithsonian's estimate for facilities projects increased to \$2.5 billion. While the Smithsonian follows key security practices, communication of security information and funding constraints pose challenges. The Smithsonian has made significant strides in improving its real property portfolio management. However, the Smithsonian omitted privately funded projects from its capital plan, making it challenging to assess the total funding and scope of projects. GAO's September 2007 report recommended that the Smithsonian increase awareness of security issues and include privately funded projects in its capital plan. The Smithsonian concurred.

To address GAO's 2005 recommendation that the Smithsonian develop a funding plan for facilities projects, the Board of Regents created an ad-hoc committee that reviewed nine options and chose to request increased federal funding. Some of the Smithsonian's evaluations of the nine funding options were limited in that they did not always provide complete analysis, fully explain assumptions, benchmark with other organizations, or consider combining options to increase revenue. GAO's September 2007 report recommended that the Smithsonian more comprehensively analyze funding options and report to Congress and the Office of Management and Budget on a funding strategy. The Smithsonian concurred. The Board of Regents recently established a prioritized list of funding options.

Preliminary results of GAO's ongoing work on broader governance issues indicate that the Board of Regents has made some changes to strengthen governance, such as more clearly defining the Regents' oversight responsibilities and improving access between the board and key members of senior management. The board is also studying whether changes to its size and composition would strengthen governance. GAO's preliminary work suggests that the Board appears to have taken some positive steps toward governance reform, but that success will depend in part on how Regents embrace their new responsibilities and on their level of engagement.

Facilities Problems Include Leaks in the National Zoological Park's Sea Lion Pool and the Roof of the National Museum of African Art



Sources: (left to right): GAO and Smithsonian Institution.

Madam Chairman and Members of the Committee:

Thank you for the opportunity to testify before you today on our work on the Smithsonian Institution (Smithsonian). The Smithsonian has been referred to as America's museum, as its museums hold and provide access to irreplaceable national collections in American and natural history, art, and other areas. Since its beginning, the Smithsonian has evolved into the world's largest museum complex and research organization; two of its museums on the National Mall in Washington, D.C., are the most visited in the world. The act establishing the Smithsonian in 1846 provided, among other things, that the business of the Smithsonian be conducted by a Board of Regents.

In recent years, the National Academy of Public Administration (NAPA), the Smithsonian, and we have reported on the deterioration of the Smithsonian's facilities and the threat posed by this deterioration to the Smithsonian's collections. For example, in April 2005, we reported that the failing condition and closure of the Smithsonian's 1881 Arts and Industries building on the National Mall was the most significant example of a broad decline in the condition of the Smithsonian's facilities portfolio.¹ Moreover, we reported that structural deterioration and failing systems in Smithsonian museums and other facilities presented serious long-term risks to the Smithsonian's collections. The Smithsonian's annual operating and capital program revenues come from its own private trust fund assets and federal appropriations; however, the majority of funds for facilities come from the Smithsonian's federal appropriations.

As the Smithsonian's chief decision-making body, the Smithsonian Board of Regents is responsible for the long-term stewardship of the Smithsonian's mission, which includes maintaining the Smithsonian's facilities and collections, as well as ensuring that the Smithsonian has a funding strategy that provides sufficient funds to support these activities. In April 2005, we reported that the Smithsonian's current funding would not be sufficient to cover its estimated \$2.3 billion in facilities projects through 2013 and recommended that the Smithsonian Board of Regents develop and implement a funding plan to address the Smithsonian's

¹GAO, *Smithsonian Institution: Facilities Management Reorganization Is Progressing, but Funding Remains a Challenge*, [GAO-05-369](#) (Washington, D.C.: Apr. 25, 2005).

facilities projects. In April 2007, we testified before this committee that the Smithsonian's estimate for facilities' projects had increased.²

Recently, it has come to light that in addition to the challenge of addressing the Smithsonian's facilities needs, the Board of Regents faces other governance challenges. In the past year, following a report from the Smithsonian's Inspector General to the Board of Regents on the Smithsonian's former Secretary's compensation package and expenses, the former Secretary resigned. In response to concerns about the Smithsonian's governance raised by the former Secretary's compensation and expenses, as well as other issues, two studies were conducted, one by the Board of Regents' Governance Committee and the other by an Independent Review Committee (IRC) created at the request of the Board of Regents. Among the findings of these studies were that the roles and responsibilities of Regents were not clearly defined; under the former Secretary of the Smithsonian, key senior officials such as the General Counsel, Inspector General, and Chief Financial Officer were isolated from the board; and the Regents did not routinely receive or request information necessary to support vigorous deliberation, well-reasoned decision making, and adequate oversight. Both studies included recommendations. The Board of Regents adopted all 25 of the Governance Committee's recommendations and stated that the IRC recommendations were for the most part encompassed by the Governance Committee recommendations.³

In my statement today, I will be focusing on the results of our recent study—*Smithsonian Institution: Funding Challenges Affect Facilities' Conditions and Security, Endangering Collections*⁴—and on preliminary results of our ongoing work on governance issues facing the Smithsonian. My statement focuses on three topics: (1) the Smithsonian's real property management efforts, including the condition of the Smithsonian's facilities,

²GAO, *Smithsonian Institution: Funding for Real Property Needs Remains a Challenge*, [GAO-07-725T](#) (Washington, D.C.: Apr. 11, 2007).

³According to the Board of Regents' staff, two IRC recommendations were not encompassed by the governance committee recommendations: a recommendation to audit the former Secretary's and senior management's expenses (although the Smithsonian did separately decide to address this recommendation) and a recommendation not clearly directed to the Board of Regents, which stated that achieving effective oversight and governance at nonprofit organizations may ultimately require legislative action.

⁴GAO, *Smithsonian Institution: Funding Challenges Affect Facilities' Conditions and Security, Endangering Collections*, [GAO-07-1127](#) (Washington, D.C.: Sept. 28, 2007).

costs of facilities' projects, and efforts to improve real property security and portfolio management; (2) the extent to which the Smithsonian has developed and implemented strategies to fund its revitalization, construction, and maintenance projects as we recommended in 2005; and (3) some preliminary results of our ongoing work on governance changes being made by the Smithsonian's Board of Regents to address recent governance problems.

