

**Senate Committee on Rules and Administration**

**Testimony of**

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**Smithsonian Institution**

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Thank you for inviting me to testify, as Chair of the Governance Committee of the Board of Regents of the Smithsonian Institution, on steps the Board of Regents recently has taken to strengthen governance at the Institution, and what we intend to do in the future.

I have served as a member of the Board of Regents since December, 2001. Three weeks ago, on March 25<sup>th</sup> I was appointed as Chair of the Governance Committee, a newly established standing Committee of the Board of Regents. I also serve as chair of the Nominations Committee and as a member of the Audit and Review Committee. In addition to my role on the Board of Regents, I am Chief Executive Officer of the Bill and Melinda Gates Foundation.

At the outset, I want to recognize the seriousness of the issues that confront the Smithsonian and the Board today. The Board realizes that it has a confidence gap with the Congress and the American people, and each of us is determined to take strong and sure steps to address concerns about spending practices and governance at the Smithsonian. Executive Committee Chairman Roger Sant just described some of those steps, and I will discuss others below, but I want to emphasize that the Regents see commitment to good governance as a much broader issue than today's understandable focus on expenditures. Governance encompasses how we exercise our authority, provide appropriate direction and ensure the accountability of all involved in fulfilling the unique purpose and mission of the Smithsonian. We believe that in addition to our need to improve the controls and policies around expenditures, we must dramatically enhance the ongoing, iterative process of governance generally at the Smithsonian. Good governance can not be static as the Smithsonian itself is far from static. Although the Smithsonian is understandably proud of its 160-year history as a unique entity, that distinguished history does not exempt it from continuing efforts to monitor and improve governance.

In fact, to the contrary, although all institutions benefit from good governance, the special nature and character of the Smithsonian impose even greater demands on oversight. Why is that? First, unlike the executive and legislative branches, the Smithsonian and its Board are not subject to the oversight an election brings every few years. We are appropriately insulated from partisan politics. And unlike a public company, we do not have quarterly filing requirements or a market process to discipline us. So the nonprofit world in general must exercise the greatest diligence in governance. The Smithsonian's unusual blend of public and private trust, means we cannot rely on a single good governance template from another institution. Great care and

thoughtful consideration will be required to tailor best practices to the special needs of the Smithsonian. Our newly established Governance Committee is going to confront this task with great energy, and we are already seeking the wise counsel of experts with a broad array of perspectives.

Already the Governance Committee has taken some immediate steps working with senior staff at the Smithsonian to propose a number of interim policies and practices to tighten institutional controls over certain expenditures of funds. We believe these practices will address some of the most pressing concerns that have been raised by the Congress and the American people. More substantial changes should await the findings and recommendation of the Independent Review Committee and the thoughtful outreach and review by the Governance Committee.

Since the subject of the Smithsonian's governance is directly tied to the mission of the Institution, I want to spend a few minutes reviewing that mission. The Smithsonian began with a private donation from a British scientist named James Smithson. Mr. Smithson never set foot in this country and yet bequeathed his entire estate to the United States of America, to found an establishment "for the increase and diffusion of knowledge." Mr. Smithson's vision has been embraced by Congress in accepting that gift and providing annual appropriations for support of the Institution, and by private donors who annually contribute millions of dollars to support the Institution. That vision is also shared by more than 6,000 employees and 5,000 volunteers who daily carry out the mission. These dedicated people make it possible for the Smithsonian each year to touch the lives of tens of millions of people from around the world. We owe them a great debt of gratitude for their continuing contribution to the work of the organization.

The Smithsonian is more than a museum or even a group of museums. It is a vast, world class national research and educational center that also encompasses laboratories, observatories, field stations, scientific expeditions, classrooms, performing arts events, publications, and more. The Smithsonian is an institution that belongs to the people of the United States. It is also a gift of the American people to the entire world, for everyone is free to come, visit, learn and enjoy without charge.

The Smithsonian is governed by a Board of Regents, whose 17 members bring a wide range of talents and experiences to bear on the governance of the Institution. The Board of Regents created an Ad Hoc Committee on Governance in 2001 to begin the process of reviewing the Institution's governance. It has now established the Governance Committee as a standing committee of the Board of Regents. We believe this will result in changes in governance practices that will improve Smithsonian operations in support of its mission.

There are four other members of the Governance Committee: three Regents, Congresswoman Doris Matsui; Dr. Walter Massey, President of Morehouse College; and Robert Kogod, former co-chairman and co-CEO of the Charles E. Smith Companies. We are joined by Diana Aviv, President and CEO of Independent Sector. Independent Sector is a nonprofit organization formed to strengthen the charitable community.

