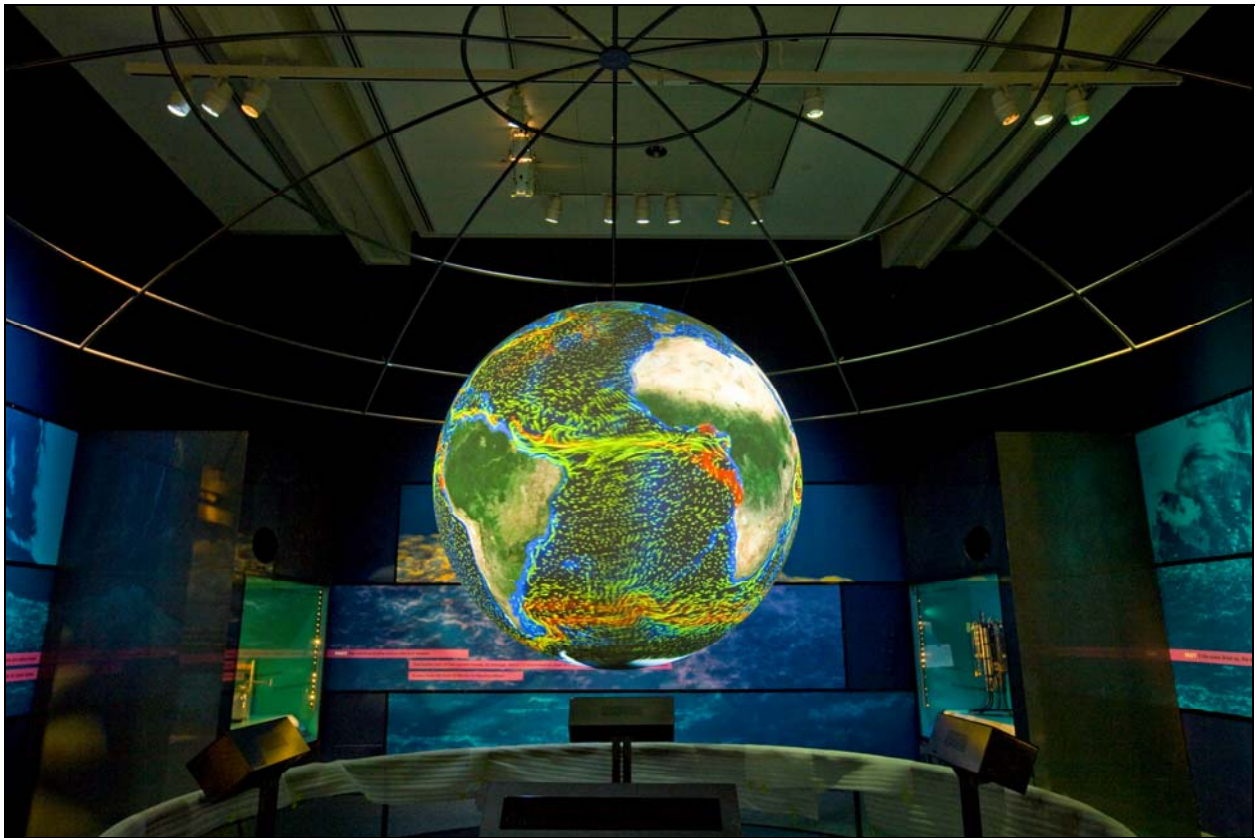


# SEMIANNUAL REPORT

## TO CONGRESS

*April 1, 2008 to September 30, 2008*



Smithsonian Institution

Office of the Inspector General

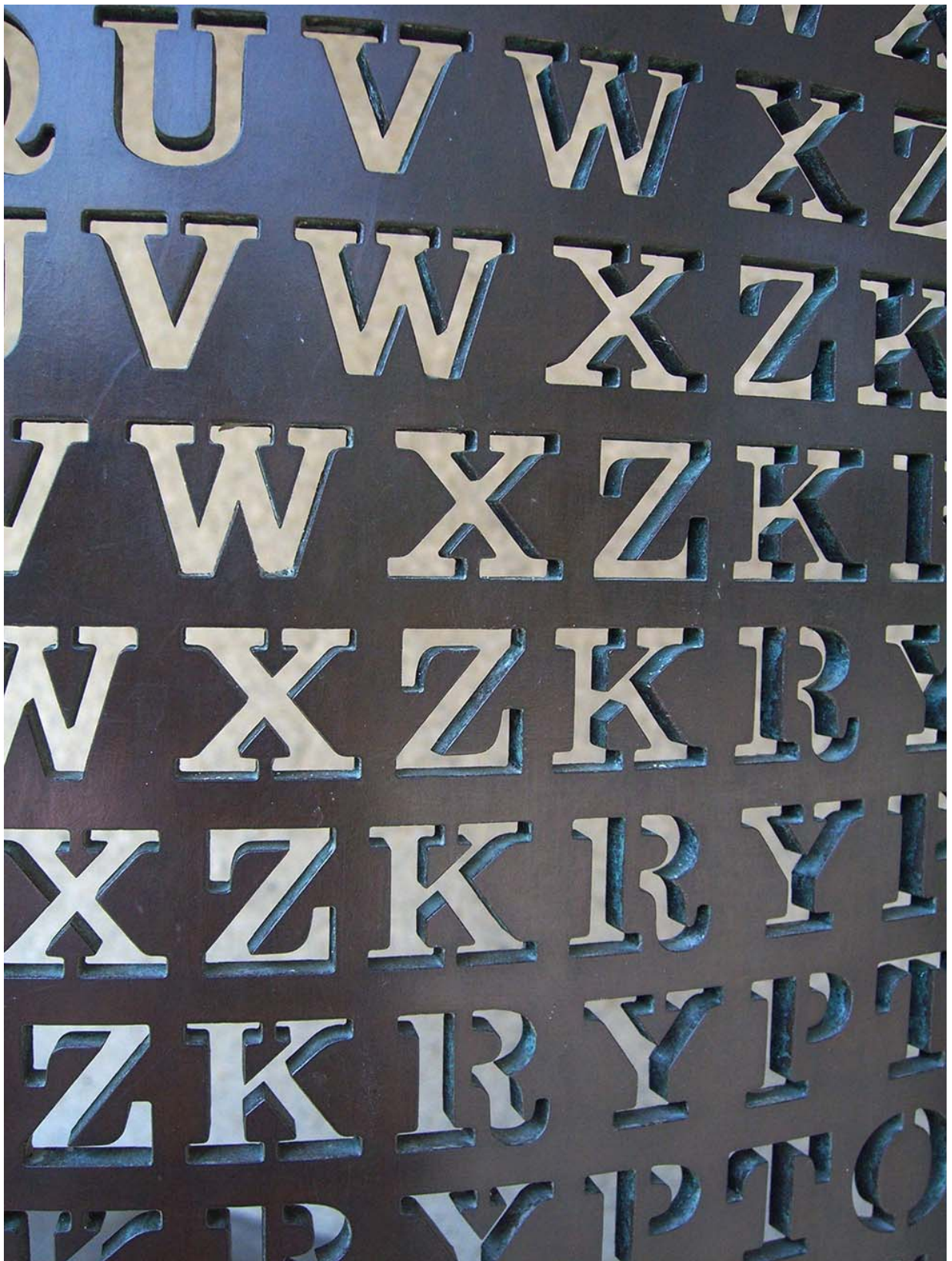
Front cover:

**Science on a Sphere, image by Chip Clark.**

Science on a Sphere, a state-of-the-art exhibit created by the National Oceanic and Atmospheric Administration, lets visitors to the Sant Ocean Hall witness the ocean's constant motion and interaction with land and the atmosphere through data and imaging. The Sant Ocean Hall opened at the National Museum of Natural History on September 27, 2008.

