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MEMORANDUM

To: Reporters and Editors
Re: Resignation of head of Smithsonian Business Ventures
Da: Thursday, May 17, 2007

Sen. Chuck Grassley, ranking member of the Committee on Finance, has been conducting oversight of the Smithsonian Institution as part of his broad review of tax-exempt groups, their accountability for their tax status, and the public service they perform. Inspector general and Washington Post reports have revealed executives' spending excesses and management failures at the Smithsonian, known as the nation's premier museum and research complex. Earlier this week, Grassley wrote to the Smithsonian Board of Regents, outlining a series of concerns regarding Smithsonian Business Ventures. The chief executive officer of Smithsonian Business Ventures has since resigned. Grassley made the following comment on the resignation.

“It looks like the leaders of Smithsonian Business Ventures were living like Thurston Howell and managing like Gilligan. I wrote to the Board of Regents about SBV's management and performance. A number of whistleblowers have described problems from out-of-control spending to sweetheart promotions. The priority of those who manage the Smithsonian gift shops, restaurants, and the magazine ought to be bringing in the resources needed to make sure the Smithsonian remains a world-class institution, not grabbing up perks and padding their own pay. It's good that the Smithsonian called a cab and sent a top manager packing. But I don't know how you justify keeping someone with this record on the payroll until September.”

The text of Grassley's letter follows.

May 15, 2007

Mr. Roger Sant, Chair
Executive Committee
Smithsonian Board of Regents
The Smithsonian Institution
1000 Jefferson Drive, SW

Washington, D.C. 20560

Dear Mr. Sant:

I am writing to you regarding Smithsonian Business Ventures (SBV), the entity that is responsible for managing commercial activities at the Smithsonian, including the gift shops, food vendors and the Smithsonian magazine. My office has received a significant number of phone calls and letters from whistleblowers about SBV alleging questionable management practices. In addition, the Smithsonian Inspector General (IG) has issued a report this January 19, 2007, "Executive Compensation At Smithsonian Business Ventures" and is completing an agreed upon procedures review that includes the expenses of the CEO of SBV, Mr. Gary Beer. These contacts and reports raise serious questions in regards to SBV as well as the management and oversight of SBV by the Board of Regents and senior management at the Smithsonian.

While many things trouble me at SBV, I am especially taken by the IG's findings that while real net gain for SBV in 2007 was \$20 million dollars (in 1999 dollars) as compared to \$27.9 million dollars in 1999, total executive compensation as a percentage of net gain has grown from 8 to 11 percent since 2000. In addition, the IG found that SBV fell far short of projections and expectations. It seems that the executives took care of themselves at SBV but didn't take care of the Smithsonian. With limited funds and resources, it is vital that the Smithsonian successfully manage its commercial activities.

Meanwhile, the Smithsonian's expenses are skyrocketing. The cost of mounting interesting new exhibits to attract visitors is always before us. The Smithsonian's building and facilities maintenance and improvement needs alone are backlogged and soaring as each day passes without ameliorative action. We've read media reports that Smithsonian employees have become skilled at draping plastic to protect landmark items from water damage. Just this week, The Washington Post reported the "bare-bones" cost of a new roof, windows, more security and fire protection, and modernized heating and cooling systems at the Arts and Industries Building would be about \$55 million. A full renovation to use the building as a museum would cost at least \$416 million. That's just a fraction of the Smithsonian's capital needs. Everyone knows the Smithsonian's funding sources are very limited. Those sources include tax dollars, charitable donations, and proceeds from commercial ventures. Since tax dollars are limited and charitable donations are often of restricted purpose, the Smithsonian critically needs to successfully manage its commercial activities. That's why it's worrisome that SBV executives apparently took care of themselves but not the Smithsonian.

So that I can fully understand the situation at SBV, I request that you please provide me, since Mr. Beer's hiring, the following information:

A. Personnel Issues

1. Please provide a copy of Mr. Beer's original employment contract as well as all revisions as well as any incentive plans. Please inform me who negotiated this contract and who drafted the contract. Please provide me all the comparables used to justify Mr. Beer's salary at the time of his employment. Please provide all financial disclosures that Mr. Beer has filed while at the Smithsonian.

2. It is my understanding that an SBV executive, currently serving as Vice President of Media Services, has received a number of promotions and bonuses in the last several years and has a current salary of over \$140,000. Please provide the personnel file and any other material relevant to this executive's promotions, bonuses as well as the individual's original hiring. Please provide a copy of all of this executive's travel and expenditures, including travel records. Please indicate the purpose of the travel and who approved the travel. Please provide a copy of actual and planned travel itinerary. Please provide a copy of this executive's financial disclosure forms. Please provide a copy of all emails and other communications between this executive and Mr. Beer.

