

SEMIANNUAL REPORT TO THE CONGRESS

October 1, 2004 to March 31, 2005



Smithsonian Institution

Office of the Inspector General

The cover features an image from the Smithsonian Institution Archives of statuary above the North entrance of the Arts and Industries Building representing “Columbia Protecting Science and Industry.” The statuary is the work of New York sculptor Casper Buberl.

A Message from the Inspector General

Since Congress passed the Inspector General Act over a quarter of a century ago, Inspectors General have played an important role in providing independent oversight within federal entities and enhancing government performance and accountability. I am pleased to be part of an important tradition as I present my first Semiannual Report as Inspector General of the Smithsonian Institution.

As I begin my term, I look forward to working with an organization that has been an important part of the American landscape for 157 years. Today, the Smithsonian is not only the world's largest provider of museum experiences supported by authoritative scholarship in science, history, and the arts, but also an international leader in scientific research and exploration.

This semiannual report discusses our audit and investigative work over the past 6 months to address the security of information technology resources, management of major projects, and the collection of revenue from the Institution's business ventures. These efforts resulted in management actions to increase oversight and strengthen controls over critical business operations.

Looking ahead, we will continue to focus on these areas, while increasing efforts to enhance financial reporting and internal controls over the Institution's financial systems; detect and investigate fraud in major facilities and personal services contracts; ensure revenues owed the Smithsonian are collected; strengthen contract administration and oversight of payments; and evaluate the efficiency of program activities and business processes.

Strengthening stewardship of this vast and remarkable institution will require that we not only focus on areas highly vulnerable to fraud, waste, and abuse, but also on the challenges facing the Smithsonian as it expands its role in the community, modernizes its

physical and information systems infrastructure, and strengthens its financial reporting and management practices to function successfully by today's standards.

We will also pursue internal changes that will make the Office of the Inspector General (OIG) not just a strong traditional OIG, but also one that anticipates and embraces emerging issues. To do this, we must forge partnerships with the Smithsonian's business units and the Audit and Review Committee of its Board of Regents, and build strong alliances with Congress, the Office of Management and Budget, other Offices of Inspector General, law enforcement agencies, and the U.S. Government Accountability Office.

I would like to express my appreciation to Secretary Small, the Board of Regents, and the Congress for supporting the OIG mission, and to the Smithsonian Institution's management and employees for their responsiveness to our recommendations. I look forward to working collaboratively with Smithsonian management and staff at all levels to achieve our common goals of ensuring the effectiveness, efficiency and integrity of the Institution's operations.



Debra S. Ritt
Inspector General

April 30, 2005

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History and Mission of the Smithsonian

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.

The Smithsonian Institution is further unique in that federal appropriations provide the core support for its 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.

Challenges and Strategic Direction

Like other museums and research institutions, the Smithsonian faces many challenges given the changing environment in which it operates. For example:

- Demographic changes and growth in areas outside of those from which the Smithsonian has traditionally attracted large audiences will require the Smithsonian to design its programs to reach major segments of the population and leverage its international collections.
- New developments in education that place greater emphasis on participatory learning will require the Smithsonian to strengthen its educational programs and integrate them more fully with other outreach activities.

- As partnerships and collaborations become increasingly important means through which organizations accomplish their purpose, the Smithsonian will need to expand its affiliations programs around the country with other museums and organizations to become a long-term presence.
- New technologies are developing at an accelerating rate, challenging the Smithsonian to remain current and apply these technologies effectively in its programs and operations.
- With federal appropriations expected to remain static or decrease, the Smithsonian will have to expand its sources of private support, increase contributions from its business activities and from grants and contracts, and strengthen its efforts to work with the Congress and the President to increase federal funding.
- Pressure to increase accountability of not-for-profit institutions to the public, individual and institutional donors, and to the government will challenge the Smithsonian to align major decisions related to resources and priorities to its annual performance plans.
- The aging of the Smithsonian's buildings — more than half of the buildings that house the Smithsonian's collections are between 25 and 40 years old, effectively obsolete and no longer economically maintained or repaired — will require the Smithsonian to make significant capital investments in its facilities.

To address these challenges, the Smithsonian's five-year strategic plan for FY 2004-2008 provides four broad strategic goals for enlarging its role in American society and succeeding as a complex enterprise in the 21st century.

*1. **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.*

2. 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.

3. 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.

4. Greater Financial Strength - Provide the financial support essential to achieving the Institution's goals.

The Office of the Inspector General

The Inspector General Act of 1978, as amended, established the duties, responsibilities, and authorities of a federal Inspector General (IG). Over the years, the Act has been amended to increase the number of agencies with statutory IGs and establish IGs in smaller, independent organizations. Currently, 57 statutory IGs provide oversight to 59 federal agencies and entities.

