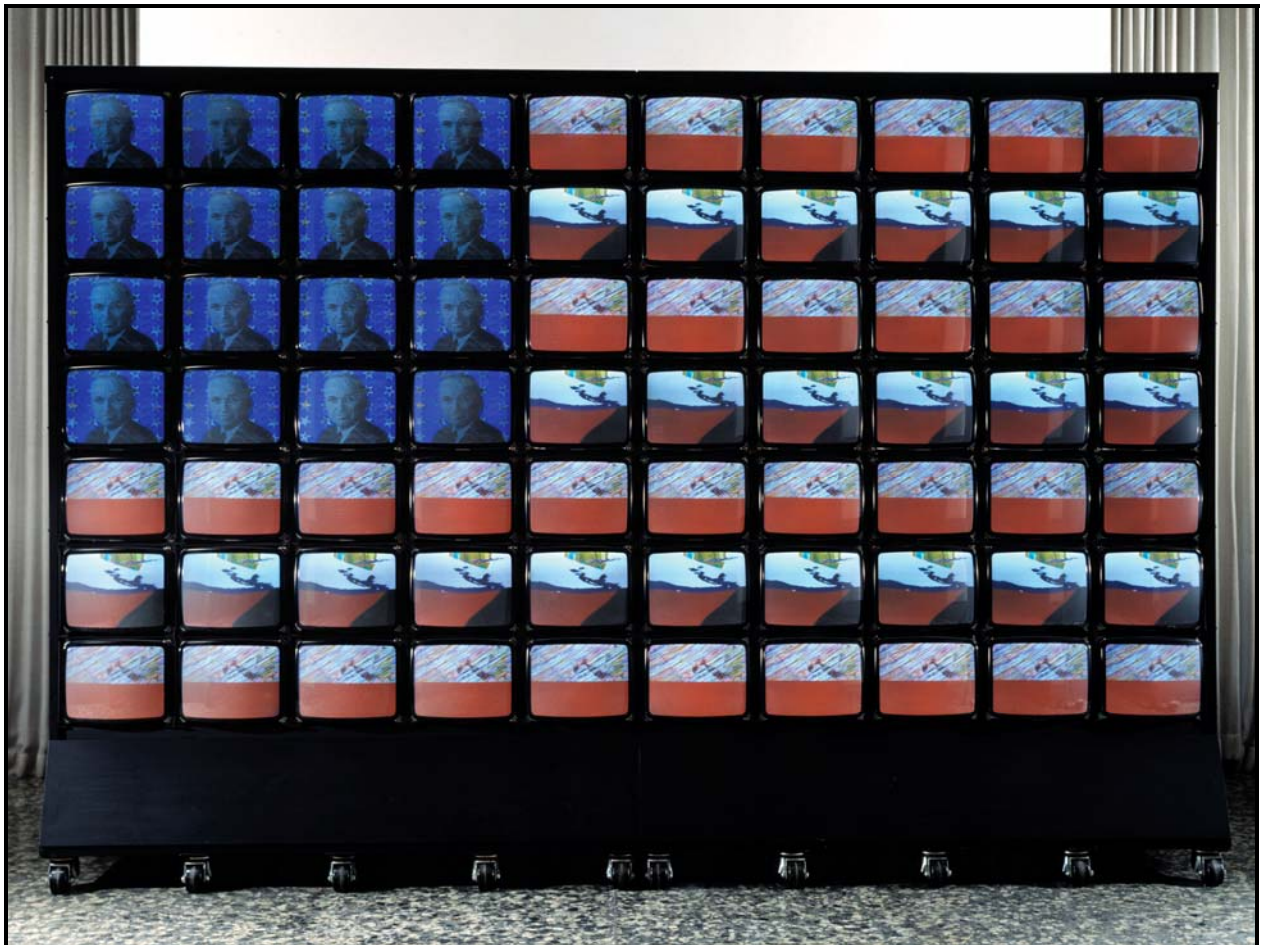


SEMIANNUAL REPORT

TO CONGRESS

October 1, 2007 to March 31, 2008



Smithsonian Institution
Office of the Inspector General

Nam June Paik

American, b. Seoul, Korea, 1932 - 2006

Video Flag (1985-1996)

70 video monitors, 4 laser disc players, computer, timers, electrical devices, wood and metal housing on rubber wheels

