

REPORT OF THE AUDIT AND REVIEW COMMITTEE'S REVIEW OF THE SECRETARY'S EXPENSES

In June 2006 the Secretary and the Audit and Review Committee asked the Chief Financial Officer, with help from an independent auditor, to undertake a six-year review of the Secretary's expenses during fiscal years 2000 through 2005 (he began his tenure in January 2000) and determine if travel and other reimbursable expenditures incurred by the Secretary were reasonable in the context of a business expense related to the Smithsonian's mission and consistent with his employment agreement. By August 2006, the Institution entered into a contract with Cotton & Company to conduct this review, and the Chief Financial Officer determined that the Smithsonian's Inspector General should serve as the Institution's technical representative with respect to that contract.

According to the Cotton & Company December 22, 2006 report and the Inspector General's January 16, 2007 letter transmitting the report to the Audit and Review Committee, the six-year review of 1,040 transactions from 2000 through 2005 disclosed "no evidence of fraud or abuse associated with the expense transactions reviewed." Moreover, the Inspector General expressly found "no evidence that the expenses reviewed were solely for personal benefit." The Inspector General further noted that 96% of these transactions were fully documented. Of the 3% found to be inadequately supported, most of those transactions were deemed to be inadequately supported because only partial documentation, not the original invoices or receipts, could be found. These transactions also occurred primarily in 2000 and 2001, and the Inspector General noted that gaps in records could be attributed to the lapse of time, relocation of the Office of the Comptroller, and staff turnover. The remaining transactions, which represented only 1% (worth \$7,108.89) of all reviewed expenses, were deemed to be unsupported. The Office of the Secretary and the Chief Financial Officer provided the Audit and Review Committee with supplemental documentation establishing the legitimate business purposes for the 4% of transactions deemed in the report to have been unsupported or improperly supported.

The Inspector General specifically questioned two transactions: (1) a \$14,509.40 round-trip charter flight in May 2001, when the Secretary attended the opening of an affiliate museum and, at the request of one of the Institution's largest donors, a function held by a major potential donor and then needed to return to Washington for a Board of Regents meeting; and (2) a \$5,764 reimbursement for the three-day Cambodia portion of the Smithsonian National Board's 2004 China/Cambodia trip for the Secretary's wife. She agreed to represent him and the Smithsonian for the last portion of the trip so he could return to commitments in Washington. After reviewing the relevant supplemental documentation for each of these transactions, as well as the articulated business purpose for each expense, the Audit and Review Committee finds that these transactions were consistent with the Smithsonian's mission and would have been authorized by the Regents as proper business expenses if presented to the Regents for advance approval. Similarly, the Committee recognized that a \$4,811.50 cash award in June 2000 for a long-service employee, while technically unauthorized, was justified in the same manner and would have met with the Regents' approval.

The Inspector General noted that approximately 200 transactions (representing 8% of the cost of all transactions) for gifts and meals for donors and staff were not authorized in some years due to inconsistent policy guidance. According to the Inspector General, most of these transactions were undertaken for legitimate business purposes, none were solely for the Secretary's personal benefit, and all would have been permissible if the policy had been clear. We agree with the conclusion of the Inspector General with respect to these expenses, and we understand that such policies are already being clarified.

In addition, the Inspector General noted that certain meals and gifts provided to staff appear to be lavish. We reviewed all such expenditures, and while we understand that the Institution must ensure that the expenses incurred in carrying out its mission must be reasonable, we did not find any of the expenses reviewed to be unreasonable.

Finally, the Inspector General recommended that "the Board of Regents consider amending the Secretary's employment agreement to specify what level of travel service the Secretary is entitled to... and to make the [Secretary's] housing allowance a single yearly payment with no documentation of expenses or minimum amount required to qualify for the allowance...." In the Audit and Review Committee's opinion, making these terms unambiguous through simple modifications will clarify the intent of the agreement and make the accounting for his compensation more straightforward.

At its meeting on January 22, 2007, the Audit and Review Committee met with the Acting Inspector General in executive session to discuss her observations. The Committee also examined the supporting documentation and found both that the documentation was adequate to support the expenses and that the expenses were incurred for demonstrable business purposes, no personal benefit for the Secretary, and in furtherance of the mission of the Institution.

The Audit and Review Committee respectfully suggests the following motion:

VOTED that the Board of Regents acknowledges the Inspector General's diligent management of the review of the Secretary's expenses and accepts the Audit and Review Committee's conclusions that the expenses were incurred for demonstrable business purposes in furtherance of the mission of the Institution, none of the expenditures were solely for the Secretary's personal benefit, and there was no evidence of fraud or abuse in any transactions in this review. The Regents authorize the following modifications to The Secretary's employment agreement of September 28, 1999:

Modify Paragraph #7 to provide, in its entirety, "The Secretary shall make his personal residence available for official Smithsonian hospitality and will receive an annual housing allowance of \$193,022 for 2007, payable bi-weekly, and adjusted annually by the Board of Regents."

Modify Paragraph #8 to provide, in its entirety, "To carry out his role as chief spokesman and fundraiser for the Smithsonian, the Secretary is authorized by the Board of Regents to travel at the first-class level for all transportation, including the use of car services for transportation to official functions (not to include daily commuting between home and office), and quality hotel accommodations and meals such as those provided by Marriott, Hilton, and other brands targeted at business travelers. The Secretary's spouse is authorized to travel at the Smithsonian's expense when there are business reasons for her to do so."