We conducted our work for this testimony from October to December 2007 in accordance with generally accepted government auditing standards. Our testimony regarding the Smithsonian's real property management is based on our September 2007 report on the Smithsonian's facilities and information provided by Smithsonian officials on steps taken to develop a funding plan for facilities projects. Our testimony regarding preliminary results of our ongoing work on the Smithsonian's governance changes is based on our review of Smithsonian and other documents, and interviews with Smithsonian Regents and officials, including all museum directors. In addition, we conducted a literature search to help identify governance experts and organizations that had recently undergone governance reforms. We identified and interviewed ten specialists on nonprofit or museum governance, including academics and representatives of associations dedicated to nonprofit governance. We also reviewed literature on nonprofit governance to identify common nonprofit governance practices, and we met with several organizations that had some characteristics similar to those of the Smithsonian and that had recently undergone governance reforms. For more information on the scope and methodology of this testimony and our ongoing work on governance issues, see Appendix 1.

Summary

- While the Smithsonian has made some improvements to its real property management, the continued deterioration of many facilities has caused problems, the cost estimate for facilities projects has increased, and the Smithsonian's security and real property portfolio management efforts face challenges. The Smithsonian has made a number of improvements to its facilities, but the deterioration of many facilities has resulted in access restrictions and continued to threaten collections and cause other problems, according to museum and facility directors. For example, a lack of temperature and humidity control at National Air and Space Museum storage facilities has caused corrosion to historic airplanes and increased the cost of restoring these items for exhibit. In another example, leaks in the National Zoological Park's sea lion and seal pools as of July 2007 were causing an average

daily water loss of 110,000 gallons, with a water replacement cost of \$297,000 annually. The Smithsonian's cost estimate for facilities projects from fiscal year 2005 through fiscal year 2013 has increased since April 2005 from about \$2.3 billion to about \$2.5 billion for the same time period. Regarding security efforts, the Smithsonian follows key security practices but faces challenges related to ensuring that museum and facility directors are aware of important security information and funding constraints. Some museum and facility directors cited an insufficient number of security guards to protect assets due to funding constraints and stated that in the absence of more guards, some cases of vandalism and theft have occurred. In another area, the Smithsonian has made significant strides in its real property portfolio management efforts. However, the Smithsonian omitted privately funded projects from its capital plan, making it challenging to comprehensively assess the funding and scope of projects. In our September 2007 report, we recommended that the Smithsonian increase awareness of security issues and include privately funded projects in its capital plan. The Smithsonian concurred with these recommendations.

- Funding constraints are clearly a common denominator with regard to the Smithsonian's security and real property management, but while the Board of Regents has taken some steps to address our 2005 recommendation to develop a funding plan for the Smithsonian's facilities projects, its evaluation of funding options has been limited. In 2005, the Board of Regents created an ad-hoc Committee on Facilities Revitalization, which, after reviewing nine options developed by Smithsonian management, requested increased federal funding. We found that some of the Smithsonian's evaluations of the nine funding options were limited in that they did not always provide complete analysis, fully explain specific assumptions, or benchmark with other organizations. Also, some options were dismissed because independently they would not generate enough revenue, but the evaluations did not consider combining options to increase revenue. In our September 2007 report, we concluded that if the Smithsonian does not develop a viable strategy to address its estimated \$2.5 billion in facilities projects, its facilities and collections face increased risk, and the ability of the Smithsonian to meet its mission will likely decline. We therefore recommended that the Smithsonian Board of Regents perform a more comprehensive analysis of alternative funding strategies beyond principally using federal funds to support facilities and submit a report to Congress and the Office of Management and Budget describing a funding strategy for current and future facilities needs. The Smithsonian concurred with the report's recommendations.

Recently, the Smithsonian Board of Regents has taken some additional step towards developing a funding plan for facilities' projects. According to a Smithsonian official, at the Board of Regents' November 19, 2007, meeting, the chair of the Committee on Facilities Revitalization, which became a standing committee in June 2007, reported to the board on the committee's activities. The Regents then concurred with a prioritized list of funding options presented by the committee, which includes establishing a national campaign to raise private sector funds for Smithsonian programs and facilities, among other things.

- Preliminary results of our ongoing work indicate that the Board of Regents has made some changes to strengthen governance, but governance challenges remain. As of December 2007, the Board of Regents or the Acting Secretary had largely implemented 12 of the Governance Committee's 25 recommendations. The board had taken steps towards implementing the other 13 recommendations, including, among other things, arranging for the implementation of some recommendations to be studied further and establishing target dates for implementation that range from December 2007 to mid 2008. The 12 recommendations implemented by the board include, for example, more clearly defining the roles and responsibilities of Regents and regent committees, improving access between the board and key members of senior management, and strengthening management policies regarding conflicts of interest. The board is also studying whether changes to the size and composition of the board would strengthen governance and how to effectively engage the Smithsonian's advisory boards. Governance experts and others we spoke with said that, in general, the board appears to have taken some positive steps toward governance reform. However, according to the literature we reviewed and governance experts we interviewed, success will depend in part on how Regents embrace their new responsibilities and on their level of engagement, as good governance results from a board that consists of active and deeply engaged members. We will continue to address these issues in our ongoing work, in which we are assessing the Board of Regents' governance changes and how the board is addressing long-term governance challenges facing the Smithsonian. We expect to report on these issues in 2008.