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Antipodes, 1997, by Jim Sanborn, Copper and Petrified Wood. Currently on view outside the Hirshhorn Museum. Partial Gift of Gilbert and Ann Kinney and Joseph H. Hirshhorn Purchase Fund, by exchange, 1998.

# Message to Congress

On behalf of the Smithsonian Office of the Inspector General (OIG), I am pleased to submit this report summarizing the work of our office for the semiannual period ending September 30, 2008. In it, we highlight our efforts to improve the economy, efficiency, and effectiveness of Smithsonian Institution programs and operations, and to prevent and detect waste, fraud and abuse.

During this semiannual period, we issued two audit reports, one on information security and one on administration of the Institution's Continuation of Pay program. We also oversaw two reviews covering the expenses of the former Secretary and the former CEO of Smithsonian Business Ventures (now renamed Smithsonian Enterprises) for fiscal years 2006 and 2007. In our audits and reviews, we found over \$200,000 of questioned and unsupported costs. On the investigative side, we received 33 new complaints, opened 3 new cases, and closed 19 complaints and 3 cases, resulting in one guilty plea for workers' compensation fraud and one employee resignation.

We continue our use of management advisories, a key tool for alerting management to issues we have come across during audits, reviews and investigations. These issues generally do not require in-depth review, but we report them to management so that the weaknesses may be addressed promptly. During the past six months we issued three such advisories: one on travel expenses; one on the Institution's policy of permitting employees to keep honoraria for speeches involving their Smithsonian duties; and one on the need to improve safeguards for personally identifiable information (PII). For the most part, management has acted to mitigate the risks that we identified in these advisories and thereby improved the operational and ethical environment of the Institution.

We are pleased to report that the Institution generally accepted our audit findings and recommendations and we commend Smithsonian management for implementing or planning appropriate actions to resolve numerous open recommendations to the extent allowed by current resource levels. However, we note that corrective actions recommended in two audits from the semiannual period that ended two years ago, and which are critical

to security at the Institution, require significant further investments, investments the Institution cannot make without obtaining additional funding or cutting other priority programs. We also remain concerned about the Institution's insufficient financial, accounting and other administrative resources. We have expressed this concern in various audits over the last 5 years, and the Institution's external auditors have noted these deficiencies for the past 3 years. We believe that this lack of resources is in part responsible for insufficient oversight of the Continuation of Pay program and the significant number of erroneous payments that we describe later in this report. It is critical to the Smithsonian mission that the Institution press forward in upgrading its financial and administrative systems, particularly in hiring and retaining the staff necessary to achieve excellence.

**W**e are proud to be part of an Institution dedicated to the increase and diffusion of knowledge. We are grateful for the efforts of Smithsonian management, especially the former Acting Secretary, Cristián Samper, to continue to improve the Smithsonian. We look forward to building a strong relationship with the new Secretary, G. Wayne Clough, who started his tenure this summer and is proving to be a positive leader for this diverse and beloved Institution. We also appreciate the continuing interest of the congressional oversight committees with whom we work. Finally, we thank the Audit and Review Committee and the entire Board of Regents for their commitment to and support of our mission.



Anne Sprightley Ryan  
Inspector General

# Profiles

## Smithsonian Institution Profile

The Smithsonian Institution is a trust instrumentality of the United States created by Congress in 1846 to carry out the provisions of the will of James Smithson, an English scientist who left his estate to the United States of America to found “an establishment for the increase and diffusion of knowledge.” Although a federal entity, the Smithsonian does not exercise governmental powers or executive authority, such as enforcing the laws of Congress or administering government programs. It functions essentially as a nonprofit institution dedicated to the advancement of learning.

Since its inception in 1846, the Smithsonian has expanded from the lone castle building to an extensive museum and research complex that today includes 19 museums and galleries, the National Zoological Park, and research centers around the nation’s capital, in eight states, and in the Republic of Panama. The Institution is the steward of nearly 137 million collection items, which form the basis of world-renowned research, exhibitions, and public programs in the arts, history, and the sciences.

Federal appropriations provide the core support for the Smithsonian’s science efforts, museum functions and infrastructure; and trust resources, including external grants and private donations, supplement that. This combination of support has allowed the Smithsonian to produce scientific research that is flexible, independent, and capable of exploring potentially high-risk areas of inquiry. Today, the Smithsonian is the largest museum and research complex in the world.

## Strategic Direction

To support its overall mission to increase and diffuse knowledge, the Smithsonian had a five-year strategic plan for FY 2006-2011 encompassing four broad strategic goals for enlarging its role in American society and succeeding as a complex enterprise in the 21<sup>st</sup> century:

- ***Increased Public Engagement*** - *Enlarge the Smithsonian's audiences, expand its degree of engagement with the public in Washington and throughout the country, and improve the quality of the Smithsonian impact on its audiences, both through its public programs and science research.*
- ***Strengthened Scientific Research*** - *Pursue scientific advances and discovery by focusing resources in areas in which the Institution has recognized strengths due to staff, research platforms, and collections.*
- ***Enhanced Management Excellence*** - *Modernize Smithsonian management systems by bringing each of them to a level of quality and sophistication appropriate to an organization of the size and complexity of the Institution.*
- ***Greater Financial Strength*** - *Provide the financial support essential to achieving the Institution's goals.*

The new Secretary is initiating a strategic planning process that will unfold over the next year and will likely adjust these strategic goals.



CO<sub>2</sub> field study site run by plant physiologist Dr. Bert Drake at the Smithsonian Environmental Research Center in Edgewater, Maryland. This is the longest-running field experiment in the world on the effects of rising atmospheric carbon dioxide on plants.



# Office of the Inspector General Profile

The Inspector General Act of 1978, as amended, created the OIG as an independent entity within the Institution to detect and prevent fraud, waste, and abuse; to promote economy and efficiency; and to keep the head of the Institution and the Congress fully and currently informed of problems at the Institution. The OIG reports directly to the Smithsonian Board of Regents and to the Congress. Currently, the OIG has 15 full-time and 3 part-time employees, and two more employees will join us in the next month.