94 3/8 x 139 3/4 x 47 3/4 in. (239.6 x 354.8 x 119.9 cm)

Holenia Purchase Fund in Memory of Joseph H. Hirshhorn, 1996 (96.4)

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Linkwood Williams, a civilian flight instructor at Tuskegee Army Air Field, circa 1943.
Smithsonian Institution, Neg. ID #: 99-15428

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 March 31, 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 three audit reports, two on information security and one on contractor oversight by Smithsonian Business Ventures; a letter report on our oversight of the Institution's annual financial statement audit; and a peer review of another IG office. On the investigative side, we received 17 new complaints, opened 2 cases, and closed 20 complaints and 4 cases, resulting in 3 resignations, administrative actions against employees, and recovery of nearly \$200,000.

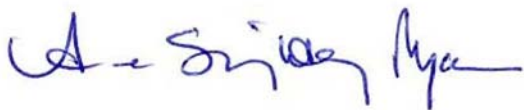
We expanded our use of management advisories, a key tool for alerting management to issues we have come across during audits, reviews and investigations. These issues generally do not require in-depth review, but we report them to management so that the weaknesses may be addressed promptly. For the most part, management has reacted swiftly 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 many corrective actions recommended in two audits from the semiannual period that ended a year and a half 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 and accounting resources. We have expressed this concern in various audits over

the last 4 years, and the Institution's external auditors have noted these deficiencies for the past 2 years. It is critical for the Smithsonian mission that the Institution press forward in its attempt to upgrade its financial systems and hire and retain the staff necessary to achieve excellence in the Smithsonian's financial operations.

Finally, during this period we further strengthened our position at the Institution by ensuring that revisions to Smithsonian policies reflect our mission and independence and by proposing needed changes to Regents' Committees' by-laws to codify our access and responsibilities to the Board of Regents. We also made an important physical – and symbolic – move: our office relocated to downtown Washington, D.C., close to the majority of the Smithsonian community. This move, which we had been advocating since before our office was transferred to Crystal City, Virginia, also fulfilled one of the governance reform recommendations in the June 2007 Report of the Regents' Governance Committee.

We are proud to be part of an Institution dedicated to the increase and diffusion of knowledge. We are grateful to Smithsonian management and especially to Acting Secretary Samper for his outstanding stewardship of the Institution during this tumultuous period. We are looking forward to working with the new Secretary when he comes on board in July. 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 has developed a five-year strategic plan for FY 2006-2011 that encompasses four broad strategic goals for enlarging its role in American society and succeeding as a complex enterprise in the 21st 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.*

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 16 employees, two of whom joined us on the last day of the reporting period.

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, four auditors, and one analyst. Three additional audit positions are vacant.

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 performance goals: *Enhanced Management Excellence* and *Financial Strength*. Specifically, we address the following high-risk areas:

- Modernization of financial management and accounting operations
- Budget performance and integration
- Management of capital assets
- Modernization and security of the IT infrastructure
- Profitability of revenue operations and collection of revenues
- Contract administration
- Security and care of the national collections
- Safety and environmental management
- Human resource management

To this end, during the past semiannual period we completed 5 audits and reviews; worked with management to close 23 recommendations; provided formal oversight of the Institution's annual financial statement audit, and completed substantial work on ongoing audits.



August Rodin, French, 1840-1917. *The Burghers of Calais*, (1884-89,) cast 1953-59. Gift of Joseph H. Hirschhorn, 1966. On display in the Hirschhorn Sculpture Garden.

Summary of Audit Accomplishments

Oversight of Contractors at Smithsonian Business Ventures

This audit was the second phase of our coverage of executive compensation at Smithsonian Business Ventures (SBV). The audit follows up on accounting weaknesses and weaknesses in contractor oversight noted in earlier audits. Our objectives were to assess whether SBV has adequate procedures for ensuring the accuracy of revenues reported by contractors; SBV's practices for collecting and recording proceeds; and whether SBV adequately oversees contractors to ensure compliance with key contract terms.

Overall, for the contracts we reviewed, we did not find incorrect reporting of contractor revenues to a degree that would have had a material effect on SBV's executive compensation. Nonetheless, SBV in many instances did not ensure revenues from contractors were collected timely or recorded accurately. SBV needed to improve its procedures for financial monitoring in two divisions, Journeys and Concessions. In contrast to financial contract provisions, SBV generally provided effective oversight of operational issues, such as the quality of contractor activities, which was sufficient to provide reasonable assurance that contractors were complying with non-financial contract terms.