Background

Congress established the Smithsonian in 1846 to administer a large bequest left to the United States by James Smithson, an English scientist, for the purpose of establishing, in Washington, D.C., an institution "for the increase and diffusion of knowledge among men." In accepting Smithson's

bequest on behalf of the nation, Congress pledged the “faith of the United States” to carry out the purpose of the trust.⁵ To that end, the act establishing the Smithsonian provided for the administration of the trust, independent of the government itself, by a Board of Regents and a Secretary, who were given broad discretion in the use of the trust funds. The Board of Regents currently consists of nine private citizens as well as members of all three branches of the federal government, including the Chief Justice of the United States, the Vice President, and six congressional members, three from the Senate, and three from the House of Representatives.⁶

Over the last 160 years, the Smithsonian’s facilities inventory has expanded to include 19 museums and galleries, 9 research centers, a zoo, and other facilities—most located in or near Washington, D.C. The major buildings owned by the Smithsonian range in age from about 160 years old to less than 1 year old, with most of the facilities’ growth occurring since the 1960s. (See figure 1.) The Smithsonian’s growth will continue with the construction of an aircraft restoration area—phase 2 of the National Air and Space Museum Steven F. Udvar-Hazy Center⁷—and the design and construction of a National Museum of African American History and Culture, authorized by Congress in 2003. Beyond this, there has been Congressional interest in developing a National Museum of the American Latino.⁸

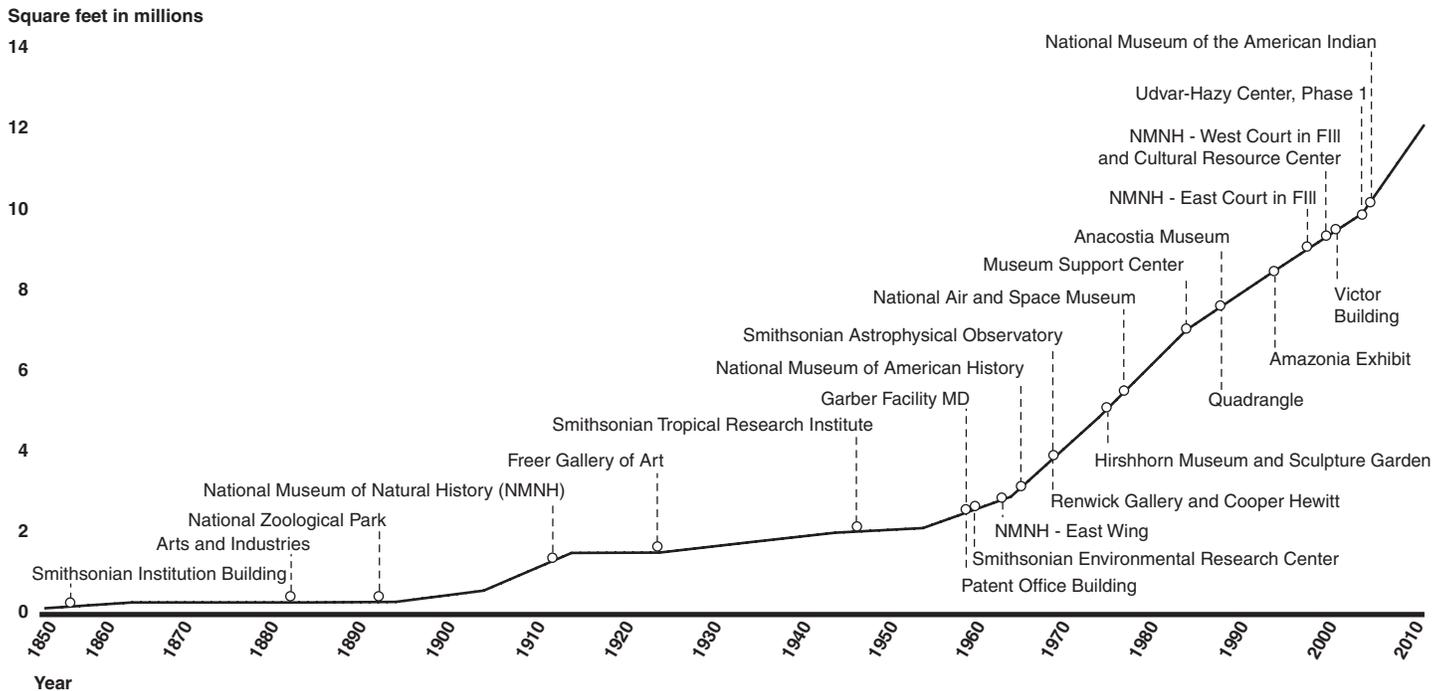
⁵A trust is a fiduciary relationship involving a right of property held by the trustee for the benefit of another.

⁶The three senators are appointed by the President of the Senate, the three representatives are appointed by the Speaker of the House, and nine citizens are appointed by joint resolution of Congress—two from the District of Columbia and seven from the states.

⁷The National Air and Space Museum Steven F. Udvar-Hazy Center near Washington Dulles International Airport is the companion facility to the National Air and Space Museum on the Mall and is being built in two phases. Phase 1 opened in December 2003 and provides enough space for the Smithsonian to display thousands of aviation and space artifacts. Phase 2 will include a restoration hangar, archives, collections processing unit, conservation laboratory, and collections storage facility.

⁸Several bills have been introduced in the 110th Congress to study the potential creation of a National Museum of the American Latino and whether the museum should be located within the Smithsonian. See S. 500, 110th Cong. (2007); and H.R. 512, 110th Cong. (2007).

Figure 1: Growth in Major Facilities Owned by the Smithsonian Institution, in Square Feet



Source: Smithsonian Institution.

Note: This figure tracks the square footage for all owned and leased buildings as they were added to the inventory over time. Only the major facilities are named in the figure, although the square footage of smaller buildings is included. Also, in November 2005, the Smithsonian Institution sold the Victor Building.

Although the Smithsonian is a trust instrumentality with a private endowment, it is largely funded by federal appropriations. In fiscal year 2006, the Smithsonian's operating revenues were about \$947 million, of which about 65 percent came from federal appropriations. The facilities capital appropriation, which was about \$98.5 million in fiscal year 2006, provides funds for construction and revitalization projects. The salaries and expenses appropriation, which was about \$516.6 million in fiscal year 2006, includes funding for the program activities of each museum and research center; rents; utilities; and facilities' operations, maintenance, and security costs. The remaining operating revenues come from the Smithsonian's private trust funds. These are of two types:

- Restricted trust funds—which made up 29 percent of the Smithsonian's operating revenue in fiscal year 2006—include such items as gifts from individuals and corporations that specify the purpose of the funds.