## **Audit Division**

The Audit Division independently audits the Smithsonian's programs and operations, including financial systems, guided by an annual Audit Inventory that identifies high-risk areas for review to provide assurance that the Institution's programs and operations are working efficiently and effectively. The Audit Division also monitors the external audit of the Institution's financial statements and contracts out the annual reviews of the Institution's information security practices. The Audit Division includes the Assistant Inspector General for Audit, three project managers, nine auditors, and one analyst. The Assistant Inspector General for Audit position is currently vacant, and two of the auditors will join our office in October.

## **Investigation Division**

The Investigation Division investigates allegations of waste, fraud, abuse, gross mismanagement, employee and contractor misconduct, and criminal and civil violations of law that have an impact on the Institution's programs and operations. It refers matters to the U.S. Department of Justice whenever the OIG has reasonable grounds to believe there has been a violation of federal criminal law. It also identifies fraud indicators and recommends measures to management to improve the Institution's ability to protect itself against fraud and other wrongdoing. Two Senior Special Agents, with full law enforcement authority, make up the Investigations Division.

## **Counsel**

The Counsel to the Inspector General provides independent legal advice to the Inspector General and the audit and investigative staff.

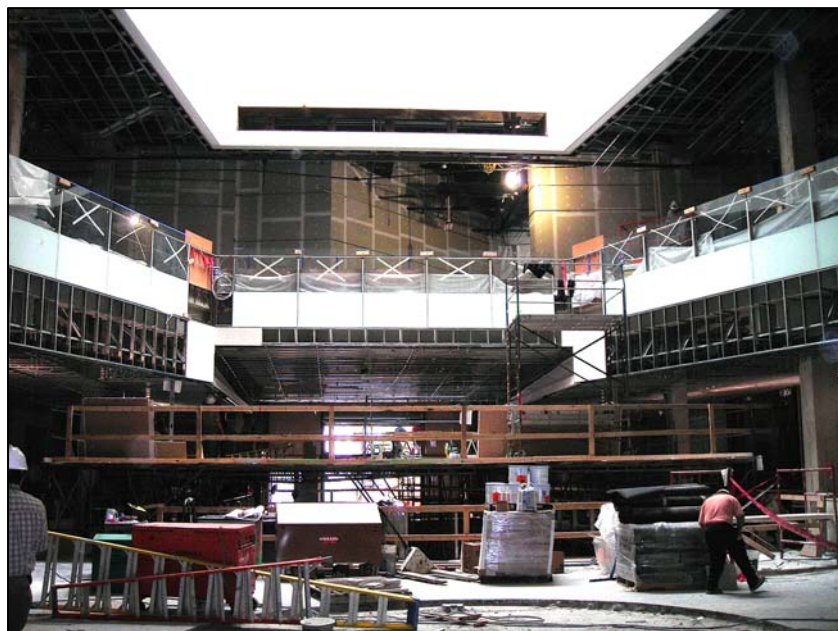
# Audits and Reviews

Our audits and reviews focus on two of the Institution's four current performance goals: ***Enhanced Management Excellence*** and ***Financial Strength***. Specifically, we currently focus on addressing the following high-risk areas:

- Modernization of financial management and accounting operation
- Management of capital assets
- Security of the IT infrastructure
- Contract administration
- Security and care of the national collections
- Safety and environmental management

To this end, during the past semiannual period we completed 2 audits and 2 reviews; worked with management to close 23 recommendations, and completed substantial work on ongoing audits.

We also issued our annual audit plan for fiscal year 2009, which we discuss in more detail below.



The National Museum of American History, Behring Center, will reopen on November 21, 2008 after over two years of major renovation work. OIG staff paid a visit during this semiannual period to see how construction was progressing.

# **Summary of Audit Accomplishments**

## **Administration of Continuation of Pay Program**

During our audit of the Workers' Compensation Program, we determined that the Smithsonian generally did not ensure the accuracy of benefits under the Continuation of Pay program, which provides regular pay for up to 45 days to employees who sustain work-related traumatic injuries. For fiscal years 2004 through 2007, the Smithsonian paid over \$400,000 in COP benefits for the 97 COP cases we reviewed. The Smithsonian made overpayments or improper payments, totaling over \$189,000, in 68 of the 97 cases. The Smithsonian did not ensure that supervisors and timekeepers were adequately trained in COP policies and procedures. Additionally, the Smithsonian did not maintain complete and accurate workers' compensation files and had no system in place to properly track COP benefit payments. The Office of Human Resources did not provide sufficient oversight of the COP program and did not adequately support Smithsonian units, which manage individual claims. Likewise, unit supervisors and timekeepers did not effectively administer employee COP cases; for example, they did not consistently track COP usage and obtain required medical documentation.

Weak oversight over the COP program increases the risk that the Smithsonian will continue to overpay COP benefits to employees, diminishes the Smithsonian's ability to return employees to a productive status, and leads to increased work-loads for other unit staff. Moreover, these weaknesses will negatively affect the management of workers' compensation cases as they progress through the longer-term aspects of the program.

We made six recommendations to strengthen management of the COP program and improve the accuracy of benefit payments. We recommended that management seek reimbursement for overpayments and improper payments; perform monthly reconciliations of payroll reports to workers' compensation records; require physicians' certifications of employees' continued disability; strengthen training for supervisors and timekeepers; and clarify requirements for maintaining workers' compensation files. Management concurred with our findings and recommendations and has taken or planned corrective actions that resolve all our recommendations.

## **Federal Information Security Management Act Audits**

The Federal Information Security Management Act of 2002 (FISMA) directs the Office of the Inspector General to conduct annual evaluations of the information security program of the Institution, which is critical to protecting the Institution's mission. The Institution voluntarily complies with FISMA requirements because it is consistent with its strategic goals. FISMA sets forth federal information security compliance criteria, including annual assessments, certification and accreditation of systems, and system security plans.

During this semiannual period, we completed the FISMA template required by OMB, and oversaw audits of a subset of systems as also required by FISMA.

### ***Smithsonian Astrophysical Observatory (SAO)***

As part of the subset of systems that we are required to review under FISMA, we audited the Smithsonian Astrophysical Observatory's Scientific Computing Infrastructure. SAO, in Cambridge, Massachusetts, is a joint space-science research institute with the Harvard College Observatory.

Overall, we determined that operational, management, and technical controls for SAO's Scientific Computing Infrastructure were in place and operating effectively. While management has complied with the majority of Smithsonian, Office of Management and Budget, and National Institute of Standards and Technology requirements, we did identify several areas where they need to make improvements. Specifically, we found that:

- SAO did not document in its system security plan any deviations from the Smithsonian baselines that were the result of technical limitations or for valid business reasons.
- The Institution's Office of the Chief Information Officer was not timely in updating Smithsonian procedures to reflect changes to NIST requirements. Therefore, SAO could not update its system security plan to document these changes.
- SAO management did not ensure that its network was protected from certain vulnerabilities, increasing the likelihood of unauthorized access.
- Management did not apply adequate time controls for unsuccessful login attempts and session-locking after 20 minutes of inactivity.

- Management did not comply with Institution policy requiring synchronization with Smithsonian time servers.
- SAO did not require new users to take security awareness training within 30 days in accordance with Institution policy.
- Management did not implement proper controls over automated account management and primary and alternate processing facilities.