IGs serving at the cabinet-level departments and major sub-cabinet agencies are nominated by the President and confirmed by the Senate. IGs at smaller independent agencies, corporations, and other designated federal entities, such as the Smithsonian Institution, are appointed by the heads of those entities.

Roles and Functions of the IG

Inspectors General have two basic roles—they independently identify and report on current issues and foster good program management to prevent future problems. IGs meet their statutory mission by (1) conducting independent and objective audits, investigations, inspections, and evaluations, (2) promoting economy, efficiency, and effectiveness, (3) preventing and detecting fraud, waste, and abuse, (4) reviewing pending legislation and regulation, and (5) keeping the agency head and the Congress fully and currently informed.

OIGs contribute to good government by:

- Offering analysis and advice on critical government-wide initiatives, such as computer security and financial management;
- Independently assessing problems and recommending possible solutions;
- Performing audits, investigations and inspections of critical issues in accordance with the highest ethical standards;
- Performing independent investigations of allegations of waste, fraud, and abuse;

- Providing technical and/or consultative advice as new plans are developed; and
- Maintaining confidential hotlines for employees and others to report allegations of fraud and abuse.

Organization and Functions of the Smithsonian IG

The OIG at the Smithsonian Institution has 16 employees, including auditors, analysts, criminal investigators, legal counsel, and administrative support staff. The office is located in Washington, D.C. and is functionally divided into the following three areas:

- **Audits Division** – independently audits the Smithsonian’s programs, computer systems, and financial management. The audit program is designed to provide assurance to the Secretary and to Congress that the Institution’s programs and operations are working efficiently and effectively.
- **Investigations Division** - investigates allegations of waste, fraud, abuse, and violations of criminal law related to the integrity of the Institution’s programs and operations, and misconduct by Smithsonian employees and contractors.
- **Counsel** - provides independent legal advice on issues concerning criminal law and procedures, evidence, and constitutional law as they relate to OIG’s investigative program. In addition, the Counsel conducts and coordinates in-depth reviews of existing and proposed legislation, regulations, and Smithsonian directives to assist the Institution in identifying and preventing potential problems.

The Audit Program

During this reporting period, we issued five audit reports addressing the security of information technology resources, management of major projects, and the collection of revenue from the Institution's business ventures. These efforts led to management actions to enhance information technology security, improve project management, and strengthen financial operations. We also performed evaluations of two contractor price proposals which resulted in \$12,010 in funds put to better use.

Audit Summaries

[Audit of National Air and Space Museum Mall Simulators \(Number A-04-10\)](#)

We audited the financial performance of flight simulators operated by a contractor at the National Air and Space Museum on the National Mall for Smithsonian Business Ventures. Our purpose was to determine whether adequate controls were in place to ensure that revenue and expenses from the simulators were at expected levels, and that funds owed the Smithsonian by the contractor were received and promptly recorded in the official accounting records.

We found that reported simulator revenue was understated by approximately \$166,000 or one-half of the total flight simulator revenue in 2003. The revenue being reported was based on a combination of estimated and actual amounts instead of actual revenues, and included non-revenue transactions. Due to cash-flow problems, the contractor also failed to remit \$250,000 in owed revenue, which the Smithsonian eventually collected. We also identified other accounting issues involving inadequate support for or improper treatment of expenses for bad debts, depreciation, and utilities, and revenue from special events.

We recommended that Smithsonian Business Ventures develop procedures for selecting contractors, implement policies and procedures to record and review accounting entries,

train personnel who enter accounting data, determine how unpaid contractor bills would be addressed, and strengthen controls over the collection of special event revenue. Management agreed with our recommendations to improve those areas and developed acceptable implementation plans.

Smithsonian Institution Network Information System Controls (Number A-04-05)

We assessed the Smithsonian's information system controls for system access, network security, and operating system and application system configurations. We identified network access control security weaknesses within the publicly accessible network as well as opportunities to strengthen configurations for network devices, UNIX and Microsoft Windows operating systems, and Oracle database applications.

We recommended that the Chief Information Officer perform periodic vulnerability scans of the network; correct server and workstation security holes; close unnecessary network open ports and available services; and ensure network devices, operating systems, and database applications are securely configured to industry standards. The Chief Information Officer agreed with our recommendations and provided acceptable implementation plans.

Parking Operations at the National Zoological Park (Number A-04-09)

We conducted an audit to determine the adequacy of internal controls over the collection, deposit, and accounting for revenue from parking operations managed by the Friends of the National Zoo (FONZ), a non-profit organization dedicated to supporting the mission of the Smithsonian's National Zoological Park.

Overall, we found that controls were adequate to ensure that parking revenue was properly collected, deposited, and recorded in the FONZ accounting system. However, we made recommendations to further strengthen physical security and to ensure a more

complete reconciliation of parking activity. The Executive Director of FONZ agreed with our recommendations and provided acceptable implementation plans.

