

SEMIANNUAL REPORT TO THE CONGRESS

April 1 to September 30, 2004



Smithsonian Institution

Office of the Inspector General

The cover features an image of the National Museum of the American Indian. This image was taken from a photograph by Robert C. Lautman. The National Museum of the American Indian opened to the public on September 21, 2004.

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, 2004, to September 30, 2004.

We have received, and sincerely appreciate, the 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 29, 2004

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Inspector General's Message to the Congress

The Smithsonian Institution is a trust instrumentality of the United States. It was created to carry out the provisions of the will of James Smithson, an English scientist. According to Mr. Smithson's will, the proceeds from his estate were to be used to establish an Institution for "...the increase and diffusion of knowledge among men." The law that implemented the provisions of the will established a trust to be administered by the Board of Regents and the Secretary. The Secretary serves as the chief executive officer of the Institution.

The Smithsonian currently operates 16 museums and galleries and the National Zoological Park. Facilities include more than 400 buildings, which house 143.7 million artifacts and scientific specimens, as well as exhibit, research, and outreach operations. The Smithsonian is a national leader in some areas of the arts, sciences, and history.

The top five management challenges and opportunities facing the Smithsonian follow:

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 Congress created Offices of Inspector General to improve management and to prevent fraud, waste, and abuse in federal departments, agencies, and entities. 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

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 Smithsonian currently has several major construction or repair and renovation projects ongoing, including the renovation of the Patent Office Building, which houses the National Portrait Gallery and the Smithsonian American Art Museum; the National Museum of American History; the National Museum of Natural History; and the National Zoological Park.

Improved Financial Performance

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 about a half-century and federal financial statements have been audited for about a quarter of a century. An independent certified public accounting firm conducts the financial statement audits of the Smithsonian.

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 audit reports on information systems security at the National Museum of American History and the National Museum of Natural History. In response to our recommendations, management at both museums took prompt action to strengthen information system security.

Budget and Performance Integration

The Smithsonian is both publicly endowed and privately supported. For fiscal year 2005, the Smithsonian budget is estimated at \$925 million, consisting of an estimated \$628 million in federal appropriations and an estimated \$297 million in trust funds.

At the end of fiscal year 2001, 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. Although management has made substantial progress in moving toward the goal of a comprehensive budget, action is still needed to fully implement this recommendation.

Strategic Management and Human Capital

The Institution has developed and issued a strategic plan entitled *Building a Smithsonian for the Future*, covering fiscal years 2004 through 2008. The strategic plan includes goals in four areas:

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

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.

Implications for the Future

The mission statement of the Smithsonian ends with the following sentence: “The Smithsonian offers the world a picture of America, and America a picture of the world.” This is a dynamic picture that constantly changes over time. 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 the 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 four significant audits follow.

Human Capital Management

We audited the Institution's human capital management to assess the steps being taken to reduce the risks of weaknesses that could affect the strategic human capital objectives of the Institution. Although Smithsonian management stated that the Smithsonian is not governed by the President's Management Agenda because it is a trust instrumentality of the United States, it has embraced the Agenda's sound management principles. The Institution has taken the initial steps in addressing human capital challenges.

Improvements were needed in three areas: (1) tracking the timeliness in processing recruitment actions; (2) monitoring non-senior level performance appraisals; and (3) implementing a succession-planning system. Management agreed with our recommendations and provided acceptable implementation plans.

Steven F. Udvar-Hazy Center Business Activities

We audited business activities at the National Air and Space Museum's Steven F. Udvar-Hazy Center at Washington Dulles International Airport. Our primary purpose was to determine whether adequate controls were in place to ensure that revenues and expenses were at levels planned and promptly reported. Funds borrowed and advanced to construct the Center were being paid consistently with plans. Improvements were needed regarding the reporting and reconciliation of parking revenue, parking procedures, and the reporting of concessions. We recommended that management provide instructions to contractors and develop written procedures for monitoring contractor performance. Management agreed with our recommendations and developed acceptable implementation plans.