Restricted funds have been provided for some facilities' construction projects and enhancements related to revitalization projects.

- Unrestricted trust funds—which made up 6 percent of the Smithsonian's operating revenue in fiscal year 2006—include income from investment earnings and net proceeds from business activities, and can be used to support any Smithsonian activity. The Smithsonian typically has used unrestricted trust funds for fundraising, some salary costs, and central administration costs. Although the Smithsonian can use unrestricted trust funds for any purpose consistent with the Smithsonian Trust and therefore could use them for facilities revitalization and maintenance, it has not done so. Smithsonian officials stated that the unrestricted trust fund budget is small and that if these salary and central administration costs were not paid for with unrestricted trust funds, they would have to use federal funds or eliminate positions or programs to cover these expenses.

Despite Some Improvements, Deteriorating Facilities Threaten Collections, and Security and Real Property Portfolio Management Efforts Have Strengths and Limitations

With regard to real property management, the Smithsonian has made a number of facilities improvements since our 2005 report, but the continued deterioration of many facilities has caused access restrictions and threatened the collections, and the Smithsonian's cost estimate for facilities projects has increased. The Smithsonian follows many key security practices to protect its assets but faces communication and funding challenges. The Smithsonian has taken steps to improve its real property portfolio management but faces challenges related to funding constraints and its capital plan.

Some Facilities Improvements Have Occurred, but Deteriorating Facilities Have Caused Problems and the Cost Estimate for Facilities Projects Has Increased

The Smithsonian improved the condition of a number of facilities since our 2005 report. For example, the Smithsonian completed its revitalization of the Donald W. Reynolds Center for American Art and Portraiture, which houses the Smithsonian American Art Museum and the National Portrait Gallery. The Smithsonian also completed the construction of Pod 5, a fire-code-compliant space, to store alcohol-preserved specimens of the National Museum of Natural History. Many of these specimens are currently stored within the museum building on the National Mall in Washington, D.C., in spaces that do not meet fire-code standards. Collections are scheduled to be moved to Pod 5 over the next 2 years.

At the same time, problems with the Smithsonian's facilities have resulted in additional access restrictions and damage and have continued to threaten collections and cause other problems, according to museum and facility directors:

- At the National Air and Space Museum, power capacity issues caused by inadequate electrical systems have forced the museum to occasionally close galleries to visitors.
- A lack of temperature and humidity control at storage facilities belonging to the National Air and Space Museum has caused corrosion to historic airplanes and increased the cost of restoring these items for exhibit.
- Chronic leaks in the roof of the Cultural Resources Center at Suitland, Maryland, which was completed in 1998 and opened in 1999 to hold collections of the National Museum of the American Indian, have forced staff to place plastic over several shelving units used to store collections, such as a set of wooden boats that includes an Eskimo kayak from Greenland and a rare Yahgan dugout canoe from Tierra del Fuego, according to officials at this facility (see fig. 2).⁹ The plastic sheeting limits visitors' visual access to the boats during open houses, which provide Native Americans and other groups with access to the collections.

⁹In addition to significant collections from the United States, the National Museum of the American Indian also contains items from throughout the Western Hemisphere.

Figure 2: Plastic Sheeting Covering Native American Boats to Prevent Water Damage at the Smithsonian Institution's Cultural Resources Center



Source: Smithsonian Institution.

- Leaks in a skylight since 2005 have at times forced the National Museum of African Art to cover the skylight with plastic to protect the building and its collections (see fig. 3).

Figure 3: Leaking Skylight Over the National Museum of African Art



Source: Smithsonian Institution.

- Leaks in the National Zoological Park's sea lion and seal pools as of July 2007 were causing an average daily water loss of 110,000 gallons, with a water replacement cost of \$297,000 annually (see fig. 4).

Figure 4: Sea Lion Pool at the National Zoological Park



Source: GAO.

According to Smithsonian officials, repairs to some of these problems are scheduled to take place over the next several years.

The Smithsonian's cost estimate for facilities projects from fiscal year 2005 through fiscal year 2013 has increased since April 2005 from about \$2.3 billion to about \$2.5 billion for the same time period. According to Smithsonian officials, this estimate includes only costs for which the Smithsonian expects to receive federal funds, and it could increase further. According to Smithsonian officials, the increase in this cost estimate was due to several factors. For example, Smithsonian officials said that major increases had occurred in projects for the National Zoological Park and the National Museum of American History because the two facilities had recently developed master plans that identified additional requirements.¹⁰ In addition, according to Smithsonian officials, estimates for antiterrorism projects had increased due to adjustments for higher costs for security-related projects at the National Air and Space

¹⁰A master plan is a proposal of a comprehensive renovation or expansion of a complex that aligns the physical plant with the organization's strategic goals. It includes proposals to make the complex conform to current codes and meet technology and security requirements, and can also involve upgrading and replacing major building systems, among other things.

Museum, and the increase in the cost estimate also reflects the effect of delaying corrective work in terms of additional damage and escalation in construction costs.

Security Efforts Include Following Key Security Practices but Face Challenges

The Smithsonian follows key security practices to protect its assets, but it faces two key challenges, one related to ensuring that museum and facility directors are aware of important security information and the other related to funding constraints. The Smithsonian follows key security practices we have identified in prior work,¹¹ such as allocating resources to manage risk by contracting for a risk assessment report. This report, which includes individual assessments for over 30 Smithsonian facilities, was completed in 2005. The Smithsonian performs risk assessments for its facilities every 3 to 5 years to determine the need for security enhancements.

Despite these efforts, we found that nine museum and facility directors we spoke with were unaware of the contents of the Smithsonian's risk assessment report. The Smithsonian's Office of Protection Services (OPS) is responsible for operating programs for security management at Smithsonian facilities. However, some museum and facility directors' lack of awareness of the risk assessment report limits their ability to work with OPS to identify, monitor, and respond to changes in the security of their facilities.