Without adequate controls in place to enforce Institution policies, procedures, and practices for the System, the confidentiality, availability, and integrity of the system and the sensitive data it processes may be at greater risk than management is willing to accept.

We made 14 recommendations to strengthen controls over SAO's infrastructure by enforcing Institution policies, procedures, and practices for moving the public-facing websites to a secured location; ensuring that baseline configurations comply with NIST baselines and documenting deviations from these baselines; updating its system security plan; and documenting and implementing certain required security controls.

Management concurred with our findings and recommendations and has taken or planned actions that will resolve all our recommendations. Based on improvements SAO already implemented, we closed 4 of the 14 recommendations when we issued the final report.

### **Transmittal Letter and Independent Accountant's Report on Applying Agreed-Upon Procedures to a Review of the former Secretary's Expenses for Fiscal Years 2006 and 2007**

As a follow-up to our transmittal letter and the independent accountant's report reviewing the former Secretary's expenses, compensation and donations for fiscal years 2000 through 2005,<sup>1</sup> we again contracted with an independent account to perform an agreed-upon procedures review of the Secretary's expenses for fiscal years 2006 and 2007, which totaled \$217,095.

The independent accountant found that less than one-half of one percent (\$961) lacked sufficient documentation. As these expenses were for official business, we did not recommend that the Institution seek reimbursement. Similarly, for the other exceptions noted by the independent

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<sup>1</sup> Number A-06-04, January 16, 2007. See our *Semiannual Report to Congress*, April 2007, pages 7-8.

accountant – such as \$140 on alcoholic beverages for official functions that would have been authorized had the expense been coded differently in the financial system - that did not confer a personal benefit on the former Secretary, we did not recommend reimbursement.

The independent accountant identified a \$3,000 refund that the former Secretary had received from a tour company but had not returned to the Smithsonian, although the Smithsonian had reimbursed him for that amount. The former Secretary has reimbursed the Institution \$3,000.

In our letter transmitting the independent accountant's report to the Regents' Audit and Review Committee, we made several observations. Most notably, we found one trip on which the former Secretary's wife presence did not qualify as official business, and the Institution accordingly issued appropriate tax forms for those costs that had to be treated as taxable income to her. We were pleased to note that partly as a result of our earlier report in which we advised that the Institution's payments for spousal travel may have tax implications, the Office of General Counsel had already reviewed Smithsonian-paid travel for spouses of Smithsonian executives, including the former Secretary, and that this one trip was an understandable oversight because of the unusual method of payment.

We also commented on the former Secretary's use of his personal credit card to pay \$50,000 worth of travel expenses that were then reimbursed by the Institution. Charging these costs violated explicit travel rules and potentially constituted the use of Smithsonian resources (official travel) for private gain through rebates, frequent flyer miles or other perks available through personal credit cards. This use appeared atypical, but we suggested the Institution more vigorously police the use of personal credit cards for official travel. We are pleased to note that management has, as a result, strengthened the requirement that travelers use government travel cards for all official travel expenses whenever possible, a policy not previously enforced.

Finally, we noted what we believed to be excess costs associated with car service and luxury hotel accommodations. However, because the Regents had declared in January 2007 that the former Secretary's employment agreement entitled him to premium travel in all regards, we made no recommendation regarding those expenses.

## **Transmittal Letter and Independent Accountant’s Report on Applying Agreed-Upon Procedures to a Review of the Expenses of the former CEO of Smithsonian Business Ventures for Fiscal Years 2006 and 2007**

As a follow-up to our transmittal letter and the independent accountant’s report reviewing the expenses and compensation of the former CEO of Smithsonian Business Ventures for fiscal years 2000 through 2005,<sup>2</sup> we again contracted with an independent account to perform an agreed-upon procedures review of the former CEO’s expenses for fiscal years 2006 and 2007.

Based on the independent accountant’s review and our oversight of that review, we determined that approximately 6 percent of the former CEO’s expenses were inadequately supported or unsupported, and recommended that the Regents ask the Institution to file the necessary tax forms and seek reimbursement from the CEO as appropriate. Specifically, we found that approximately \$16,000 in expenses were inadequately supported (documented), and should be treated as income to the former CEO, and that approximately \$9,700 in expenses were unsupported and therefore should be reimbursed to the Institution by the CEO.

\* \* \* \* \*

Table 1 lists the audit reports and reviews we issued during this semiannual period.

**Table 1: List of Issued Audit Reports and Reviews**

<b>Report Number</b>	<b>Title</b>	<b>Date Issued</b>
A-07-09-1	Administration of Continuation of Pay Program	7/18/2008
A-08-01a	Transmittal Letter and Independent Accountant’s Report on Applying Agreed-Upon Procedures to a Review of the former Secretary’s Expenses for Fiscal Years 2006 and 2007	7/3/2008
A-08-01b	Transmittal Letter and Independent Accountant’s Report on Applying Agreed-Upon Procedures to a Review of the Expenses of the former CEO of Smithsonian Business Ventures	7/7/2008
A-08-03	Smithsonian Astrophysical Observatory Scientific Computing Infrastructure	9/30/2008

<sup>2</sup> Number A-06-04, July 19, 2007. See our *Semiannual Report to Congress*, October 2007, pages 5-6.

## Other Audit Activity

### Status of Open Recommendations

Smithsonian managers made a significant effort during the last six months to implement many of the recommendations from audit reports issued during the current and prior semiannual reporting periods. As a result, we closed 23 recommendations during the past six months.

Implementation of three of the recommendations reflects significant improvements to the Institution's employee and contractor background screening measures. Two resulted in improvements to revenue operations at the National Zoo. Implementation of another four has resulted in better and more cost-efficient administration of the Continuation of Pay program. Closure of one recommendation reflects management approval of a budget and construction schedule for strengthening improved physical security over the national collections at the National Museum of Natural History. Implementation of two others brought improvements to compensation strategy at Smithsonian Enterprises and collections inventory control.

The majority of the recommendations we closed during this period covered information security. Implementation of five has resulted in improved information security for the ID and Badging, C-Cure Central, and Central Monitoring Systems. Implementation of four of the recommendations reflects improvements to the security of the Smithsonian Astrophysical Observatory Scientific Computing Infrastructure. One resulted in improvements to the Institution's IT system certification and accreditation process. Implementation of another brought improvements to computer network account management.

Table 2 summarizes audit recommendation activity.

**Table 2: Audit Recommendation Activity**

Status of Recommendations	Numbers
Open at the beginning of the period	61
Issued during the period	<u>20</u>
Subtotal	81
Closed during the period	<u>23</u>
Open at the end of the period	<u>58</u>



Management decisions regarding questioned costs and funds to be put to better use are detailed in Tables 3 and 4, below.