We made five recommendations to strengthen oversight of contractors. We recommended that management develop written procedures that clearly define employee responsibilities for monitoring contracts, provide for periodic audits of contractor cash receipts, and require detailed monthly reconciliations of contractor revenues. SBV management concurred with the report's findings and recommendations and proposed corrective actions that will resolve the 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 issued a report on the annual evaluation of the Institution's information security program, and oversaw audits of a subset of systems as also required by FISMA.

FY 2007 Information Security Practices Audit

During this year's overall FISMA evaluation, we assessed (1) the effectiveness of the Institution's security program; (2) the Institution's compliance with FISMA guidelines; and (3) progress made in correcting previously reported security weaknesses.

We concluded that while the Institution has made progress in complying with FISMA requirements, significant work remains to ensure adequate controls are in place and operating effectively. We found weaknesses in procedures for identifying and ensuring all major and minor systems are included in system security plans and covered in the certification and accreditation process. Additionally, improvements are needed to strengthen the Plan of Action and Milestones (POA&M) process and improve documentation of test results for annual control assessments.

In addition, we noted that the Institution's decentralized IT environment makes the implementation and enforcement of policies and procedures limited or inconsistent. Without the centralization of IT operations and the assignment of responsibility within OCIO for ensuring compliance with Institution policy and procedures, management cannot ensure adequate controls are in place.

We made four recommendations to ensure better compliance with FISMA requirements. We recommended that management address all major and minor systems in system security plans; 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; and, develop, document, and implement policies and procedures for conducting annual security control testing that include minimum requirements for documenting test procedures. We recommended that system sponsors report their progress on security weakness remediation to the OCIO on a regular basis.

Management concurred with the report's findings and recommendations and has planned actions that will resolve all our recommendations.

FY 2007 ID and Badging, C-CURE Central, and Central Monitoring Systems

As part of the subset of systems that we are required to review under FISMA, we audited three closely-related systems: the ID and Badging, C-Cure Central, and Central Monitoring Systems (the System), and evaluated management, operational, and technical security controls covering those systems.

We concluded that management, operational, and technical controls were not adequate in many areas.

- Management did not ensure all related subsystems or components of the overarching Security Management System (SMS) were identified and included either within the System's certification and accreditation (C&A) package or in separate C&A packages, increasing the risk that unauthorized activities could occur within the system.
- Relying on assertions by the Office of Protection Services (OPS), the system sponsor, the Office of the Chief Information Officer (OCIO) issued an authorization to operate the System without verifying that known weaknesses were fully mitigated.
- Management did not identify, document, and implement required National Institute of Standards and Technology controls for a moderate-impact system,

which could allow individuals to gain unauthorized access to sensitive areas within the Institution.

- OPS did not implement proper controls over user accounts, logging and monitoring activities, or segregation of duties between system administration and security management.
- Finally, OCIO and OPS did not ensure the System complied with required configuration baseline settings.

As a result, management cannot ensure that technical controls have been adequately identified and implemented. 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 11 recommendations to strengthen controls over the System by enforcing Institution policies, procedures, and practices for including all subsystems or components in the C&A process; correcting known weaknesses before authorizing systems to operate; and documenting and implementing required security controls including baseline configurations, logging and monitoring system activities, and enforcing proper segregation of duties.

Management generally concurred with the report's findings and recommendations and has taken or planned action that will resolve all our recommendations.

Peer Review of the Federal Trade Commission's Office of the Inspector General

Our office performed a peer review of the Office of Audit of the Federal Trade Commission's Office of the Inspector General for the 18 months ended March 31, 2007. We conducted our review in accordance with the guidelines of the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency. The objective of the peer review was to determine whether the office's quality control system was adequate to

provide reasonable assurance that it met generally accepted government auditing standards and established policies and procedures.

We issued our report in December 2007, with an unmodified opinion on FTC's system of quality control. However, we identified numerous deficiencies with FTC OIG's adherence to its policies and procedures. We made recommendations for improving its compliance with audit documentation standards and strengthening oversight of audits performed by independent accounting firms. In addition, we observed that the FTC OIG's audit manual needed to be amended in certain areas to enhance its quality control procedures.