Furthermore, some museum and facility directors cited an insufficient number of security officers to protect assets due to funding constraints. We found that the overall number of security officers had decreased since 2003, at a time when the Smithsonian's square footage had increased. Some of the Smithsonian's museum and facility directors said that in the absence of more security officers, some cases of vandalism and theft have occurred. In addition, two museum directors stated that it has become more difficult for them to acquire collections on loan because lenders have expressed concern with the lack of protection. In our September 2007 report, we recommended that the Smithsonian increase awareness of security issues. The Smithsonian concurred with this recommendation.

¹¹GAO, *Homeland Security: Further Actions Needed to Coordinate Federal Agencies' Facility Protection Efforts and Promote Key Practices*, GAO-05-49 (Washington, D.C.: Nov. 30, 2004).

Real Property Portfolio Management Efforts Include Improvements but Face Challenges

Faced with deteriorating facilities and an increased cost estimate for facilities projects, the Smithsonian has taken steps to improve the management of its real property portfolio but faces challenges related to funding constraints and its capital plan. The Smithsonian's centralized office for real property management, known as the Office of Facilities Engineering and Operations (OFEO), has made significant strides in several areas related to real property portfolio management, including improving real property data, developing performance metrics, and refining its capital planning process.

At the same time, however, funding constraints have presented considerable challenges to OFEO's efforts. For example, while a majority of museum and facility directors stated that OFEO does a good job of prioritizing and addressing problems with the amount of funds available, several museum and facility directors expressed frustration that projects at their facilities had been delayed. In addition, OFEO officials stated that a lack of sufficient funds for maintenance has limited their ability to optimally maintain equipment, leading to more expensive failures later on.

The Smithsonian has omitted privately funded projects from its capital plan and its estimate of \$2.5 billion for facilities projects through 2013, making it challenging for the Smithsonian and other stakeholders to comprehensively assess the funding and scope of facilities projects. In recent years, private funds have played an important role in funding some of the Smithsonian's highest-priority construction and revitalization projects, making up 39 percent of the Smithsonian's capital funds for facilities projects for fiscal years 2002 through 2007. Smithsonian officials noted that the majority of these private funds were donated for the construction of new facilities—namely, the National Museum of the American Indian and the National Air and Space Museum Steven F. Udvar-Hazy Center—and said there is no assurance that private funds would make up a similar percentage of the Smithsonian's funds for capital projects in future years. However, other organizations we visited during our review include both private and public investments in their capital plans to inform their stakeholders about the scope of projects and the extent of such partnerships used to fund capital needs. As a result, our September 2007 report recommends that the Smithsonian include privately funded projects in its capital plan. The Smithsonian concurred with this recommendation.

The Smithsonian Has Taken Some Steps to Address Our Recommendation Regarding Funding Strategies, but Its Evaluation of Funding Options Has Been Limited

Funding constraints are clearly a common denominator with regard to the Smithsonian's security and real property management, but while the Board of Regents has taken some steps to address our 2005 recommendation to develop a funding plan to address its facilities revitalization, construction, and maintenance needs, its evaluation of funding options has been limited. In September 2005, an ad-hoc Committee on Facilities Revitalization established by the Board of Regents reviewed nine funding options that had been prepared by Smithsonian management for addressing this estimated funding need. The nine options are briefly described in Table 1.

Table 1: Nine Funding Options Evaluated by the Ad-Hoc Committee on Facilities Revitalization

Funding option	Description
Federal income tax check-off contribution	Federal income tax returns would include a check-off box to allow taxpayers to designate funds to the Smithsonian's facilities.
Heritage treasures excise tax	An excise tax would be created, and possibly levied on local hotel bills, to generate funds for the Smithsonian's facilities.
National fund-raising campaign	The Smithsonian would launch a national campaign to raise funds for its facilities.
General admission fee program	The Smithsonian would institute a general admission charge to raise funds for critical but unfunded requirements.
Special exhibition fee program	The Smithsonian would charge visitors to attend a select number of special exhibitions as a means to raise funds to meet critical but unfunded requirements.
Smithsonian treasures pass program	The Smithsonian would design a program through which visitors could purchase a Smithsonian treasures pass with special benefits, such as no-wait entry into facilities or behind-the-scenes tours, to raise funds to meet critical but unfunded requirements.
Facilities revitalization bond	The Smithsonian would borrow funds such as through a private or public debt bond for the Smithsonian's facilities.
Closing Smithsonian museums	The Smithsonian would permanently or temporarily close museums to the public in order to generate savings to help fund its facilities.
Increasing Smithsonian appropriations	The Board of Regents and other friends of the Smithsonian would approach the Administration about a dramatic appropriations increase to fund Smithsonian's facilities.

Source: Smithsonian Institution.

After reviewing materials on these nine options prepared by Smithsonian management, the ad-hoc committee decided to request an additional \$100 million annually in federal funds for facilities over its current appropriation for 10 years, starting in 2008, for a total of an additional \$1

billion. To implement this recommendation, in September 2006, several members of the Board of Regents and the Secretary of the Smithsonian met with the President to discuss the issue of increased federal funding for the Smithsonian's facilities. According to two members of the Board of Regents, this option was selected because the board believed that the revitalization, construction, and maintenance of Smithsonian facilities are federal responsibilities. According to Smithsonian officials, it is the position of the Smithsonian, based on an historical understanding, that the maintenance and revitalization of facilities are a federal responsibility. Smithsonian officials pointed out that as early as the 1850s, the federal government has provided appropriations to the Smithsonian for the care and presentation of objects belonging to the United States. The President's fiscal year 2008 budget proposal included an increase of about \$44 million over the Smithsonian's fiscal year 2007 appropriation, far short of what the Smithsonian requested, and it is not clear how much of this proposed increase would be used to support facilities.

Our analysis of the Smithsonian's evaluations of the eight other funding options, including the potential benefits and drawbacks of each, showed that the evaluations were limited in that they did not always include a complete analysis, fully explain specific assumptions, or benchmark with other organizations—items crucial to determining each option's potential viability. For example, the Smithsonian's analysis of a general admission fee option included an adjustment of annual net gains to account for losses in revenue at restaurants and stores. However, the Smithsonian's materials did not discuss whether other museums had experienced such losses after establishing admission fees. We spoke with six other museums and a zoological park that stated that instituting or increasing admission fees did not decrease the amount of money visitors spent in restaurants and stores. In addition, although several of the nine options were dismissed because independently the options would not generate the amount of revenue required to address the Smithsonian's facilities projects, the evaluation did not consider the potential of combining options to generate more revenue.