**Table 3: Reports Issued with Questioned Costs**

Reports	Number	Questioned	Unsupported
Reports for which no management decision has been made by the commencement of the reporting period	0	0	0
Reports issued during the reporting period	3	\$192,726	\$9,621
<b>Subtotal</b>	3	\$192,726	\$9,621
Reports for which a management decision was made during the reporting period			
• Dollar value of disallowed costs	2	\$ 3,163	\$9,621
• Dollar value of costs not disallowed			
Reports for which no management decision has been made by the end of the reporting period	1	\$189,563	0

**Table 4: Audit Reports Issued with Recommendations that Funds Be Put to Better Use**

Reports	Number	Funds Put to Better Use
Reports for which no management decision has been made by the commencement of the reporting period	0	\$0
Reports issued during the reporting period	0	\$0
<b>Subtotal</b>	0	\$0
Reports for which a management decision was made during the reporting period	0	\$0
• Dollar value of recommendations that were Agreed to by management	0	\$0
• Dollar value of recommendations that were not agreed to by management	0	\$0
Reports for which no management decision has been made by the end of the reporting period	0	\$0
Reports for which no management decision was made within 6 months of issuance	0	\$0

While management made considerable progress in closing old recommendations, 46 recommendations we made in prior semiannual periods remained open at the end of this reporting period. Of those recommendations, 4 are over 3 years old, 5 are over 2 years old, 23 are over 1 year old, and the remaining 14 are less than 1 year old. We summarize these open recommendations from prior semiannual periods and their target implementation dates in Table 5, below.

**Table 5: Prior Recommendations for which Corrective Actions Are Not Yet Complete**

Audit Title (Date)	Number of Recs	Summary of Recommendations	Target Date
Steven F. Udvar-Hazy Center Business Activities (8/25/04)	1	The CFO for Smithsonian Business Ventures (SBV) should ensure that his staff develops written procedures for monitoring contractor performance.	12/31/2008
Information Systems Controls at the National Museum of Natural History (9/9/04)	1	The Director of the National Museum of Natural History should relocate web servers to a secure network location.	10/1/2008
National Air and Space Museum Mall Simulators (2/25/05)	1	The CFO of SBV should develop and implement written policies and procedures for contractor selection.	12/31/2008
Bank Reconciliations (9/28/05)	1	The Comptroller, in collaboration with the units, should establish an oversight process for ensuring that revenues are accurately recorded and reviewed.	7/31/2009
Internal Control Weaknesses in Cash Management and Banking Activities (2/14/06)	2	The CFO should verify that charges for banking services are valid and reasonable in accordance with the Institution's current agreements with the banks, ensure a provision is incorporated into future banking agreements to allow for a monthly analysis of bank fees, and formalize the controls recommended to OC into a written policy to ensure current and future OC employees have appropriate operating guidance and to better document controls over cash management and other financial management activities.	7/31/2009
Review of Smithsonian Institution Information Security Practices (2/16/06)	1	The CIO should require that employees who have significant computer responsibilities report their plans for meeting the specialized training requirements at the beginning of the fiscal year, and monitor employee progress during the year to ensure that training is completed.	12/31/2008

Employee and Contractor Screening Measures (8/21/06)	1	The Deputy Secretary and COO should replace NACIS with a system that will better meet Institution requirements.	2/28/2009
Physical Security and Inventory Control Measures to Safeguard the National Collections at the National Museum of Natural History (2/29/06)	1	The Director, NMNH should direct the Department of Mineral Sciences to conduct a complete inventory and develop a follow-up plan to locate all missing objects.	12/31/2008
Executive Compensation at Smithsonian Business Ventures, Phase I (1/19/07)	2	The CEO of Smithsonian Business Ventures should ensure that SBV develops a 3- to 5-year strategic plan for approval by the SBV Board of Directors and the Secretary; reconcile annual financial targets and actual performance to approved long-term plan goals and consider them when making compensation decisions; more closely link operational goals that are long-term drivers of net gain to growth strategies in approved long-term strategic plans; ensure that an annual examination-level attestation engagement by an independent public accountant on SBV's net gain and other key financial measures to ensure that SBV's reported financial results are complete, accurate, and reliable for calculating annual incentive awards and for other Institution uses.	1/31/2009 to 3/31/2009
FY 2006 FISMA Review of the Smithsonian Institution's Information Security Program (4/20/2007)	3	The CIO should establish Institution-wide controls to ensure that major applications are not placed into production before formal certification and accreditation and formal authorization to operate; establish procedures to ensure existing policies requiring the use of standard baselines are implemented and enforced; and consider adopting industry-accepted baselines. If OCIO decides to use their own baselines, the CIO should compare them to industry-accepted baselines and update them where necessary to ensure the Institution's baselines address all known configuration options.	3/31/2008 to 7/31/2010
Development and Membership Information System (DMIS) (5/16/07)	1	The Director of External Affairs should promptly implement standard security configuration baselines for the DMIS Oracle database and each server supporting DMIS; document on the baseline where recommended security controls have not been implemented and provide valid business reasons; and include the completed baseline in the system security plan as part of the C&A package.	12/31/2008

<p>FY 2006 Smithsonian Institution Network (SINet) Audit (8/10/07)</p>	<p>7</p>	<p>The Chief Information Officer should enforce policies and procedures for ensuring that vendor patches and security hot-fixes are installed timely; review results of technical testing to ensure weaknesses identified have been addressed by management or identified in OCIO scans and ensure critical weaknesses are addressed first; enforce separation of duty controls noted in the SInet system security plan and specifically segregate system administration roles from security roles; require existing users of SInet who do not have signed agreements on file to re-sign user agreements; develop and implement procedures to ensure that the director of each museum, research institute, and office retains signed user agreements for non-Smithsonian personnel working in their units as required by SD 931; revise the documented SInet risk assessment to reflect all requirements from NIST SP 800-30; and, develop, document, and implement procedures to ensure future risk assessments address all areas identified in NIST SP 800-30.</p>	<p>2/28/2008 to 4/30/2009</p>
<p>Friends of the National Zoo Revenue Operations (8/28/07)</p>	<p>6</p>	<p>The Executive Director of FONZ should establish aggressive, but achievable, financial targets for revenue and net contribution growth and explore all options, including the feasibility of outsourcing merchandise operations, for achieving these targets; reevaluate the policy of allowing free parking for FONZ and Zoo employees and others; reexamine the unlimited free parking benefits enjoyed by FONZ members and consider limiting free member parking during peak months; and establish a more disciplined system for developing, approving, and documenting formal, written operational policies and procedures and ensure that policies and procedures are implemented as designed. The Board of Directors of FONZ should direct the Executive Director to document a thorough risk assessment and report to the Board on FONZ's system of mitigating controls. The directors of the Zoo and OFEO, and the Executive Director of FONZ, in consultation with the Secretary, should fully examine the options described in our report during the master planning process.</p>	<p>2/28/2008 to 12/31/2010</p>
<p>Human Resources Management System (9/19/2007)</p>	<p>4</p>	<p>The Chief Information Officer should enforce the Institution and HRMS-specific access control policy and require all current users who do not have an approved access request form on file to complete the form; identify, document, and implement segregation of duty controls for sensitive administrative and system support</p>	<p>6/30/2008 to 7/31/2008</p>