In addition, please provide documentation of the executive's original starting date and the date in which this individual was vested. Please provide a breakdown for this individual's base salary and bonuses for 2006 and previous years. For each position that this individual was given as a promotion, please answer the following: was this job posted; were there any other candidates; and, how long were the jobs posted before they were filled? Please provide all material human resources has regarding these positions, including emails and other communications. Who signed off on the creation of each of these new positions? What is the justification for the creation of these positions? Who reviews the creation of new positions, what is the process, and who did it in each case here? Were regular Smithsonian procedures followed in each of these cases, if so, why not?

3. The IG reports that "SBV gave incentive awards even though executives and division managers did not meet approved financial performance goals." Please provide a copy of all incentive plans and inform us of the author(s) of the plans and all individuals who approved the plans and the awards under them. Please respond to this criticism.

4. Please list the number of executives at SBV who were hired and/or fired (for whatever reason) from January 1, 2004 to the present. Please provide the reason for the individual leaving and their last known employment. Please provide their severance.

5. Please provide a copy of all emails and memorandums between Mr. Beer and executive staff at SBV.

6. Please provide all SBV and Smithsonian regulations and guidance dealing with personal or intimate relationships between managers and subordinates and conflicts of interest.

B. Board Management and Oversight

1. Please provide a copy of all board minutes of the SBV Board and any subcommittees, particularly the SBV Board of Directors' Compensation Committee. Please provide copies of all material provided to the members of the SBV Board or any subcommittees. Please provide a copy of all material that the SBV Board provided the Smithsonian Board of Regents or senior management of the Smithsonian. Please provide any reports or documents that evidence in any way the oversight of SBV by Mr. Small (and his staff), the Deputy Secretary, the Regents or any committee thereof. In particular, I want to understand the Smithsonian leadership's reaction to the reality at SBV as shown by the IG – a reduction in net dollars (in 1999 dollars) going to the Smithsonian, with costs going up.

2. Please provide a list of all individuals who have served on the SBV Board since 1999. Please detail what, if any, personal or business relationship board members have with Mr. Lawrence Small or Mr. Beer. Please inform me how board members are selected. Please provide any communications from Mr. Small or Mr. Beer (or their staff) regarding the selection or nomination of board members.

3. Please provide all emails and other communications between Mr. Beer (and his immediate staff), as well as SBV executives and the Secretary (and his staff), Deputy Secretary, the SBV Board and the Board of Regents.

4. The IG found that SBV did not approve operational goals in a timely fashion and set goals that were too vague to allow objective measurement of performance. If the Regents believe that this is not accurate, please so inform me and provide any documents that the Regents believe support their belief. Please identify all individuals who were responsible for monitoring the establishment of SBV's operational goals.

5. I am disturbed by the reaction of the Smithsonian's senior management to the IG report. Senior management embraces the idea that the executives at SBV should be paid "market-based" salaries, but then proceeds to find excuses for why the SBV executives shouldn't be held accountable to the market. In particular, I focus on the point made by the IG that "national and local economies have seen healthy tourism numbers and commercial profits." Yet at the same time, the Smithsonian's attendance is down from 1999, and down even from 2003. The senior management at the Smithsonian in its response states:

It is clear the level of museum visitation is the dominant variable in the success of SBV's museum retail business. But SBV executives, in reality, have little to do with driving how many people visit the Smithsonian's museums, the latter being subject to Washington tourism levels, new museum exhibits and the like.

Thus, we are giving "market-based" pay to SBV executives, while at the same time the Smithsonian senior management says SBV management can't control the dominant determinant of whether they will be successful. This makes no sense. In addition, these facts raise an even more serious question: why is it that the Smithsonian has seen a drop in attendance recently even when other local tourist attractions are seeing an increase? This is even more surprising when we have seen more museums and new exhibits open up at the Smithsonian. Who is responsible for developing attendance at the Smithsonian? And if it's not SBV, please have the Regents explain why. Please provide all details of plans, goals and accomplishments for increasing attendance to the Smithsonian, as developed by SBV, the Regents, or any other party.

Additionally, it seems savvy marketing would target D.C.-area residents as customers of Smithsonian gift shops. Most of the Smithsonian's museums are located in the densely populated Washington, D.C., metropolitan area. Some residents are likely to shop at the gift shops without visiting the museums. Please provide plans, if any, for targeting D.C.-area residents as gift shop customers.

6. In addition to the compensation for executives at SBV, I am also troubled by the number of

executives at SBV. Please give me the position, title, salary of each executive and the number of employees that each executive manages at SBV. Please note if an executive manages another executive (give that title) and also if the individuals included in those managed for one executive are also managed by other executives (give their titles). Please provide the justification for these number of executives. Please provide me all reviews and memorandums, both internal and external, that consider the number of executives at SBV, that provide suggestions to reduce the number of executives at SBV, or to otherwise save costs at SBV.

7. Please provide me a copy of any reports or reviews (including those in draft) performed by outside consultants regarding SBV, including the report by Berglass-Grayson on retail at SBV.