In our September 2007 report, we concluded that if the Smithsonian does not develop a viable strategy to address its growing cost estimate for facilities projects, its facilities and collections face increased risk, and the ability of the Smithsonian to meet its mission will likely decline. We therefore concluded that the Board of Regents' stewardship role obligates it to consider providing more private funds to meet the funding requirements of its overall mission. We recommended that the Smithsonian Board of Regents perform a more comprehensive analysis of

alternative funding strategies beyond principally using federal funds to support facilities and submit a report to Congress and the Office of Management and Budget (OMB) describing a funding strategy for current and future facilities needs. The Smithsonian concurred with this recommendation.

Recently, the Smithsonian Board of Regents has taken some additional steps towards developing a funding plan for facilities' projects. According to a Smithsonian official, at the Board of Regents' November 19, 2007, meeting, the Chair of the Committee on Facilities Revitalization, which became a standing committee in June 2007, reported to the board on the committee's activities. These activities included several meetings and conversations, including some with Smithsonian management, and the consideration of some new papers on funding options. The papers contained information on some previously identified options as well as on some new options. A Smithsonian official acknowledged, however, that these papers did not provide comprehensive analysis and that many were not significantly different from the previous materials. According to a Smithsonian official, the Smithsonian determined that it did not wish to spend resources further analyzing all options but instead will analyze those the board has decided to pursue. According to a Smithsonian official, at this November 19 meeting of the Board of Regents, the Regents concurred with a prioritized list of funding options that was presented by the committee. This list includes establishing a national campaign to raise private sector funds for Smithsonian programs and facilities, a request that Congress match funds raised in the national campaign with additional appropriations, and several other options.¹²

¹²According to a Smithsonian official, the other funding options the Board of Regents established as priorities at the November 19, 2007, meeting include a "gift maintenance fee" specifically devoted to facilities, admission fees for selected special exhibitions, additional energy savings performance contracts, public/private partnerships to rehabilitate buildings, and to expand and improve the existing program of voluntary donation boxes in museums.

Preliminary Results Suggest that the Board of Regents Has Made Some Changes to Strengthen Governance, but Governance Challenges Remain

According to preliminary results of ongoing work, as of November 2007, the Board of Regents had largely implemented 12 of the Governance Committee's 25 recommendations. The board had taken steps towards implementing the other 13 recommendations, including, among other things, arranging for the implementation of some recommendations to be studied further and establishing target dates for implementation that range from December 2007 to mid 2008. The 12 recommendations implemented by the board include, for example, more clearly defining the roles and responsibilities of Regents and regent committees, improving access between the board and key members of senior management, and strengthening some policies regarding conflicts of interest and executive expenses. The board is also conducting studies on whether changes to the size and composition of the board would improve governance, how to effectively engage the Smithsonian's advisory boards, and executive compensation. Governance experts and others we interviewed stated that in general, the board appears to have taken some positive steps toward governance reform. However, according to the literature we reviewed and governance experts we interviewed, success will depend in part on how Regents embrace their new responsibilities and on their level of engagement, as good governance results from a board that consists of active and deeply engaged members.

The Board Has Implemented Several Changes to Improve Governance

The board reports that it has largely implemented 12 of the 25 recommendations of the Governance Committee. Appendices II and III provide summaries of the implementation status of the Governance Committee and IRC recommendations. The following are descriptions of some of the key recommendations that have been implemented.

- **Duties and responsibilities of Regents and regent committees have been clarified.** Previously, the roles and responsibilities of Regents and regent committees were not clearly and explicitly stated. The Governance Committee found that without a formal job description, the role of a regent was subject to individual interpretation, and it determined that adopting a clear statement of regent duties and responsibilities would reaffirm that the board is the Smithsonian's ultimate governing authority. Accordingly, the board has taken several actions to clarify these responsibilities, including 1) adopting specific written responsibilities and expectations for all Regents, including that all Regents should participate in committees; 2)

clarifying the duties of the Chancellor¹³ (who by tradition is the Chief Justice) and creating a new board Chair position to play a leadership role in guiding the board in the exercise of its oversight functions; and 3) appointing new leadership for all committees. These changes are now being put into practice and it is therefore too soon to evaluate whether they will be effective in improving governance at the Smithsonian.

- **Access of key management to the board and information available have been improved.** Several of the recent governance problems reported at the Smithsonian have been attributed to the isolation of certain members of senior management from the board and the office of the former Secretary's tight control of information available to the board. The board has taken a number of steps to address these issues, including 1) amending its bylaws to require the attendance of the General Counsel and Chief Financial Officer, or their designees, at all meetings of the board and relevant board committees, 2) strengthening the relationship between the Inspector General's office and the board, and 3) establishing an independent Office of the Regents that is responsible for, among other things, setting the agenda for the board in concert with the Secretary and through consultation with Smithsonian museum directors and others. While we have not independently validated these changes to assess whether they will be effective in improving oversight, both senior management and the Board of Regents' staff told us that communication between the Regents and senior management has improved. For example, the General Counsel and Chief Financial Officer both told us that they are now directly reporting to the Regents and are available at board meetings to discuss details and answer questions about information they bring to the Regents.
- **Management policies have been strengthened.** The Governance Committee found that previous policies regarding expense reimbursement (including travel) and conflict-of-interest policies were not well-defined, which contributed to the lack of oversight of certain practices of the former Secretary as well as the failure to actively

¹³The Smithsonian charter provides for a presiding officer called the chancellor, who is elected by the Regents. By tradition, the Regents have selected the Chief Justice of the United States as chancellor. The Board of Regents' Bylaws provided that the Chancellor is also the Chair of the Board. Recently, the Board of Regents amended the bylaws to separate the position of chancellor and chair of the board. The Governance Committee's report stated that the roles of the chancellor and chair may be further refined as a result of the review of the board structure and functions.

manage apparent conflicts of interest at the Smithsonian. The board has clarified management policies on travel and expense reimbursement, and created new ones, such as prohibiting senior executives from serving on the boards of for-profit companies. We have not independently validated these changes to assess whether they will be effective in improving oversight, and it is not yet clear how these policies will improve the governance of the institution in practice.