		functions; enforce Institution policy and procedures requiring the weekly review of logs and monthly submission of management reports to OCIO; and, document final baselines for the HRMS operating system and database after determining what Institution-wide baselines will be adopted and specifically note where suggested security settings have not been implemented for valid business purposes.	
Oversight of Contractors at Smithsonian Business Ventures (2/25/2008)	5	The Director of Smithsonian Enterprises (SE) Journeys and the SE Vice President for Concessions should develop written contract monitoring procedures, in coordination with the SE Controller, that clearly define the responsibilities of program managers and financial staff as well as the accountants in the SE Accounting Department. The Director SE Journeys should conduct a detailed review of all tour activity codes for FY2007 and identify and collect any outstanding balances that may be due to SE from the current call center operator. The SE Vice President for Concessions should establish procedures for periodic independent audits of contractor cash and credit card receipts, including review of daily cash settlement documents and observation of the daily cash counts. The SE CFO should implement a more effective strategy for recruiting and retaining financial and accounting staff for key contract monitoring functions.	10/31/2008 to 3/31/2009
FY 2007 FISMA Audit of the Smithsonian Institution's Information Security Program (3/31/2008)	4	The Chief Information Officer should: ensure that all major and minor systems are addressed in system security plans in accordance with OMB and NIST guidelines. OCIO should ensure controls over major and minor systems are identified, documented, and implemented based on their impact on the Institution or sensitivity of data they process or store; ensure that system sponsors report their progress on security weakness remediation to the OCIO on a regular basis (at least quarterly) in accordance with established Institution policies; develop and document procedures for complying with Institution policy IT-930-01 which requires consolidation of system-specific POA&M activities into the Institution-wide POA&M; develop and document clear criteria for determining what types of system-specific weaknesses should or should not be included in the agency-wide POA&M; and, develop, document, and implement policies and procedures for conducting annual security control testing that include minimum requirements for documenting test procedures and results.	8/30/2008 To 7/30/2010

<p>ID and Badging, C-CURE Central, and Central Monitoring Systems (3/31/2008)</p>	<p>5</p>	<p>The System Sponsor should: ensure all subsystems and components of the overarching Security Management System, including but not limited to the C-Cure 800/8000 systems, are certified and accredited; re-assess and update the current ID and Badging, C-CURE Central, and Central Monitoring systems' security plan to ensure all required controls for a moderate system are adequately documented and implemented; document in the system security plan those activities that need to be segregated; identify, document, and implement segregation of duty controls for sensitive administrative and system support functions; and, implement baselines for the various components of the system including all databases and operating systems. In addition, where suggested security settings cannot be implemented for valid business purposes, management should document their deviations from the baseline.</p>	<p>4/1/2008 to 12/31/2008</p>
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Ganesha-The Elephant God, South India 13<sup>th</sup> Century, Chloritic Schist.  
From the Freer-Sackler Gallery collection.

## **Oversight of Financial Statement Auditors**

Because of our limited resources, we contract with external auditors to conduct the Institution's annual financial statement audits. We provide oversight of the audits and in so doing review planning documents, internal control documentation, workpapers, and reports. We also evaluate key judgments, provide guidance where necessary, analyze findings, and evaluate corrective actions from previous audits.

In addition to our oversight role, we issue an annual quality assurance letter to the Regent's Audit and Review Committee summarizing our observations and suggesting improvements in the Institution's financial reporting and audit processes.

## **Fiscal Year 2009 Audit Plan**

In September 2008, we published our fiscal year 2009 Audit Plan, which is available on our website, <http://www.smithsonian.org/oig>. In addition to our annual oversight of the Institution's annual financial statement audit and obligatory information security audits under the Federal Information Security Management Act, and in addition to completing the work in progress we describe in the following section, we plan to initiate audits and reviews in fiscal year 2009 that will address:

- Facility maintenance and safety
- The status of the Smithsonian Networks contract
- Physical security and inventory control measures to safeguard the national collections
- Capital project oversight
- Personal property accountability
- Pre-award and post-award contract audit services

## **Results from Previous Audits**

In our 2007 audit of the Friends of the National Zoo (FONZ) revenue operations at the National Zoo, we noted that improvements were needed in food and merchandise operations.<sup>3</sup> In this

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<sup>3</sup> Number A-06-01, August 28, 2007. See our *Semiannual Report to Congress*, October 2007, pages 8–10.

year's re-accreditation of the National Zoo by the Association of Zoos and Aquariums (AZA), the AZA reported that they were particularly impressed with the "extraordinary support" provided by FONZ, including the superior level of guest services such as food service. We were pleased to see the AZA recognize many of the improvements implemented by FONZ, in part as a result of our recommendations.

## **Work in Progress**

### **Oversight of Information Security Program**

We have engaged an outside consultant to perform focused assessments of several of the Institution's major IT systems in accordance with the Federal Information Security Management Act (FISMA). An audit of the National Museum of Natural History (NMNH) EMu collection information system has been substantially completed and will be issued shortly after the end of this reporting period. The NMNH EMu collection information system is a searchable list of specimens, illustrations, anthropological collections, and summary information about the NMNH collections. Audits of two additional major IT systems will commence during the following reporting period.

We also engaged an outside consultant to perform an audit of the adequacy of the Smithsonian's privacy and data protection policies, procedures, and practices and an evaluation of the Institution's overall information security program and compliance with FISMA. The FISMA evaluation will address the Institution's information system inventory; certification and accreditation processes; security configuration policies and procedures; plans of action and milestones; computer security incident handling; and computer security awareness training.

### **Workers' Compensation Program**

We continue to work on the audit of the Smithsonian Institution's management of the workers' compensation program. During the early stages of our review we identified deficiencies in the continuation of pay (COP) portion of the program and issued a separate report to obtain more timely resolution of the identified program weaknesses.



The overall objective of our audit is to evaluate whether the workers' compensation program has been operating in accordance with U.S. Department of Labor (DoL) regulations, policies and procedures under the Federal Employees' Compensation Act. We will assess whether adequate procedures are in place for (1) timely reviewing and submitting claims; (2) monitoring claims to ensure that case files are accurate and up-to-date and that claimants return to work as soon as possible; and (3) reconciling charge-back costs and recovering overpayments promptly. The audit will cover a sample of cases from charge-back years (July 1 through June 30) 2005 through 2007. We will use data from the past five years for our analysis and comparison of trends, including information reported through DoL's Safety, Health and Return-to-Employment (SHARE) initiative. We expect to complete the audit in early winter.

### **Audit of Travel Oversight**

We are conducting a performance audit of travel oversight. The objectives of this audit are to assess whether (1) policies and procedures related to travel expenditures are adequate and in compliance with applicable laws and regulations; (2) key controls for managing travel are operating properly in the units; (3) Smithsonian executives, Regents, and staff are traveling for authorized purposes and for reasonable amounts; and (4) cardholders are paying their travel card obligations in a timely manner. The audit is covering travel for the period FY 2006 through the first quarter of FY 2008. We will complete this audit by the end of the calendar year.

