

SEMIANNUAL REPORT TO THE CONGRESS

April 1 to September 30, 2003



Smithsonian Institution
Office of the Inspector General

The cover photograph features an image from the construction of the Steven F. Udvar-Hazy Center at Dulles International Airport in Virginia

Preface

The Inspector General Act of 1978, Title 5, United States Code, Appendix 3, requires that I report semiannually through the Secretary to the Congress regarding the activities of this office. This report includes information reportable for the period April 1 through September 30, 2003.

We have received, and sincerely appreciate, the complete cooperation of the Smithsonian Institution's management and employees. Without it, and, of course, the full support of the Board of Regents and the Congress, the work of this office as an agent dedicated to strengthening the management and integrity of Smithsonian programs and operations would be impossible.

Thomas D. Blair
Inspector General

October 31, 2003

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Inspector General's Message to the Congress

The Smithsonian Institution, which was created 157 years ago, has been one of the leading institutions in the nation dedicated to increasing and diffusing cultural, historic, and scientific knowledge and information. The many ways it does so include the use of public exhibits, research, educational programs, books, and recordings. Most Americans are aware of the museums on the National Mall in Washington, D.C. Few, however, are aware of the vast array of activities behind the scene and beyond the Mall.

The Smithsonian is both publicly supported and privately endowed. Responsibility for administering the trust is vested in the Smithsonian Board of Regents. The Board of Regents is composed of the Chief Justice of the United States, the Vice President, three members each from the United States Senate and House of Representatives, and nine private citizens. The Board appoints the Secretary, who is the chief executive officer of the Smithsonian.

The Office of the Inspector General has identified the top five management challenges and opportunities for the Smithsonian:

1. Improved physical infrastructure
2. Improved financial performance
3. Physical and information security
4. Budget and performance integration
5. Strategic management and human capital

The Smithsonian is the national leader in selected areas of the arts, sciences, and history. In order to maintain this leadership role, the strategic planning framework that has been initiated will have to be integrated into fund-raising, budgetary, planning, and other

processes. Success in meeting the management challenges is dependent in a significant way upon the successful implementation of an enterprise resource planning system.

The Congress created Offices of Inspector General to improve management and to prevent fraud, waste, and abuse in federal departments and agencies. We therefore conduct audits and other reviews, and make recommendations to improve operations and assist management in achieving its goals and objectives.

Improved Physical Infrastructure

The most visible components of the Smithsonian are its 16 museums and galleries and the National Zoological Park. Its entire operations include more than 400 buildings, which house 143.5 million artifacts and scientific specimens, as well as exhibit, research, and outreach operations.

During the last three decades of the 20th Century, the Smithsonian expanded its facilities and operations. During that same period, congressional appropriators and others called upon the Smithsonian to place more emphasis on maintaining its collections and physical facilities. The Secretary has taken on the infrastructure challenge and has set a long-term plan to repair, restore, and maintain the Smithsonian's physical facilities and update its exhibits. The Secretary estimates that this effort will cost \$2.5 billion.

The Smithsonian currently has four major construction or repair and renovation projects ongoing:

- Construction of the Steven F. Udvar-Hazy Center near Dulles Airport in Virginia
- Construction of the National Museum of the American Indian on the National Mall
- Renovation of the Patent Office Building which houses the National Portrait Gallery and the Smithsonian American Art Museum
- Renovation of the National Museum of American History

We completed an audit of project management of the National Air and Space Museum Dulles Annex—the Steven F. Udvar-Hazy Center in Chantilly, Virginia. Our purpose in conducting the audit was to determine if the Office of Facilities Engineering and Operations has established systems, policies, procedures, and other controls adequate to mitigate the risk of delays and increased costs. We also reviewed project management of the Patent Office Building renovation to determine if best practices were being employed in the management of the project. We concluded that overall, project management on both projects is effective and financial management controls are adequate to mitigate some budgetary and schedule risks. However, we made recommendations that, if implemented, will improve project management.

Improved Financial Performance

In order to improve its physical infrastructure, the Smithsonian has determined that it needs not only additional support from the U.S. Congress but also additional funding from donations and revenue producing units.

The Smithsonian has a long history of audited financial statements with unqualified opinions. Trust statements have been audited for almost 50 years and federal financial statements have been audited for about 22 years. An independent certified public accounting firm conducts the financial statement audits of the Smithsonian.

The Institution is implementing an enterprise resource planning system that will provide timely and accurate financial and human resources information. The achievement of strategic goals and objectives depend on the availability of accurate and timely financial and performance information. The new system, if implemented correctly, will help achieve several goals: The Institution will have a single integrated system, it will reduce

resources expended in reconciling central and unit records, and it will automate routine and repetitive tasks.