The FTC Inspector General concurred with our recommendations and planned actions that should correct the identified deficiencies.

Quality Assurance Letter on the External Audit of the Smithsonian Institution's FY 2007 Annual Financial Statements

As part of our oversight of the Institution's FY 2007 annual financial statement audit, we issued a quality assurance letter to the Regent's Audit and Review Committee summarizing our observations on the audit and suggesting improvements for future audits.

On November 15, 2007, KPMG, the Institution's independent public accountant, issued an unqualified opinion on the Smithsonian's FY 2007 federal special-purpose financial statements. KPMG found no matters involving internal control that it considered to be material weaknesses. However, KPMG reported a significant deficiency in internal control over financial reporting regarding insufficient accounting resources and staff capacity in the Office of the Comptroller (OC). This deficiency resulted in OC's inability to provide sufficient supervisory review of journal entries, account reconciliations, and supporting schedules and led to several significant accounting errors and inconsistencies in the preparation of the special-purpose financial statements.

KPMG also issued an unqualified opinion on the Smithsonian's FY 2007 annual financial statements and found no matters involving internal control that it considered to be material weaknesses.

KPMG did, however, identify seven significant deficiencies related to: (1) accounting resources and staff capacity; (2) lease accounting; (3) contribution accounting; (4) account reconciliation; (5) financial statement presentation of donor restrictions; (6) reporting of grant revenue and receivables; and (7) investments held by trustees. These deficiencies have the potential to adversely affect the Institution's ability to initiate, authorize, record, process, or report reliable financial data.

KPMG's February 2008 Management Letter contained 19 recommendations to correct the accounting and reporting deficiencies. Smithsonian management agreed to take corrective action on all recommendations. We noted that last year, KPMG's Management Letter included 23 recommendations, 11 of which management has fully resolved.

The Smithsonian's OMB Circular A-133 audit process is a coordinated effort between KPMG and the Defense Contract Audit Agency (DCAA). Generally, KPMG audits the direct costs of the Smithsonian's Washington, D.C. based activities. DCAA audits the direct costs of the Smithsonian's Astrophysical Observatory in Cambridge, MA, as well as the indirect costs of the Smithsonian as a whole.

OMB Circular A-133 audit reports are not published until nearly 9 months after the Smithsonian's fiscal year end due to DCAA's timetable for completing its part of the audit. Therefore, our letter addressed the FY 2006 audits. KPMG gave the Smithsonian an unqualified opinion on its Supplementary Schedules of Expenditures of Federal Awards and on its compliance with the requirements of OMB Circular A-133 for each of its major programs.

DCAA gave the Smithsonian a qualified opinion pending the results of subcontractor audits (i.e., subcontractors to the Smithsonian's primary contractors) done by cognizant DCAA offices. Audits of subcontractor's costs in the amount of \$9.5 million had not yet been received as of June 30, 2007, the date of the FY 2006 A-133 report.

In our letter report last year, we discussed three areas that needed strengthening: communications between the external auditor and OC, performance of more substantive interim testing, and producing financial statements quarterly. The external auditor and the Institution made notable improvements in communications during the FY 2007 audit, but made little progress on the other issues.

Given the significant and widespread nature of the Institution’s accounting and reporting deficiencies as well as directives from the Board of Regent’s Governance Committee that will require extensive resources to thoroughly respond, we recommended that Smithsonian management develop a comprehensive written plan that (i) collects the various recommendations and initiatives into one strategic document; (ii) prioritizes the various tasks; (iii) maps out required resources to complete each task; (iv) assigns responsibility for accomplishing each task; and (v) stipulates interim and final delivery dates. Senior level officials should closely monitor the Institution’s progress in accomplishing the plan’s objectives and provide regular progress reports to the Board of Regents.

Finally, we noted that the Institution’s schedule for completing the annual financial statement audit should be shortened to provide timelier financial reporting. The Institution should strive to issue its audited statements in the latter part of January – to coincide with the winter Board of Regents’ meeting – rather than in mid-February as done currently.

