



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

MEMORANDUM

To: Reporters and Editors
Re: Responses on Smithsonian inspector general
Da: Friday, June 23, 2006

Today Sen. Chuck Grassley, chairman of the Committee on Finance, received responses to his inquiry regarding the Smithsonian's inspector general. He made the following comment on the responses. His original inquiry follows.

"This is a good, fast response from both OMB and the Smithsonian's board. It's very positive that the inspector general will be an independent choice who will report to the Smithsonian board, not to the head of the agency. I'm glad to see a shot in the arm for strong, independent oversight to protect a national treasure."

For Immediate Release
Monday, June 12, 2006

Grassley Seeks Independent Choice of Smithsonian Inspector General

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, is seeking to prevent the head of the Smithsonian from choosing the inspector general who will critique the agency. Grassley is concerned that Smithsonian Secretary Lawrence M. Small has a troubled performance record.

"There's a fox-guarding-the-hen-house dynamic here," Grassley said. "It's wrong to let the head of this institution hand-pick the inspector general who critiques his agency. The pick should be independent. The person running the Smithsonian was highly criticized by a government report for his work as a leader of Fannie Mae. It seems common sense that a guy with a cloud over his head shouldn't get to choose the inspector general of his agency. The Smithsonian's Board of Regents should choose the inspector general, and the inspector general should report to the board. Also, it's troubling that the departing inspector general feels her office got short shrift. The Smithsonian is an American treasure, holding billions of dollars worth of assets, as well as priceless assets, and it needs scrutiny from a strong inspector general to function well."

Grassley said two letters expressing his concern. The text follows here.

June 9, 2006

Director Rob Portman
Office of Management and Budget
725 17th Street, NW
Washington, DC 20503

Dear Director Portman:

The Smithsonian's Inspector General, Debra Ritt, has announced her resignation from the Office of the Inspector General ("OIG"). At this time, the OIG is investigating several matters including but not limited to salaries paid to executives and senior managers, accounting practices of Smithsonian Business Ventures ("SBV"), and contracts entered into on behalf of the Smithsonian. These investigations are critical to ensure that the Smithsonian is most efficiently utilizing their resources to guarantee that they can continue to fulfill their mission.

The power to appoint the Inspector General ("IG") currently lies with the "head" of the entity pursuant to the 1988 amendments to the Inspector General Act of 1978. Currently it appears the "head" of the Smithsonian who is responsible for the appointment of the next IG is Secretary Small. I am concerned that there is an inherent conflict of interest with Secretary Small nominating the IG who will be responsible for continuing the on-going investigations regarding his salary and the contracts he entered into on the Smithsonian's behalf.

According to the Inspector General Act of 1978, the Director of OMB "after consultation with the Comptroller General of the United States" is required annually to publish a list of designated entities and the head of each entity. This Act also states the power of the "head" of an entity can rest with the chief policymaking officer or board. Congress has vested responsibility for administering the Smithsonian in the Board of Regents. Thereby, I suggest this same Board of Regents be designated as the ones responsible for the appointment of the Inspector General rather than Secretary Small.

In addition, a recent report released by the Office of Federal Housing Enterprise Oversight ("OFHEO") regarding Mr. Small's involvement in the extensive financial fraud that took place at the Federal National Mortgage Association only heighten my concern with Secretary Small's continual leadership of the Smithsonian. His circumvention of generally accepted accounting rules to meet earning targets in order to increase bonuses for top executives runs afoul of the type of leadership needed to protect the nation's treasures at the Smithsonian. In light of OFHEO's report which details Mr. Small's involvement in these matters; does the Administration believe Secretary Small is the appropriate steward of the Smithsonian?

Thank you for your time and attention to this matter. I would ask for a response in thirty days.

Cordially yours,

Charles E. Grassley
Chairman

cc: Smithsonian Board of Regents

June 9, 2006

Debra S. Ritt
Inspector General
Smithsonian Institution
Washington, D.C. 20560-0905

Dear Ms. Ritt:

I have noted with interest your recent announcement of an audit of executive compensation and related accounting practices of the Smithsonian Institution's Business Ventures unit. As you know, I along with the Committee have a strong interest in non-profit governance, accountability, and transparency in financial operations.

Because your audit will enhance understanding of executive compensation practices and provide an accounting of how funds raised by Smithsonian Business Ventures have been spent for the charitable purposes of the Institution, I urge you to make your audit a high priority. I would also request that you expand the scope of your work to include the compensation of other executives and senior managers throughout the Institution.

With respect to compensation please include within the scope of your audit all types of compensation and perquisites that were paid to executives and senior managers. Specifically if there were any arrangements that included for example housing allowances, automobile allowances, loans or cash advances, and performance incentives paid to anyone. This is just a small selection of the types of payments that could be included in an executive compensation package.

I am also aware of your recent resignation from the Office of the Inspector General. I hope that your successor is equally enthusiastic to ensure that the Smithsonian is run both economically and efficiently while remaining true to the mission of creating an "establishment for the increase and diffusion of knowledge."

Please ensure that your office keeps the Committee apprised of your progress on this audit. Thank you for your attention to these important issues. We look forward to receiving a full report of your findings.

Sincerely,

Charles E. Grassley
Chairman

cc: Smithsonian Board of Regents