### **Audit of Non-Travel Business Expenses of Senior Executives and Regents**

The OIG undertook this audit at the request of the Smithsonian Board of Regents to determine the reasonableness of expenses incurred by high-level Smithsonian officials, Regents, and Advisory Board members. The audit focuses on non-travel expenses, which include expenses for items such as local entertainment, local car service, gifts, catering, meals, and representational expenses (i.e., expenses incurred by officials when they are representing the Institution at outside events).

This audit is part of a larger effort, including our audit of travel oversight (described above), to audit the range of expenses incurred by high-level Smithsonian officials. We will complete this audit of non-travel expenses in early winter.

# Management Advisories

During the course of investigations (and occasionally audits), the OIG learns of issues or problems that are not within the immediate scope of the investigation or audit and may not merit the resources of a full-blown review, or issues that require immediate management attention. To alert management to these issues so that they may be addressed promptly, we send Management Advisories or Investigative Memorandums on Management Issues and ask for a response.

We are pleased to report that our advisories are effective. For example, one we issued in the previous reporting period noting the lack of training for new executives resulted in the development of an Executive Level Orientation Program for all new Smithsonian executives. OIG special agents participated in the development of this program, providing materials that will explain the functions and responsibilities of our office as well as information on combating waste, fraud, and abuse.

During this reporting period, we issued the following advisories.

## **Travel on Actual Expenses**

Although the Smithsonian has instituted governance reforms to increase the oversight of travel and expenditures, the Smithsonian has no policy or guidance on the use of actual expenses instead of per diem rates on official travel. The overwhelming majority of Smithsonian travelers stay within government per diem, but we have encountered numerous examples of travel on actual expenses that lacked justification for exceeding per diem rates and thus gave an appearance of excessive or luxurious travel inappropriate to a non-profit organization.

The General Services Administration, which promulgates the FTR, recently explained that the actual expense provision “provides the means for agencies to adequately reimburse employees that need to travel under unusual or emergency circumstances.” Smithsonian policy does not restrict the use of actual expenses to unusual or emergency circumstances, nor does it define the circumstances when such use should be authorized.

We asked Smithsonian management to develop guidelines on what constitutes appropriate use of actual expenses in excess of federal per diem rates.

## **Honoraria for Outside Speaking and Teaching**

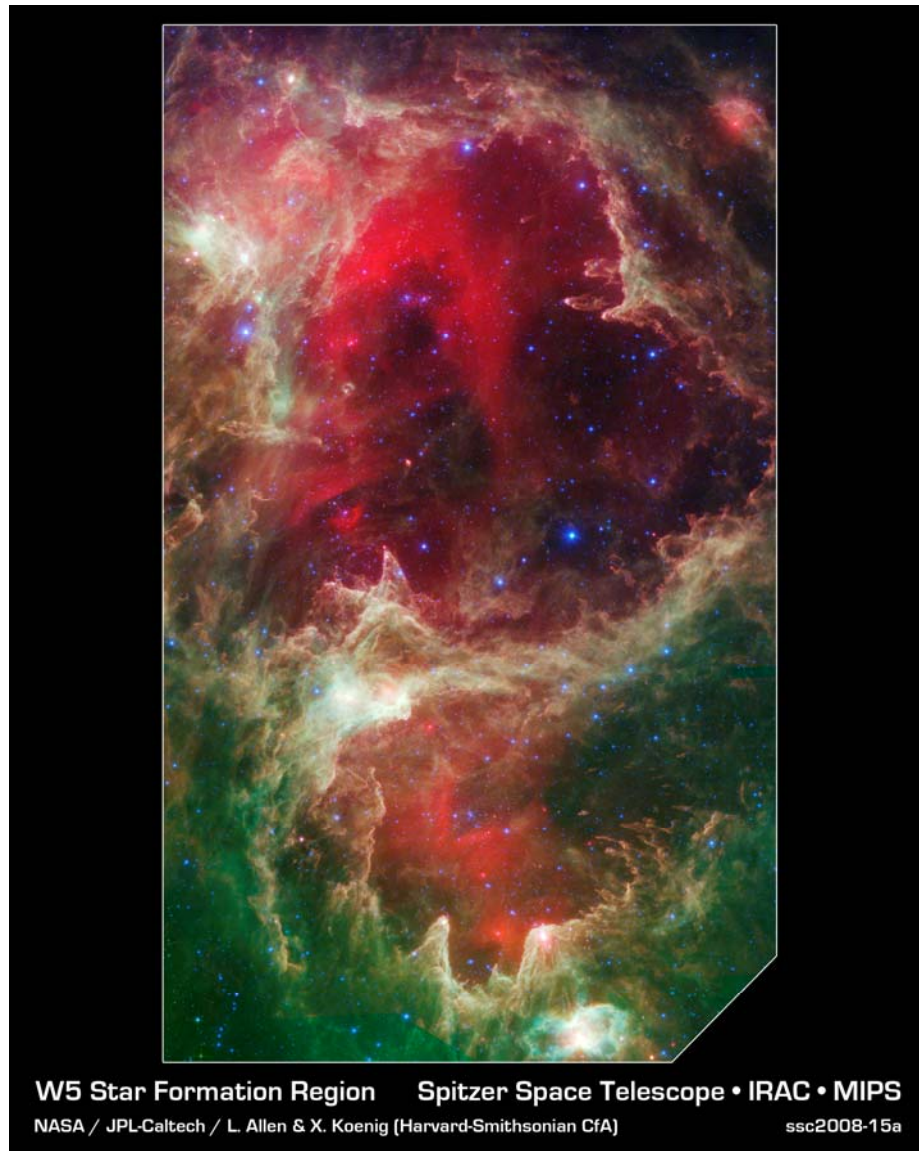
Although the Smithsonian has instituted governance reforms to increase the oversight of senior executives' paid outside activities, Smithsonian policy related to honoraria is not entirely clear and, we believe, is inappropriate. While the overwhelming majority of Smithsonian executives and employees do not retain honoraria for outside speaking engagements, we encountered several instances where one executive was allowed to retain honoraria for outside speaking and teaching engagements even when the topic directly concerned Smithsonian programs and operations with which the executive was involved. We were surprised to learn that, in fact, the Smithsonian Standards of Conduct allow employees to engage in this type of paid outside activity as long as they do so on their own time and obtain approval.

We believe the Institution should reconsider the policy of allowing individuals, particularly executives – whose responsibilities include representing and promoting the Institution – to retain honoraria for speaking on Smithsonian-related topics. Permitting such payments can give the appearance of using Smithsonian resources for private gain, especially where, as was the case in the matter that prompted this memorandum, the individual used Smithsonian staff time and materials in preparing for these compensated activities. Moreover, we suggested that the Institution's Office of General Counsel strengthen its review of requests for approval of outside activities.