* * * * *

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

Table 1: List of Issued Audit Reports and Reviews

Report Number	Title	Date Issued
	Peer Review of the Federal Trade Commission’s Office of the Inspector General	12/12/2007
A-07-05	Oversight of Contractors at Smithsonian Business Ventures	2/25/2008
A-07-01	Quality Assurance Letter on the FY 2007 Financial Statement Audits	3/31/2008
A-07-08	FY 2007 FISMA Audit of the Smithsonian Institution's Information Security Program	3/31/2008
A-07-07	FY 2007 ID and Badging, C-CURE Central, and Central Monitoring Systems	3/31/2008

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 prior semiannual reporting periods. As a result, we closed 23 recommendations during the semiannual period. These recommendations included improvements to the Institution's information systems, information systems security, executive compensation procedures and accounting practices at Smithsonian Business Ventures, better administration of relocation and recruitment payments, and strengthened physical security and inventory control measures safeguarding the collections at the National Museum of Natural History. Table 2 summarizes audit recommendation activity.

Table 2: Audit Recommendation Activity

Status of Recommendations	Numbers
Open at the beginning of the period	64
Issued during the period	20
Subtotal	84
Closed during the period	23
Open at the end of the period	61

Management decisions regarding questioned costs are detailed in Table 3, 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	2	\$187,818	\$145,778
Reports issued during the reporting period	0	0	0
Subtotal	2	\$187,818	\$145,778
Reports for which a management decision was made during the reporting period			
• Dollar value of disallowed costs	2	\$44,147	\$91,317
• Dollar value of costs not disallowed	2	\$143,671	\$54,461
Reports for which no management decision has been made by the end of the reporting period	0	0	0

Management decisions regarding funds that could be put to better use are detailed in Table 4 below.

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
Subtotal	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, 41 recommendations made in prior semiannual periods remained open at the end of this reporting period. Of those recommendations, 3 are over 3 years old, 4 are over 2 years old, 10 are over 1 year old, and the remaining 24 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.	4/30/2008

Audit Title (Date)	Number of Recs	Summary of Recommendations	Target Date
Employee and Contractor Screening Measures (8/21/06)	4	The Deputy Secretary and COO should replace NACIS with a system that will better meet Institution requirements. The Director of OPS should ensure that background investigations are or have been completed for 936 individuals who had no record of an investigation; comply with Smithsonian Directives 212 and 213 by processing NACIs and FFIs when required; and work with the Director of OHR to revise SD 212 and 213.	3/31/2008 to 9/30/2008
Physical Security and Inventory Control Measures to Safeguard the National Collections at the National Museum of Natural History (2/29/06)	3	The Director of OPS should prioritize the repair, replacement, and upgrading of security devices identified in the 2005 Assessment Report; and prepare a comprehensive budget and timeframe for correcting the cited weaknesses. 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; and, instruct the Associate Director, Registrar, and Assistant Director for Information Technology to develop and implement a plan to update and convert electronic and paper records so they are consistent in documenting the status of the collections inventory.	9/30/2008 to 1/1/2010
Executive Compensation at Smithsonian Business Ventures, Phase I (1/19/07)	3	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 as well as for other Institution uses. The Secretary should re-examine whether market-based compensation is the appropriate strategy for SBV and, if so, whether the it provides the most effective incentives to achieve long-term net gain growth.	1/31/2008 to 1/31/2009

Audit Title (Date)	Number of Recs	Summary of Recommendations	Target Date
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 7/30/2010
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.	1/31/2008*
FY 2006 Smithsonian Institution Network (SINet) Audit (8/10/07)	8	The Chief Information Officer should centralize administration of SINet accounts for all SINet users within OCIO, with the exception of OIG; 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	2/28/2008 to 9/30/2008

* Management submitted a request to extend the target implementation date subsequent to the close of the reporting period.

Audit Title (Date)	Number of Recs	Summary of Recommendations	Target Date
		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.	
Friends of the National Zoo Revenue Operations (8/28/07)	8	The Executive Director of FONZ should determine why FONZ's COGS appears to be higher than average and make appropriate changes, including possible joint purchasing opportunities with SBV; 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; establish a process for documenting and evaluating visitor feedback on FONZ's operations and the results of follow-up efforts to resolve customer service issues; 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.	12/31/2007 to 12/31/2010
Human Resources Management System (September 19, 2007)	4	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 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	4/30/2008 to 6/30/2008

Audit Title (Date)	Number of Recs	Summary of Recommendations	Target Date
		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 Financial Statement Auditors

Beginning with the FY 2006 audit, the OIG assumed responsibility for the oversight of the annual financial statement audit, which is currently conducted by KPMG. In prior years, KPMG was under the supervision of the Institution’s Comptroller. Because of our organizational independence, OIG oversight of this audit engagement strengthens assurances that the external auditor’s report and conclusions are reasonable. Because of our limited resources, we will continue to rely on external auditors for the audited financial statements, but will review the audit documentation and evaluate key judgments to provide added assurance that the auditor’s work complies with professional standards.