- **A compensation range to guide the search for a new secretary has been established.** In response to concerns about the compensation of the former Secretary (which included, among other things, a housing allowance that some Regents were unaware of), the board contracted for a study to identify a compensation range to guide the search for a new secretary, with the goals of making the secretary's compensation transparent and balancing the Smithsonian's public trust status with the need to attract the best leader. According to a Board of Regents' staff member, the study included benchmarking with about 30 comparable organizations. In October, the Board of Regents approved the range recommended by the study to be used in the recruitment process. We have not independently validated this recommended range.

Some Recommendations Have Yet to Be Implemented, and Other Governance Issues Are Still Being Studied

Several recommendations have not yet been fully implemented but are actively being considered and debated. For example, at the direction of the Regents, the Smithsonian is examining the extent to which Smithsonian Business Ventures (SBV), a centralized business entity responsible for the Smithsonian's various business activities, should follow Smithsonian-wide policies for areas such as contracting and travel. Previously, SBV adopted its own policies and was not subject to all Smithsonian policies. The efforts underway are preliminary and final actions have not yet been taken, but the Regents report them as being on track toward implementation. In addition, in August 2007, the Acting Secretary established a task force to review the entirety of SBV and make recommendations on its governance, structure, and the role of revenue-generating activities within the Smithsonian. Those recommendations will be presented to the Acting Secretary by the end of the year and to the Regents at their January 2008 meeting.

The Board of Regents is continuing to study other important issues related to improving governance at the Smithsonian. In particular, some observers have suggested that the size and composition of the board contributed to the lack of oversight of management practices, and in response, the Board

of Regents, with the assistance of outside consultants, is evaluating potential structural changes to the board. The report is due in January 2008. Any changes to the size and composition of the board would require legislative action. Currently, the Board of Regents consists of 17 members—9 citizen Regents, 6 Congressional Regents, and 2 ex-officio Regents (the Vice President and the Chief Justice)—which is the average size for boards of nonprofit organizations. However, much of the work of the Board of Regents is conducted at the committee level, and in the past, not all Regents have served on committees, suggesting that in practice, the “working” size of the board has been somewhat smaller than 17. Nonetheless, based on our review of common non-profit governance practices, and according to governance experts and others we consulted, there is no “right” number of board members. A board that is small will have fewer members to serve on committees, whereas having too many board members can lead to increased difficulty in making decisions and can stifle the effectiveness of the board. Determining the appropriate size for a board entails balancing the need for a board that is of a manageable size with such things as ensuring the board has the expertise necessary to achieve its mission and achieving an appropriate diversity of values and perspectives among board members.

Beyond the size and structure of the board, several governance experts we interviewed stressed that having board members who actively participate and are engaged is central to good governance, and some nonprofit organizations we met with stated that they focused on changing the governance culture at their organization. For example, representatives from one nonprofit organization we spoke with—which recently had similar issues related to executive compensation and expenses—stated that they have focused on creating a culture of accountability and transparency in the board’s activities. They told us that they did not change the size or structure of the board, but rather clarified roles and responsibilities, improved communication throughout the various divisions of the organization, and took other actions aimed at improving the accountability and transparency of the board.

In order to address other governance recommendations, the Board of Regents has planned another longer term study, due in May 2008, aimed at establishing a stronger link between the board and the Smithsonian’s 30 advisory boards. These boards include the Smithsonian National Board as well as advisory boards that focus on individual museums or research centers. According to the Governance Committee, the advisory boards provide a key link between the Regents and the public and a direct connection to the museums. Based on preliminary findings of our ongoing

work, the Regents generally have had limited interaction with the advisory boards, although the advisory boards serve important functions in the operations of the individual museums and other facilities across the Smithsonian. Preliminary results from our ongoing work indicate that several museum directors are concerned about the Regents' level of interaction with advisory boards and most museum directors see additional value from having a more direct relationship between the Board of Regents and the various museums, research facilities, and other institutions within the Smithsonian.

Governance experts and others we spoke with said that, in general, the board appears to have taken some positive steps toward governance reform. However, according to the literature we reviewed and governance experts we interviewed, success will depend in part on how Regents embrace their new responsibilities and on their level of engagement, as good governance results from a board that consists of active and deeply engaged members.

In our ongoing work, we will continue to assess the Board of Regents' governance changes and how the board is addressing long-term governance challenges facing the Smithsonian. We expect to report on these issues in 2008.

Madam Chairman, this concludes my prepared statement. I would be happy to respond to any questions you or other Members of the Committee may have at this time.

GAO Contact and Acknowledgements

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Appendix 1: Scope and Methodology

We conducted our work for this testimony from October to December 2007 in accordance with generally accepted government auditing standards. Our testimony regarding the Smithsonian's real property management is based on our past report on the Smithsonian's facilities, including their condition, security, management, and funding, and information provided by Smithsonian officials on steps taken to develop a funding plan for facilities projects. Our testimony regarding preliminary results of our ongoing work on the Smithsonian's governance changes is based on our review of Smithsonian and other documents, and interviews with Smithsonian Regents and officials and others. Specifically, we reviewed laws relating to the Smithsonian, the Independent Review Committee report, and the Smithsonian's Governance Committee Report, and spoke to Smithsonian Regents and officials on their progress towards implementing governance recommendations. We also interviewed all Smithsonian museum directors. We conducted a literature search to help identify governance experts and organizations that had recently undergone governance reforms. We identified and interviewed ten specialists on nonprofit or museum governance, including academics and representatives of associations dedicated to nonprofit governance. This included four governance or museum experts who had advised or consulted with the Smithsonian during its governance review, as well as six that we identified through a literature search or were referred to us by other experts in the field.