C. Expenses

1. Please provide all material that was provided to the IG in response to the current agreed upon procedures review that includes the expenses of the CEO of SBV. Please provide a copy of all credit card charges and statements and billings that were submitted by the CEO. Please identify those receipts that were created after-the-fact.

2. Please provide Mr. Beer's calendar. Please provide a copy of all Mr. Beer's travel records. Please provide his proposed and actual itinerary.

3. Please provide all costs of the SBV board and subcommittee, detailed by catering, travel, etc.

D. Museums

1. Please provide all emails, memorandums and other material between Mr. Beer and the directors of the Smithsonian museums. Please provide all agreements or other memorandums that established the revenue sharing between SBV and the museums. Please explain why the Freer, Sackler, Cooper-Hewitt and the Zoo are not managed by SBV. Please provide, for each of these four entities, the salaries and expenses of each executive involved in commercial activities as well as the total number of paid employees. In addition, please provide the gross and net numbers for each of these four museums/zoo commercial activities. Please inform me if any of these museums transferred monies to SBV, and, if so, for what purpose and the amount transferred.

2. Please provide all SBV documents, including but not limited to, correspondence, e-mail, documents, materials, spreadsheets, and Powerpoints regarding the so-called revenue-sharing plans with the museums. Please provide the net amount that each museum received from SBV, year-by-year. Please explain how actual cost allocations were changed during the period of January 1, 2004 to the present. Why was the revenue sharing between the museums and SBV not agreed to as a percentage of revenue, which I understand is common practice in the private sector?

E. Independent Review Committee

I appreciate the Regents creation of the Independent Review Committee (IRC) chaired by the Honorable Charles Bowsher. I have met with members of the IRC and my early impression is that their work could significantly benefit efforts to improve the governance of the Smithsonian.

I am concerned that the IRC's important work not be limited or curtailed by an arbitrary deadline for completion or limit on its scope of work. The Board of Regents has announced that the Committee on Governance may not finish its work for several months and I appreciate the need to take the appropriate amount of time for a proper review. Similarly, I think it vital that the IRC have the time necessary to complete all of its work and there are several issues that I raise in this letter and in another letter I will be sending shortly that would best be answered by the IRC. On a related note, I encourage you to ensure that the Smithsonian IG has adequate funding and support to perform its critical work as Congress closely reviews the Smithsonian and is placing additional demands on the IG's office.

I ask that you direct the IRC to respond to the following:

1. Provide their analysis and views on the current leadership and management of SBV and its board as well as recommendations for the removal or discipline of any person(s) and any proposed reforms to SBV.
2. Provide their analysis and views on the leadership of the Board of Regents as well as senior management of the Smithsonian Institution in regards to SBV as well as recommendations for any removal or discipline of any person(s) and any proposed reforms to oversight of SBV.
3. Provide their analysis and views on the appropriateness of the salaries (and all other compensation and benefits) and employment contracts for all individuals listed in Appendix B of the IG report. I am troubled that the comparisons provided by the IG are inappropriate and not in keeping with the intent of the law. For example, to compare the salary of the Director of the National Gallery of Art to the CEO of SBV is highly questionable on its face. The duties and responsibilities of the Director of the National Gallery of Art are far greater and wide-ranging – responsible for all aspects of a major museum – as compared to the CEO of SBV – responsible only for a limited function within a major museum. In addition, as discussed above, the IRC needs to review the fundamental rationale for “market-based” pay for SBV executives and the number of executives.

F. Showtime

1. The creation and operation of the Showtime venture is memorialized primarily in four separate agreements. Please provide these agreements: 1) an agreement between the Smithsonian and Showtime to create a limited liability company that will, among other things, create a new digital on-demand television channel called Smithsonian on Demand; 2) a licensing agreement from the Smithsonian to the new venture for the use of Smithsonian content and Smithsonian trademarks; 3) an agreement between the Smithsonian and the new venture that governs the new venture's access to Smithsonian content; and, 4) a management agreement between Showtime and the new venture for the management of the new venture.
2. It is my understanding that while Mr. Beer was negotiating with Showtime, he received cash from the sale of shares to Showtime by Sundance TV. Further, I understand that Mr. Beer told the GAO he owned his shares of Sundance Channel through Sundance TV, one of the three owners of the cable channel. When Sundance TV sold shares, did Mr. Beer receive any of those proceeds?

If so, how much? Finally, when did Mr. Beer receive his payout from the sale of those shares?

Thank you for your time and assistance. I will also be making a request for Finance Committee counsel to question under oath, in private, executives of SBV. I appreciate your help in facilitating this action. I request a full and complete response within 30 days provided on searchable cd-rom. I look forward to working with you and other Smithsonian leaders to help ensure that SBV reaches its maximum potential to contribute to the financial success of the Smithsonian.

Cordially yours,

Charles E. Grassley
Ranking Member

cc: Smithsonian Board of Regents
Chairman Baucus
Chairman Feinstein
Acting Secretary Samper
Inspector General Ryan
The Honorable Charles Bowsher