Physical and Information Security

The physical security of visitors and protection of art objects, artifacts, and scientific specimens is crucial to the mission of the Smithsonian. During fiscal year 2003, the Smithsonian museums and the National Zoological Park had more than 25 million visitors, down about 25 percent from fiscal year 2001.

During this period, we issued an audit report on information system controls at the National Air and Space Museum to establish an information security baseline. Although controls and security were adequate in some areas, we identified areas in which the museum could improve its information technology security.

Budget and Performance Integration

The Smithsonian is both publicly endowed and privately supported. For fiscal year 2004, the Smithsonian budget is estimated at \$917 million, consisting of an estimated \$578 million in federal appropriations and an estimated \$339 million in trust funds (including \$91 million in capital expenses). Initiatives are underway to improve planning and systems integration.

About two years ago, we issued an audit report on the trust fund budget process. We recommended measures that the Smithsonian could take to ensure that the trust fund budget is comprehensive and is implemented as approved. Two of the recommendations have not yet been fully implemented.

Strategic Management and Human Capital

The Institution has developed and issued a strategic plan entitled ***Setting Future Directions at the Smithsonian Institution*** covering fiscal years 2003 through 2007. The strategic plan includes goals in four areas:

- Public impact
- Scientific research
- Management excellence
- Financial strength

Clearly, management excellence is crucial to achieving the other three goals. The Smithsonian is strengthening its management and modernizing its systems and processes to bring them to a level of quality and sophistication appropriate to its size and complexity. Significant efforts are underway to integrate strategic planning into operations.

We believe that all of the reports that we issue, which include recommendations on financial management, could enhance the Smithsonian's ability and to meet its goal of management excellence, to develop accurate and meaningful performance measures.

Implications for the Future

The Smithsonian trust has a time-span that extends into the lifetimes of unborn generations. While some organizations focus on the next few years, the Smithsonian must be different because of its mission, the Smithsonian must consider not only service to the current public but also to future generations.

Audits

Section 4 of the Inspector General Act charges this office with a statutory duty to audit, and otherwise review, Institution programs and operations to ensure that they are economical, efficient, effective, and free of fraud, waste, and abuse. Pursuant to our strategic and annual plans, we therefore conduct audits of Institution organizations, functions, and activities to assess, among other things, their performance, financial operations, and compliance with applicable laws, regulations, and Institution policies. We also conduct audits to determine the reasonableness of expenditures made under contracts, grants, or other agreements. As required by section 4(b) of the Act, we conduct all of our audits in accordance with the ***Government Auditing Standards***, issued by the Comptroller General of the United States.

Pursuant to section 5(a)(7) of the Act, summaries of one significant review and three significant audits follow.

Project Management Review of the Patent Office Building Renovation Project¹

We contracted with IBM Business Consulting Services to conduct an independent project management review of the Patent Office Building renovation project. Our purposes were to (1) determine whether current project management controls were adequate to provide reasonable assurances that the project will be completed on time and within budget; (2) identify potential project control deficiencies contributing to project risks; and (3) formulate specific suggestions for improved project management practices based upon industry best practices. Generally, best practices were in place for project management and control. However, Smithsonian facilities management officials and others can take action to reduce cost and project schedule risk exposures as follows: strengthen the

¹ This review was performed by a management consulting firm using project management and engineering best practices as standards. It was not conducted using the ***Government Auditing Standards***

management and oversight of project contingency funds, complete the master schedule to include planned versus actual project schedules, increase the number of management reports that include performance metrics, clarify who the client is and who is accountable for this project, refine and clarify the project management handbook, conduct pricing reviews of change order management, and improve the documentation for costs reported in budgets. Management officials were receptive to ameliorating the risk exposures identified in the findings and recommendations in the report.

Project Management of the Steven F. Udvar-Hazy Center

We audited project management of the Steven F. Udvar-Hazy Center, which is an annex to the National Air and Space Museum under construction at Washington Dulles International Airport in Virginia. Our purposes were to determine if project management practices were effective and whether financial and management controls were adequate to ensure compliance with contract terms, policies and procedures, and laws and regulations. Overall, project management practices were effective and financial management controls were adequate to ensure compliance with contract terms. However, we identified opportunities for management to improve financial controls by (1) providing guidance for monitoring the timing of budget to actual revenues and expenses; (2) completing the process of developing and implementing the enterprise resource planning system user requirements for major projects; (3) strengthening controls over the repayment of advance funds; and (4) improving the procedures for contract modifications. Although management agreed with recommendations two and four, and partially agreed with recommendations one and three, they provided implementation plans for all four recommendations. We are working with management to establish effective financial and management controls.