In 2004, Senate Finance Committee Chairman Grassley and Ranking Member Baucus invited Independent Sector, under Ms. Aviv's leadership, to convene an independent panel on the

nonprofit sector to consider and recommend actions to strengthen good governance, ethical conduct and effective practice of the charitable sector. The Panel on the Nonprofit Sector convened in response was an extraordinary undertaking that culminated in a report to Congress and the Nonprofit Sector on ways to strengthen transparency, governance and accountability of charitable organizations. The Panel's report has received widespread acclaim for its thoughtful recommendations and contribution to the sector on this important subject. I am confident that the Governance Committee will benefit from that work.

I would like to report to you on the work plan for the Governance Committee. We have met four times since mid March and will continue to meet weekly for the next two months to ensure we make significant progress against our workplan. We have determined that the Committee has immediate, longer-term and on-going responsibilities.

(1) Our immediate focus has been to review the Institution's management processes as they relate to the expenditure of funds and to recommend to the Executive Committee the immediate adoption of interim policies to restrict the use of funds for travel, entertainment, housing, and other similar expenses that may be or appear personal in nature. We are recommending that the Executive Committee adopt these as interim policies until such time as the Independent Review Committee completes its report and the Regents have a chance to consider its findings and recommendations. While we do not want to preempt the work of the Independent Review Committee, we also want to communicate clearly to members of Congress and to the American people that there will be immediate changes. We have reviewed these recommendations with Dr. Samper, and he is in complete agreement.

(2) Our longer-term work plan is to review the Institution's overall management and governance practices and to provide recommendations to the Board of Regents to maintain or improve the current governance structure. We have begun this review process and anticipate that this work will take some time. Our work will include reviewing the Smithsonian's Charter, Bylaws, governance structure and governance policies; reviewing its dual status as a federal and trust fund institution; reviewing the operation and oversight of its federal and trust funds accounts; examining "best practices" in nonprofit governance and among comparable institutions; and identifying areas in which changes to Smithsonian governance may be appropriate. We expect to develop preliminary recommendations for governance changes; consider the report of the Independent Review Committee; and consult with other stakeholders as appropriate. We will then develop final recommendations for governance changes, which will be presented to the Board of Regents for consideration.

(3) Following action by the Board of Regents on the recommendations developed pursuant to the process outlined above, we will continue, on an ongoing basis, to review and evaluate the management and governance of the Smithsonian and to make additional recommendations to the Board of Regents for changes as appropriate. As previously stated, an organization as complex and ever changing as the Smithsonian needs a continual commitment to review and assurance of good governance.

While we are committed to a full review of all aspects of governance, the Committee does come to our task with the recognition that it is important to retain the Smithsonian's unique status as both a federal and a public trust. As we review and consider the Institution's

governance, we will give careful attention to its dual status as a federally and privately funded institution. This is the legacy of the Institution, beginning as it did with a private donation from James Smithson, funded through the years by Congress and supplemented with substantial private donations. We believe this dual federal/public trust status is both a heritage and a strength of the organization.

Even though the federal government funds more than 70% of the Smithsonian's operations, the Smithsonian would scarcely resemble itself without the private donations over the decades. These donations are a major source of funding for programming at the various museums – whether you are drawn to pandas or Whistler, triceratops or entomology or aviation or astronomy – much of the scholarship and education and exhibits we all learn from at the Smithsonian rely on private donations. Accordingly, the Smithsonian must retain the capacity to increase the national collections through donations of objects as well as raise additional private donations in a manner that is sensitive to its federal character, but allows it the latitude to reach potential donors effectively. In other words, while we will dramatically improve the policies and oversight of those policies, we do not believe that a model that seeks strictly to emulate routine federal spending standards would be in the best interests of the Smithsonian. Its strength comes in part from its freedom to seek and accept private donations. This is of benefit to the Smithsonian, to all those who use it and for all taxpayers and citizens.

We acknowledge the key role of Congress in providing oversight of the Smithsonian as well as providing more than 70% of the Institution's funding. We hope to work with this Committee and other Congressional Committees to keep members fully informed and to seek your advice with respect to the work of the Governance Committee as we move forward.

Clearly, we are at a critical time for this great institution – leadership change is always a challenge and given recent events that is even more true here. I believe that the Smithsonian can – and will – emerge from this a stronger institution, with even greater confidence and partnership with both Congress and the American people. I am committed to doing everything I can to build on the Institution's strengths and to draw on the best expertise to help the Smithsonian write an even greater chapter to its long history.

I want to thank the Committee and Chairman Feinstein for this opportunity and to say once again that the Regents are committed to ensuring that the management and governance of the Smithsonian remains worthy of the confidence of the Congress and the American people.