## **Controls Over Personally Identifiable Information**

As part of an audit of the adequacy of the Smithsonian's privacy and data protection efforts, we recently conducted after-hours inspections of various Smithsonian offices. During our inspections, we found open and unlocked offices, file rooms and file cabinets containing personnel files and other documents containing personally identifiable information (PII) of employees and members of the public. Federal regulations and Smithsonian and unit policies require that PII be safeguarded against accidental disclosure. We urged unit directors to take immediate action to ensure that their staff secure such information.

We also found network account credentials in plain sight or under keyboards. These account credentials enable access to the Institution's financial and personnel records and other sensitive information. Smithsonian policy prohibits users from disclosing passwords or keeping passwords in writing in their offices. We urged unit directors and unit IT directors to remind all users of their responsibility to protect the Institution's information resources, and to follow the computer security rules that all Smithsonian computer users agree to.



# Investigations

During the reporting period, we received 33 complaints, opened three cases and closed 19 complaints and three cases, resulting in one conviction and one resignation.

## Summary of Investigative Activity

Following are summaries of the more significant matters that we were able to close in the last six months.

### Workers' Compensation Fraud

As a result of a joint investigation with the Department of Labor's (DOL) Office of the Inspector General, a former Smithsonian Institution Museum security guard has pled guilty to one count of false statements to obtain federal compensation. The former security guard had reported an on-the-job injury that, based upon the records he submitted, rendered him disabled. Because of his disability, the former guard began receiving compensation benefits from the DOL's Office of Worker's Compensation Programs in September 2001. To continue to receive these benefits, he was required to submit forms annually certifying that he was unable to work. Beginning in November 2003 and continuing through February 2008, he submitted forms on five occasions in which he failed to disclose that he was able to work and that he had been employed as an armed security guard for private security firms. Pursuant to the plea agreement, he admitted receiving \$87,151.22 in disability benefits to which he was not entitled. He is scheduled to be sentenced in December 2008.

### Travel Card Abuse

OIG investigated an employee who had recently transferred from another government agency but had failed to turn in an agency-issued travel card. The OIG substantiated that the card was still in the employee's possession and that the employee had been using that travel card for personal purchases consistently from January 2007 through August 2008. As a result of this investigation, the employee resigned.

\* \* \* \* \*

The following table summarizes complaint activity for this reporting period:

**Table 6: Summary of Complaint Activity**

Status	Number
Open at the start of the reporting period	30
Received during the reporting period	34
Subtotal	64
Closed during the reporting period	19
Total complaints pending	45



Commemorative head, Benin kingdom court style, Edo peoples, Nigeria, 18<sup>th</sup> century.  
From the National Museum of African Art collection.

The following table summarizes investigative activity for this reporting period:

**Table 7: Summary of Investigative Caseload, Referrals, and Results**

Investigations	Amount or Number
<b>Caseload</b>	
Cases pending at beginning of reporting period	6
Cases opened during the reporting period	3
<b>Subtotal</b>	9
Cases closed during the reporting period	3
Cases carried forward	6
<b>Referrals for Prosecution</b>	
Pending at the beginning of the period	3
Referred for prosecution	1
Pending at the end of the period	3
<b>Successful Prosecutions</b>	
Convictions	1
Fines	
Probation	
Confinement	
Monetary Recoveries and Restitutions	
<b>Administrative Remedies</b>	
Terminations	
Resignations	1
Reprimands or admonishments	
Reassignments	
Demotions	
Suspensions	
Monetary loss prevented	
Funds Recovered	
Management Advisories	2

## **Other Investigative Activity**

### **Fraud Awareness Program**

We continue our efforts to reach out to Institution staff and engage them in our fraud awareness program and encourage the prevention of waste, fraud and abuse. During this reporting period, OIG Special Agents focused on working with employees who play a role in contracting and procurement, where there is always the risk of fraud. As a result, contracting managers implemented new procedures regarding fraudulent purchase card transactions, providing for

more timely notification of such violations and for retrieving purchase cards that have been used in fraudulent transactions rather than having the cardholder destroy them.

OIG Special Agents continued their pro-active measures to increase awareness and now participate in every new employee orientation held by the Institution, which occur bi-weekly. As a result, during this period OIG agents presented an “Introduction to the OIG and Fraud Awareness” session to 247 new Smithsonian employees. They found that a vast majority of the new employees were unaware of the functions and responsibilities of the Office of the Inspector General, and their participation in these training sessions has increased our office’s visibility and profile within the Institution.

### **Response to Congressional Requests**

During this period, OIG special agents provided significant assistance with three congressional requests to review executive expenditures after the Board of Regents instituted governance reforms to increase the oversight of senior executives’ travel and expenditures.

### **Involvement with Other Organizations**

OIG Agents remain actively involved with the Washington Area Fraud Task Force. During this period, they both attended the first National Procurement Fraud Task Force conference. OIG Agents also participated in the Interagency Investigative Data Mining Working Group’s Moot Court for Digital Evidence, the Procurement Fraud Working Group, and the Security Association of Financial Institutions workgroup.



# Other OIG Activities

## **Congressional Liaison**

In response to requests from the Senate Rules Committee Chairman, the ranking member of the Senate Finance Committee, and the Chairman of the Committee on House Administration, we are finalizing our report on the travel and other expenses of the former Director of the National Museum of the American Indian.



We continue to meet regularly with staff from the various House and Senate committees that have jurisdiction over the Smithsonian to brief them on our work and on upcoming issues.

## **Legislative and Regulatory Review**

The Inspector General Act mandates that our office monitor and review legislative and regulatory proposals for their impact on the Smithsonian's programs and operations and with an eye toward promoting economy, effectiveness, efficiency, and preventing fraud, waste, abuse and mismanagement.

### ***Comments on Draft Smithsonian Policies and Directives***

During this period, we reviewed and commented on draft revisions to a number of Smithsonian Directives.

## **Updated OIG Audit Manual**

We substantially revised and updated our office Audit Manual in May 2008, primarily to incorporate the Government Accountability Office's July 2007 revision to ***Government Auditing Standards***. These standards require that we establish a system of quality control that provides reasonable assurance that our audit organization and personnel comply with professional standards and applicable legal and regulatory requirements.

Our revised Manual describes our system of quality control, which consists of five elements: (1) Leadership and Management; (2) Independence, Legal, and Ethical Requirements; (3) Human Resources Management; (4) Engagement Performance; and (5) Monitoring of Quality. The policies and procedures contained in our Manual address each element in detail.

In addition to designing our Manual to ensure compliance with ***Government Auditing Standards***, we also designed it to ensure uniformity, consistency, and quality in our audits of the Institution's programs and operations.

## **Involvement with other Organizations**

During this period, the Inspector General served on the nominations review committee for the Executive Council on Integrity and Efficiency's annual awards program.

Back cover:

**Female Olive-Backed Forest Robin, image by Carlton Ward.**

In 2001, Smithsonian scientists discovered the olive-backed forest robin, a new species, during a biodiversity study in Gabon, Africa. Their findings were published in the international science journal *Zootaxa* in August, 2008. Other than its existence, however, little about this species is known to science.



Office of the Inspector General

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