Information System Controls at the National Air and Space Museum

We audited information system controls at the National Air and Space Museum. Our purpose was to establish a system security baseline by evaluating information system controls regarding access, security, and physical conditions. Information technology security is a fundamental management responsibility. However, we recognize that since security is not an absolute, management must make judgments regarding establishing a reasonable balance between costs and the risks of loss from a desired level of information technology security and the degradation in operational capability. Generally, the Museum had adequate controls to provide reasonable security of information technology resources. The Museum's centrally controlled servers were up-to-date with critical security patches and hot fixes. However, system security needed to be improved for some systems not centrally controlled by the Museum's Information Technology Department. We therefore recommended that the Museum Director improve system security by (1) reviewing server configurations to ensure that patches and hot fixes are up to date; (2) removing unnecessary accounts; (3) performing scans to determine if open ports on servers and workstations are necessary; (4) relocating the Museum's Internet website to the Smithsonian's web hosting location; (5) delineating information system administration responsibilities; (6) removing all unnecessary computers from the network; (7) reviewing the use of non-standard e-mail applications; and (8) reallocating computer resources from the current computer room to the room specifically designed for that purpose. The Director agreed with most of the recommendations and provided acceptable implementation plans.

Smithsonian Institution Organizational Checking Accounts

We audited eleven Smithsonian Institution bank accounts to assess whether internal controls were functioning effectively. Generally, internal controls and safeguards were inadequate to reduce the risks of loss or unauthorized use of Smithsonian funds to an acceptable level. Although we found no specific instances of defalcation from organizational checking accounts, we believe that reasonable and more secure alternatives

exist for most transactions. Accordingly, we recommended that the Comptroller's office strengthen bank account management by (1) performing re-certifications of all checking accounts and closing those accounts deemed unnecessary; (2) revising, updating, and issuing policies and procedures that relate to organizational checking accounts and purchase cards; and (3) performing periodic compliance reviews to ensure that controls are operating effectively. The Comptroller concurred with the recommendations and provided acceptable implementation plans.

List of Audit Reports

Section 5(a)(6) of the Act requires a list of all audit reports issued during the reporting period, including subject matter, and dollar amounts of questioned costs, unsupported costs, and funds to be put to better use. Between April 1 and September 30, 2003, this office issued three internal audit reports and one contract audit report. We had no questioned or unsupported costs. As to each of the audit reports, the information required by Section 5(a)(6) is listed in Table 1, below.

Table 1: List of Audit Reports Issued

Report Number	Audit Title	Issue Date
Internal Audits:		
A-02-10	Smithsonian Institution Organizational Checking Accounts	04-16-03
A-02-04	Project Management of the Steven F. Udvar-Hazy Center	07-31-03
A-03-08	Information system Controls at the National Air and Space Museum	09-03-03
Contract Audits		
C-03-02	Pre-award proposal	09-11-03

Questioned Costs and Funds to be Put to Better Use

Sections 5(a)(8) and 5(a)(9) of the Act require separate statistical tables for recommendations including dollar values of questioned costs, unsupported costs, or funds to be put to better use. Those sections also require a statement of management's response to such recommendations at the end of the reporting period. During this reporting period, we identified \$112,941 in funds to be put to better use. We identified no questioned or unsupported costs. Table 2, below, presents the status of 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	1	\$ 11,241
B. Which were issued during the reporting period	1	\$112,941
Subtotal (A + B)	2	\$124,182
C. For which a management decision was made during the reporting period	0	
(i) dollar value of recommendations that were agreed to by management	0	\$ 0
(ii) dollar value of recommendations that were not agreed to by management	0	\$ 0
Subtotal (i + ii)	0	\$ 0
D. For which no management decision has been made by the end of the reporting period	2	\$124,182
For which no management decision was made within six months of issuance	1	\$ 11,241

Corrective Actions Not Yet Complete

Section 5(a)(3) of the Act requires an identification of each significant recommendation for corrective action, described in a previous semiannual report, which had not been

implemented by the end of the reporting period. Table 3, on page 13, sets forth that information.