Work in Progress

Oversight of Information Security Program

We have engaged an outside consultant to perform focused assessments of two of the Institution’s major IT systems in accordance with the Federal Information Security Management Act (FISMA). The two major information systems we selected for review are the National Museum of Natural History (NMNH) Research and Collection Information System (RCIS) and Smithsonian Astrophysical Observatory’s (SAO) Scientific Computing System. NMNH RCIS is a searchable list of specimens, illustrations, anthropological collections, and summary information about the NMNH collections. The Scientific Computing System at SAO provides infrastructure and scientific computing services for the scientific, technical, and administrative staffs. We plan to issue two separate reports.

We also plan to engage an outside consultant to perform 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 plan to issue 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.

Agreed-Upon Procedures Reviews of the Expenses of the Former Secretary of the Smithsonian Institution and Former Chief Executive Officer of Smithsonian Business Ventures, 2006-2007

At the request of the Audit and Review and Governance Committees of the Board of Regents, we contracted with an independent accountant to perform an agreed-upon procedures review of the former Secretary's expenses. We will cover the period FY 2006 through March 2007, when the former Secretary resigned. We are also overseeing a parallel review of the expenses of the former Chief Executive Officer of Smithsonian Business Ventures. We will cover the period FY 2006 until his resignation in July 2007. We plan to issue the independent accountant's reports, as well as our transmittal letters commenting on the reports, by late spring.

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.



"City of Washington From Beyond the Navy Yard" - Oil painting by George Cooke, 1833.
This painting is part of the Anacostia Community Museum's 40th Anniversary Exhibition, "East of The River: Continuity and Change."

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, yet require 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. During this reporting period, we issued advisories on the following:

- We determined that the Institution lacks a formal policy addressing the donation of services valued at less than \$50,000. We noted that the lack of a written policy regarding pro bono work valued at less than \$50,000 may create risks to the Institution that may not be acceptable, such as a lack of accountability. While services of nominal value, or one-time volunteer efforts, may not need such formalities (and these formalities may discourage such donations), we noted that the \$50,000 threshold is too high. As a result of our advisory, the Office of General Counsel, the Office of Contracting and the Office of External Affairs will amend applicable Smithsonian policies to require a written agreement for gifts of goods or services valued at \$10,000 or more, as well as develop a process to manage and track such agreements.
- We determined that the Institution lacks a formal policy that addresses discipline for certain executives at the Institution. In particular, we were concerned about there being no requirement that supervisors of these executives document counseling or other discipline. To increase accountability, mitigate potential liability, and to make the process for employee discipline more uniform throughout the Institution (and thereby decrease the perception that executives are treated more leniently than other employees), we noted that the Institution should establish guidelines regarding discipline for executives and, at a minimum, require that any discipline for executives should be documented. In response to our advisory, the Director of the Office of Human Resources will recommend an appropriate change in policy.

- We determined that the Institution lacks a policy requiring training of new executives at the Institution, especially training in the Institution's Standards of Conduct. The failure to ensure that those in leadership positions are fully versed in the rules and procedures of the Institution, especially the ethical rules, decreases accountability and makes the Smithsonian vulnerable to questionable conduct that could undermine confidence in the Institution. As a result of our advisory, the Director of the Office of Human Resources has convened a task force to develop recommendations to address orientation for new senior executives.

A previously reported OIG investigation^{*} into employee misconduct at a Smithsonian facility also included a management advisory with three recommendations on issues that management has now addressed.