Information Systems Controls at Smithsonian Business Ventures (Number A-04-04)

We conducted an audit to evaluate Smithsonian Business Ventures' information system controls for system access, network security, and operating system configurations. We found that many system security controls were in place, such as network monitoring, system backup and network documentation. However, network access controls could be strengthened.

During the audit, Smithsonian Business Ventures' information technology units began to address many of the issues we discovered. It also hired a Management Information System Director to implement our recommendations related to improving systems security and general systems controls.

Implementation Status for the Federal Information Security Management Act (Number G-04-01)

As required by the Federal Information Security Management Act, we reported on the Smithsonian Institution's information security program and practices, relying on prior OIG reviews of security controls at the National Museum of American History (Number A-04-02) and at the National Museum of Natural History (Number A-04-03), to determine the effectiveness of the Smithsonian's program.

We reported that the Smithsonian has made improvements from the previous year by issuing policies and guidance related to information security. However, opportunities exist to improve network access controls, information technology training, disaster recovery, and system documentation; and to keep server patches and configuration settings up to date. We also reported that the Chief Information Officer relies on system

owners to self-identify and address their security weaknesses and does not follow up with users to ensure that all critical weaknesses are identified and corrected.

Audits in Progress

Information System Controls at the National Zoological Park

As a consequence of a security compromise, the NZP is upgrading the security of the network architecture and rebuilding its servers and workstations. We are conducting an audit to assess the information system controls and working with zoo staff and SI management to take the appropriate steps to further secure the network.

Audit of Bank Reconciliations

We are conducting an audit of the Institution's reconciliations of its bank statements to its general ledger accounts to ensure they are being performed accurately and on a timely basis. This audit follows up on recommendations made by KPMG, the Institution's external auditor, in its Fiscal Year 2003 audit report of the Smithsonian's financial statements. Because a regular analysis and reconciliation of banking activity are essential controls to ensuring errors or unrecorded transactions are detected on a timely basis, KPMG recommended that the Smithsonian assign a high priority to preparing documented reconciliations of these accounts on a monthly basis during 2004. Since that time, the Smithsonian has made changes to its financial reporting system to generate detailed activity reports needed to reconcile its bank statements and, in July 2004, began conducting monthly reconciliations.

Administration of Changes to Large Construction Projects

To determine whether adequate controls are in place to manage contract modifications and reduce contracting costs on large construction projects, we initiated an audit of Contracting Officer's Technical Representatives (COTR). The audit will determine whether

COTRs are properly evaluating the accuracy and reasonableness of costs in contractor change proposals. Our audit focuses on two major construction projects—the Patent Office Building Renovation project and the Price of Freedom exhibit and associated Public Space Renewal—that collectively issued approximately \$6 million in change orders and contract modifications. We are also evaluating whether Contracting Officer’s Technical Representatives are exceeding the dollar limits of their delegated authority to make contract changes.

The Investigative Program

During this reporting period, the OIG received 19 complaints, initiated 1 investigation, and closed 12 complaints and 8 investigations. These investigations resulted in two terminations and one criminal conviction.

Theft of Government Property

We investigated allegations that checks issued and received by the Smithsonian had been altered. The investigation uncovered that a supervisor in the Institution’s Office of the Comptroller, who positioned herself as a “trouble-shooter” for problems affecting the Institution’s payment system, had intercepted \$57,585 in checks and deposited them into a personal bank account. The employee was terminated and on March 24, 2005, pled guilty to one felony count, Theft of Government Property (18 USC 641), in the United States District Court for the District of Columbia.

Audit Listings

Between October 1, 2004 and March 31, 2005, we issued five audit reports and two reports on contractor price proposals.

Table 1: List of Issued Audit Reports

Report Number	Title	Date Issued
A-04-10	National Air and Space Museum Mall Simulators	02/25/2005
A-04-05	Smithsonian Institution Network Information System Controls	01/06/2005
A-04-09	Parking Operations at the National Zoological Park	12/27/2004
A-04-04	Information System Controls at Smithsonian Business Ventures	12/03/2004
G-04-01	Implementation Status for the Federal Information Security Management Act	10/08/2004
C-04-04	Pre-award proposal for Chilled Water Services Connection to AIB, Castle, and Quad building	11/18/2004
C-05-02	Pre-award proposal for Construction of the National Museum of the American Indian – Mall Museum	12/17/2004

Statistical Information

Sections 5(a)(8) and 5(a)(9) of the Inspector General Act, as amended, require separate statistical tables for recommendations, including dollar values of questioned costs,¹ unsupported costs,² and funds to be put to better use. During this reporting period, we identified no questioned or unsupported costs. Summarized below are audit resolution activities on OIG reports issued with recommendations identifying funds to be put to better use.³

Funds to be put to Better Use

We completed two contract audits that identified \$12,010 in funds to be put to better use.