Table 3: Corrective Actions Not Yet Complete

Audit Title and Date	Summary of Recommendations	Savings Estimate
Center for Folklife and Cultural Heritage, June 13, 1997	The Director of the Center for Folklife and Cultural Heritage should develop and use financial management reports that are adequate to manage Folkways and Smithsonian Folkways operations.	None
Financial Management of Traveling Exhibits, September 26, 2001	The Chief Financial Officer should develop policies and procedures necessary for Smithsonian organizations to accumulate and report costs regularly, consistently, and reliably.	None
Trust Fund Budget, September 28, 2001	The Chief Financial Officer should develop policies and procedures to ensure that a comprehensive budget is prepared, submitted to the Secretary, and implemented as approved. [Two recommendations]	None
American Indian Museum Move Project, October 2, 2001	The Director should strengthen physical security.	None
The Smithsonian Associates Study Tours Reservation Process, June 12, 2002	The Director of the Smithsonian Associates should implement a disaster and recovery plan and a continuity of operations plan and formalize agreements regarding patron lists. [Two recommendations]	None
Independent Evaluation of the Smithsonian Institution's Information Security Program, July 31, 2002	The Chief Information Officer should increase security funding, develop a training program, comply with standards, measure program effectiveness, and report the results quarterly. [Eight recommendations]	None
Development Program, September 30, 2002	The Director should revise Smithsonian Directive 809 to assure that data is accurately entered into the development system.	None
National Museum of the American Indian, January 17, 2003	The Director should develop and implement information technology protocols to strengthen physical security, training, configuration settings, assessments, disaster recovery and continuity of operations plans, and other aspects of security. [Twenty-three recommendations]	None
Smithsonian Tropical Research Institute, March 27, 2003	The Director should develop and implement security assessments for network assets, use technical guidance for client configuration settings, implement disaster recovery plans, and develop and implement network server security training. [Four recommendations]	None

Investigations

Pursuant to sections 4 and 6 of the Act, this office investigates possible violations of criminal or civil laws, administrative regulations, and policies that relate to the programs and operations of the Institution. When warranted, we refer the results of such investigations to entities with appropriate enforcement jurisdiction. Two of the investigative reports are summarized below.

Paul E. Garber Facility

Our office initiated an investigation at the Paul E. Garber Facility in Silver Hill, Maryland, after receiving allegations that several high-level individuals in the National Air and Space Museum engaged in illegal and unethical acts. Based on our investigation, we concluded that the allegations involving the personal use of Smithsonian property, materials, and labor were substantiated. These actions violate the Smithsonian Institution's ***Standards of Conduct***, which prohibit the private use of Smithsonian property. The results of this investigation were provided to Smithsonian Institution management and to a Congressman who requested a copy of the report. After we issued our report, management informed us that one of the employees cited in the report reimbursed the Smithsonian for services improperly obtained, another agreed to reimburse the Smithsonian and will resign, and a third has been reassigned to a non-supervisory, non-managerial position.

Misuse of Federal Funds

We were informed of a fiscal irregularity reported to senior management of the National Museum of Natural History and confirmed by them during an examination of accounting records. These records indicated that an employee at the Museum Support Center in Suitland, Maryland, had obligated about \$20,000 for personal education courses that did

not appear to have been approved by his supervisors. We found that the employee authorized \$10,470 under his own signature and \$7,615 under another employee's signature to continue taking graduate courses that he had begun while he worked in private industry. The employee's supervisor was unaware that the employee was taking courses in pursuit of a graduate degree or that the Smithsonian was paying for the courses. We concluded that the employee's actions in personally authorizing the obligation of federal funds for his personal education without sufficiently notifying his superiors created the appearance of a conflict of interest in violation of the Smithsonian Institution's ***Standards of Conduct***. Museum management suspended the employee for 14 days.

Matters Referred for Prosecution and Results

Section 5(a)(4) of the Act requires a statistical summary of investigative matters referred for criminal prosecution and the results of such referrals. Table 4, on page 17, sets forth that information.

Table 4: Summary of Investigations

Investigations	Amount or Number
Caseload	
Cases pending at beginning of reporting period	30
Cases opened during the reporting period	3
Subtotal	33
Cases closed during the reporting period	10
Cases carried forward	23
Referrals for Prosecution	
Pending at the beginning of the period	2
Referred for prosecution	0
Pending at end of period	1
Successful Prosecutions	
Convictions	1
Fines	\$0
Ordered restitution	\$17,000
Probation	3 years
Confinement	3 years
Civil Recoveries	\$0
Administrative Remedies	
Terminations	0
Resignations	1
Reprimands or admonishments	0
Reassignments	1
Demotions	0
Suspensions	14 days
Recovery of funds through investigative action	\$600
Collections property recovered:	
Number of items	0
Value of items	\$0
Monetary loss prevented	\$0

Legislative Review

Section 4(a)(2) of the Act requires this office to review existing and proposed legislation and regulations and to make recommendations in our semiannual reports regarding their impact on the economy and efficiency of, and the detection and prevention of fraud, waste, and abuse in, Institution programs and operations. During this reporting period, we conducted several such reviews. None of the reviews has yielded a recommendation that is sufficiently important to warrant reporting here.

Glossary

Disallowed cost - A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Institution.

Final action - The completion of all management actions, which are described in a management decision, with respect to audit findings and recommendations.

Funds to be put to better use - A recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation.

Questioned costs - 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.

Unsupported cost - A cost questioned because the cost was not supported by adequate documentation at the time of the audit.

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