We also reviewed literature on nonprofit governance to identify common nonprofit governance practices, including literature from organizations such as the American Association of Museums, BoardSource, Council on Foundations, and Independent Sector. In addition, we met with several organizations that had characteristics similar to those of the Smithsonian and that had recently undergone governance reforms. We focused on organizations that had had similar governance problems, conducted a governance review, and changed their practice or structure; organizations that had a structure that consisted of a central or national governing body with multiple programming units; and organizations with similar missions and stewardship challenges. As of December 5, 2007, we had met with officials from American University, American National Red Cross, Getty Trust, National Trust for Historic Preservation, and United Way of America.

In ongoing work, we are continuing to evaluate the Smithsonian Board of Regents' governance reforms. Our objectives for this ongoing work include assessing (1) how governance changes being made by the Board of Regents address recent governance problems and how changes will be

implemented and evaluated, and (2) how the Board of Regents is addressing other long-term governance challenges facing the Smithsonian, such as funding, strategic planning, facilities, collections and museum management, and what, if any, additional oversight activities would be beneficial to the board in achieving its mission. We are also continuing to interview recognized experts in nonprofit governance selected through the process described above to obtain their independent views on the Smithsonian's governance problems and whether recent governance changes will address those problems; and we are conducting interviews and reviewing documents from organizations selected through the process described above that have recently changed their governance structure and practice. We expect to report on these issues in 2008.

Appendix II: Implementation Status of Governance Committee Recommendations

According to Smithsonian Institution (Smithsonian) officials, the Smithsonian Board of Regents has largely implemented 12 of the 25 recommendations made by the Board of Regents' Governance Committee based on its internal study, and has taken steps towards implementing the other recommendations. The implementation of some of these recommendations is under further study by the board. Figure 5 provides a summary of the board's efforts towards implementing these recommendations, as described by Smithsonian officials.

Figure 5: Status of Smithsonian Institution’s Implementation of Governance Committee Recommendations at-a-Glance

Governance Committee recommendation		Implementation status
1.	Examine board structure	
2.	Clarify regent duties and responsibilities	
3.	Change duties of chancellor and chair	
4.	Enhance transparency of meetings	
5.	Create board orientation, assessments, and regent staff	
6.	Review committee charters and change committee leadership	
7.	Improve executive and secretary compensation process, recommend secretary compensation range	
8.	Create standing facilities committee	
9.	Strengthen regent nominating and governance process	
10.	Improve general counsel access and review resources	
11.	Improve chief financial officer access and review resources	
12.	Improve inspector general access and review resources	
13.	Enhance role of advisory boards	
14.	Develop Smithsonian Code of Ethics	
15.	Improve board’s transparency to public and stakeholders	
16.	Increase public and stakeholder access to Smithsonian information	
17.	Develop Freedom of Information Act policy	
18.	Develop policy prohibiting senior staff service on for-profit boards	
19.	Create leave accrual system and identify potential conflicts of interest for senior trust employees	
20.	Require Smithsonian Business Ventures to follow Smithsonian policies	
21.	Create or revise policies and review internal controls for regent travel and events	
22.	Develop budget monitoring process	
23.	Review financial reporting and internal controls	
24.	Develop unified compensation policy	
25.	Develop contracting policy	
		Recommendation has been implemented Steps have been taken to implement the recommendation, but more work is needed Implementation of recommendation is under further study

Source: GAO presentation of Smithsonian Institution data.

Appendix III: Implementation Status of Independent Review Committee Recommendations

The Smithsonian Institution (Smithsonian) Board of Regents has stated that the Governance Committee's 25 recommendations generally encompass the recommendations made by the Independent Review Committee (IRC) as part of its study to address governance problems at the Smithsonian.¹ As such, the Smithsonian is not tracking its implementation of these recommendations individually, except that it notes which IRC recommendations are relevant to each Governance Committee recommendation. Based on information provided to us by Smithsonian officials, the board has implemented 3 of the IRC's 12 recommendations, and has taken steps towards implementing the others, with the exception of one recommendation (IRC recommendation number 12) that was not issued directly to the board. Several of these recommendations are being considered as part of ongoing studies undertaken by the board to address the Governance Committee recommendations. Figure 6 provides a summary of the board's efforts towards implementing the IRC recommendations, as described by Smithsonian officials.

¹According to the Board of Regents' staff, two IRC recommendations were not encompassed by the Governance Committee recommendations: IRC recommendation number 2, to audit the former Secretary's and senior management's expenses, and IRC recommendation number 12, which stated that achieving effective oversight and governance at nonprofit organizations may ultimately require legislative action. The board considered these topics outside its charge; however, the board did adopt IRC recommendation 2 in addition to the Governance Committee recommendations.

Figure 6: Status of Smithsonian Institution’s Implementation of Independent Review Committee Recommendations at-a-Glance

Independent Review Committee recommendation	Implementation status
1. Act quickly to address the governance crisis	●
2. Audit the former secretary’s expenses and audit senior management expenses annually	◐
3. Set the secretary’s compensation to be competitive and transparent	●
4. Make policies and salary schedules consistent with federal regulations and government salary schedule, respectively	◐
5. Create an active governing board with a chairman who can provide the time and proper oversight	◐ ◻
6. Clarify the role of chief justice and vice president	◐ ◻
7. Establish that Congressional regents should accept fiduciary responsibilities	◻
8. Expand or reorganize board to allow for addition of regents with needed expertise	◐ ◻
9. Strengthen internal financial controls, audit functions, and role of general counsel and inspector general	◐
10. Permit executives to participate only in nonprofit board activities subject to prior approval	●
11. Ensure that selection of the new secretary reflects governance challenges facing the Smithsonian Institution	◐
12. Achieving effective oversight and governance at nonprofit organizations may ultimately require legislative action	No basis to judge
<p>● Recommendation has been implemented</p> <p>◐ Steps have been taken to implement the recommendation, but more work is needed</p> <p>◻ Implementation of recommendation is under further study</p>	

Source: GAO presentation of Smithsonian Institution data.

Note: The implementation status of IRC recommendation 12 was designated “no basis to judge” because the recommendation is not clearly addressed to the Smithsonian Board of Regents.

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