Information System Controls at the National Museum of American History, Behring Center

We audited information system controls at the National Museum of American History, Behring Center. The Museum's system security configurations and safeguards were inadequate and the risk to system access and data integrity was high. During our audit, Museum management reviewed system accounts, made changes, and began reviewing configuration deficiencies identified during the audit.

Information System Controls at the National Museum of Natural History

We audited information system controls at the National Museum of Natural History. The Museum's network security, operating system configurations, and system access safeguards were inadequate. We made recommendations to improve system security. Management agreed with our recommendations and began taking action before we completed our audit.

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, 2004, this office issued four internal audit reports and three contract audit reports. 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-04-03 | Information System Controls at the National Museum of Natural History | 09/09/04 |
| A-04-06 | Steven F. Udvar-Hazy Center Business Activities | 08/25/04 |
| A-04-07 | Human Capital Management | 07/22/04 |
| A-04-02 | Information System Controls at the National Museum of American History, Behring Center | 06/16/04 |
| Contract Audits: | | |
| C-04-05 | Pre-award proposal | 09/30/04 |
| C-04-03 | Pre-award proposal | 07/02/04 |
| C-04-02 | Pre-award proposal | 05/21/04 |

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 completed three audits and identified \$249,895 in funds to be put to better use. We identified no questioned or unsupported costs. Table 2, on page 8, 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 | 0 | \$0 |
| B. Which were issued during the reporting period | 3 | \$249,895 |
| Subtotal (A + B) | 3 | \$249,895 |
| C. For which a management decision was made during the reporting period | | |
| (i) dollar value of recommendations that were agreed to by management | 1 | \$6,950 |
| (ii) dollar value of recommendations that were not agreed to by management | 0 | \$0 |
| Subtotal (i + ii) | 1 | \$6,950 |
| D. For which no management decision has been made by the end of the reporting period | 2 | \$242,945 |
| For which no management decision was made within six months of issuance | 0 | \$0 |

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 pages 9 and 10, 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 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 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 submitted for review and approval by the Board of Regents. | None |
| American Indian Museum Move Project, October 2, 2001 | The Director should strengthen physical security. | None |
| Independent Evaluation of the Smithsonian Institution'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 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. [Two recommendations] | None |
| Smithsonian Tropical Research Institute, March 27, 2003 | The Director should develop and implement security assessments for network assets and use technical guidance for client configuration settings. [Two recommendations] | 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 should relocate its Internet website and delineate responsibilities. [Two recommendations] | None |

| Audit Title and Date | Summary of Recommendations | Savings Estimate |
|---|---|------------------|
| 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 and implement procedures and provide training on recording revenue, and develop procedures for uniform and simple data entry. [Five recommendations] | None |
| Implementation of the Enterprise Resource Planning System, March 31, 2004 | The Chief Financial Officer and Chief Information Officer should request the transfer of resources, provide accurate status reports to the Congress, obtain monthly status reports, prioritize requirements, develop a user acceptance process, and determine user needs. [Seven 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.

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 12, sets forth that information.

Table 4: Summary of Investigations

| Investigations | Amount or Number |
|--|------------------------|
| Caseload | |
| Cases pending at beginning of reporting period | 20 |
| Cases opened during the reporting period | 2 |
| Subtotal | 22 |
| Cases closed during the reporting period | 9 |
| Cases carried forward | 13 |
| Referrals for Prosecution | |
| Pending at the beginning of the period | 2 |
| Referred for prosecution | 0 |
| Pending at the end of the period | 2 |
| Successful Prosecutions | |
| Convictions | 0 |
| Fines | \$0 |
| Ordered restitution | \$0 |
| Probation | 0 |
| Confinement | 0 |
| Civil Recoveries | \$0 |
| Administrative Remedies | |
| Terminations | 1 |
| Resignations | 1 |
| Reprimands or admonishments | 0 |
| Reassignments | 0 |
| Demotions | 0 |
| Suspensions | 0 |
| Recovery of funds through investigative action | \$17,547 |
| 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.

Enterprise resource planning system – Computer software used to integrate all departments and functions across an organization into a single system that can serve all those departments’ particular needs.

Final action – This is 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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