- We had determined that the policy on alcohol consumption by employees, residents and guests at a Smithsonian facility needed to be clarified. Management completed revisions of the unit-level directive for employees that prohibits alcohol consumption on non-resident parts of the facility unless approved. Management also revised the lease agreements and Code of Conduct for residents of that facility to limit alcohol consumption to residences and prohibit entering other parts of the facility or operating a motor vehicle while under the influence of alcohol.
- We had recommended that the policy on guest and employee after-hour access to the facility be clarified. Management completed policy revisions that limit access to non-housing facilities and grounds only to program-related activities and place restrictions on the use of non-resident areas of the facility by guests of residents.
- We had expressed concerns about the physical security of that facility. Management completed a security review and initiated physical security improvements including improvements to access control, monitoring capabilities and assignment of full-time security personnel.

^{*} Semiannual Report to Congress, April 1, 2005 – September 30, 2005, p.21.

Investigations

During the reporting period, we received 17 complaints, opened 2 cases and closed 20 complaints and 4 cases, resulting in 3 resignations, 1 admonishment, and recoveries and restitution totaling nearly \$200,000.

Summary of Investigative Activity

During this period, OIG special agents opened 2 cases. The following descriptions summarize the more significant matters that they were able to close in the last six months.

Wire Fraud

We previously reported the conviction of a former employee who pled guilty to wire fraud and that his sentencing had been delayed. We can now report that the former employee was sentenced to 5 months' incarceration followed by 3 years' supervised probation. The court also ordered that the former employee pay the Institution \$84,344.22 in restitution.

Violations of the Smithsonian Standards of Conduct

OIG investigators substantiated allegations that a senior official violated multiple provisions of the Institution's Standards of Conduct by engaging in conduct that constituted or created an appearance of conflicts of interest and that was not in the best interests of the Institution.

The case was referred to the U.S. Attorney's Office, but prosecution was declined. The official involved resigned and paid the Institution back \$2,066.55 for costs found to be inappropriately reimbursed or incurred.

Davis-Bacon Act Violations

As a result of findings from a joint investigation with the Department of Labor's (DoL) Office of Inspector General, the DoL Wage and Hour Division determined that certain subcontractors on a Smithsonian construction project had failed to pay prevailing wages as required under the federal Davis-Bacon Act. Accordingly, \$113,140.71 was directed to be paid to the employees who had been underpaid.

Improper Contracting

Responding to a complaint that an employee had an improper relationship with a contractor, OIG special agents determined that the employee had violated the conflicts of interest prohibition in the SI Standards of Conduct. Management took administrative action against the employee.

Plagiarism

A complainant reported plagiarism in a Smithsonian publication. OIG special agents assisted in ensuring that an "errata" sheet was included in the current publication giving proper attribution to appropriate individuals. That publication has now been reprinted with appropriate revised text credits.

* * * * *

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	33
Received during the reporting period	17
Subtotal	50
Closed during the reporting period	20
Total complaints pending	30

The following table summarizes investigative activity for this reporting period:

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

Investigations	Amount or Number
Caseload	
Cases pending at beginning of reporting period	8
Cases opened during the reporting period	2
Subtotal	10
Cases closed during the reporting period	4
Cases carried forward	6
Referrals for Prosecution	
Pending at the beginning of the period	3
Referred for prosecution	1
Pending at the end of the period	3
Successful Prosecutions	
Convictions	1
Fines	
Probation	1
Confinement	1
Monetary Recoveries and Restitutions	\$86,410.77
Administrative Remedies	
Terminations	
Resignations	3
Reprimands or admonishments	1
Reassignments	
Demotions	
Suspensions	
Monetary loss prevented	
Funds Recovered	\$113,140.71

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 facilitate 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, where there is always the risk of fraud. Thus, OIG made two fraud awareness presentations: one to employees attending a Simplified Acquisition class and the other to employees attending Contracting Officer's Technical Representative Training.

Also during this period, OIG investigators initiated pro-active measures to increase awareness by approaching the Office of Human Resources with a proposal that an OIG presentation be incorporated into the orientation sessions for new employees. As a result, OIG investigators will now be a part of the orientation training and will make a presentation that consists of an introduction to the OIG and fraud awareness.



This rare wattled crane chick hatched at the Smithsonian's National Zoo on March 30. The chick is the National Zoo's first in its 118-year history. The chick's sex won't be known until blood tests are completed. Visitors can see the wattled crane chick and its parents at the Zoo's Bird House outdoor exhibit. There are 63 wattled cranes in the North America zoo population and an estimated 8,000 in the wild.