Table 2: Funds to Be Put To Better Use

Reports	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period	2	\$242,945
B. Which were issued during the reporting period	1	\$12,010
<i>Subtotal (A + B)</i>	3	\$254,955
C. For which a management decision was made during the reporting period		
(i) dollar value of recommendations that were agreed to by management	1	\$14,431
(ii) dollar value of recommendations that were not agreed to by management	1	\$12,282
<i>Subtotal (i + ii)*</i>	1	\$26,713
D. For which no management decision has been made by the end of the reporting period	2	\$228,242
E. For which no management decision was made within 6 months of issuance	1	\$216,232

* Management both allowed and disallowed costs for one report.

¹ A cost which was questioned because of an alleged violation of a provision of a law, regulation, contract, or other agreement or document governing the expenditure of funds; a cost which was not supported by adequate documentation; or an unnecessary or unreasonable expenditure of funds.

² A cost not supported by adequate documentation at the time of the audit.

³ A recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation.

Corrective Actions Not Yet Complete

We identified 23 significant recommendations, described in a previous semiannual report, which had not been implemented by the end of this reporting period.

Table 3: Corrective Actions Not Yet Complete

Audit Title and Date	Summary of Recommendations	Savings Estimate
American Indian Museum Move Project (October 2, 2001)	The Director should strengthen physical security.	None
Independent Evaluation of the Smithsonian's Information Security Program (July 31, 2002)	The Chief Information Officer should coordinate with units and consolidate network resources where suitable.	None
National Museum of the American Indian (January 17, 2003)	The Director should replace the Registrar's Office Windows NT network and follow current SI technical standards.	None
Smithsonian Tropical Research Institute (March 27, 2003)	The Director should use technical guidance to develop, document, update, and implement client and server configuration settings.	None
Project Management of the Steven F. Udvar-Hazy Center (July 31, 2003)	The Chief Financial Officer should provide guidance on monitoring project costs and complete user requirements for the enterprise resource planning system. [Two recommendations]	None
Information System Controls at the National Air and Space Museum (September 3, 2003)	The Director of the National Air and Space Museum should relocate the museum's Internet website.	None
Purchase Card Program (December 3, 2003)	The Chief Financial Officer should revise and implement system requirements to provide available balances in real time. [Two recommendations]	None
Restricted Gifts (December 18, 2003)	The Comptroller should develop procedures for uniform and simple data entry. The Director of External Affairs should reconcile DMIS to the ERP at least quarterly. [Two recommendations]	None

Implementation of the Enterprise Resource Planning System (March 31, 2004)	The Chief Financial Officer and Chief Information Officer should provide accurate status reports to the Congress, obtain monthly status reports, and prioritize outstanding requirements. The Chief Financial Officer should establish the ERP financial system implementation as a cost center. [Four recommendations]	None
Information System Controls at the National Museum of American History, Behring Center (June 16, 2004)	The Chief Information Officer should establish policies and minimum technical guidance for server operating systems, web server applications, and databases.	None
Human Capital Management (July 22, 2004)	The Director of the Office of Human Resources should finalize HRMS reports to be used as management tools to reduce delays, develop written timeliness standards for processing recruitment actions, and establish baseline data and targets for assessing performance appraisals. [Three recommendations]	None
Information Systems Controls at the National Museum of Natural History (September 9, 2004)	The Director of the National Museum of Natural History should close unnecessary open ports and services, relocate web servers, review operating system configurations, and ensure oversight of units that administer their own servers and reassign those responsibilities from units that cannot ensure the servers are securely configured and administered to units that can do so. [Four recommendations]	None

Investigative Results

During the reporting period, we initiated one investigation, made one referral for criminal prosecution, and closed eight cases. These efforts resulted in one conviction and two terminations.

Table 4: Summary of Investigations

Investigations	Amount or Number
Caseload	
Cases pending at beginning of reporting period	13
Cases opened during the reporting period	1
<i>Subtotal</i>	14
Cases closed during the reporting period	8
Cases carried forward	6
Referrals for Prosecution	
Pending at the beginning of the period	2
Referred for prosecution	1
Pending at the end of the period	1
Successful Prosecutions	
Convictions	1
Fines	\$0
Ordered restitution	\$0
Probation	0
Confinement	0
Civil Recoveries	\$0
Administrative Remedies	
Terminations	2
Resignations	0
Reprimands or admonishments	0
Reassignments	0
Demotions	0
Suspensions	0
Recovery of funds through investigative action	\$0
Collections property recovered:	
Number of items	0
Value of items	\$0
Monetary loss prevented	\$0

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