Adult wattled cranes stand 6 feet tall and weigh approximately 14 pounds.

Photo Credit: National Zoological Park

Other OIG Activities

Congressional Liaison

During this semiannual period, OIG met with staff from congressional oversight committees. We discussed Smithsonian governance issues and funding challenges as well as the OIG FY 2008 audit inventory. At the request of the Senate Appropriations Subcommittee, we provided updates on the status of roof leaks at the National Museum



of the American Indian Cultural Resources Center, delays in the core construction project at the National Museum of American History, and the use of proceeds from the sale of Smithsonian facilities. We also responded to a request from the Chairman of the House Committee on Oversight and Government Reform to all OIGs for information on the number, age, and status of open recommendations.

We briefed Government Accountability Office staff on matters relating to ongoing governance reform for their report on governance at the Smithsonian, which is due in mid-May. We also provided information for GAO's ongoing review of the role of Inspectors General at federal entities, answering a detailed questionnaire about our office's responsibilities, reporting relationships, communications, and resources.

In addition, we are responding 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 to review the travel and other expenses of the former Director of the National Museum of the American Indian.

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.

Amendments to the Audit and Review Committee Charter

During this reporting period, we proposed, and the Regents adopted, amendments to the charter of the Regents' Audit and Review Committee to clarify and codify the Inspector General's role and authority within the Institution. In particular, the amendments added language specifying that the Inspector General reports to the Board of Regents through the Committee and otherwise, as the IG deems appropriate. The purpose of this new language was to clarify that our office may contact the full Board or members of the Board, without having to go through the Committee. We also eliminated language that provided for the Committee to evaluate the IG's performance so as to be consistent with the practice throughout the IG community that IGs are not rated by the heads of their entities.

Comments on Draft Smithsonian Policies and Directives

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

Smithsonian FOIA Policy

We provided comments on revised Smithsonian Directive 807, entitled Requests for Smithsonian Records. The Directive now contains a separate section explaining that the OIG handles requests for records separately from the Institution, although it follows the same policies. Smithsonian management has recently proposed revising the Directive again, and we will comment on the new version as well.

Smithsonian Institution Statement of Values and Code of Ethics

Our office also provided comments on drafts of the Institution's Statement of Values and Code of Ethics, which the Board of Regents approved at their January 28, 2008 meeting. In this ***Statement***, the Institution sets forth its core values and the overarching ethical standards that apply to the entire Smithsonian community.

Smithsonian Directive on the Office of the Inspector General

Our office worked with management to update Smithsonian Directive 107, the official Smithsonian statement setting forth the authority and responsibilities of our office. The new Directive will clarify that the IG is appointed by and reports to the Regents, rather than the Secretary (as was the case until July 2006); better explain our reporting responsibilities to Congress; and explain our duties and those of all Smithsonian staff regarding the IG function.

Involvement in Professional Organizations

The Smithsonian OIG continues to participate in the work of professional organizations. Currently, we are involved with the PCIE/ECIE's Peer Review Guide Update Project. This project is being conducted under a working group of the Federal Audit Executive Council. Its goals are to (1) complete by December 31, 2008, an updated peer review guide for the 2009/2010 review cycle and (2) develop related training materials.

Our involvement focuses on updating the guide to reflect changes in audit standards, especially those that stem from the 2007 revisions to ***Government Auditing Standards*** since the guide's last revision in FY 2005.

PCIE/ECIE Award

Finally, we are proud to report that our office received an Executive Council on Integrity and Efficiency (ECIE) Award for Excellence. The October 2007 award recognized the outstanding dedication and teamwork of the OIG staff that resulted in greater transparency and accountability and in improved administration of the Smithsonian Institution. A series of OIG reports on key security-related matters at the Smithsonian prompted needed safeguards and OIG reports on executive compensation and expenditures captured considerable congressional and public attention, and contributed to a focused reassessment of the Smithsonian's governance structure.



Stuart Metzger, Assistant Inspector General for Audits, receives the ECIE award on behalf of the OIG from Dr. Christine Boesz, the National Science Foundation IG and Vice-Chair of the ECIE.

The back cover depicts Fiesta de Santiago Apóstol | Festival of St. James the Apostle
Nahuas de la Sierra Norte de Puebla
Santiago Yancuictlalpan, Puebla
07-1996

Image Credit: National Museum of Natural History



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