

SEMIANNUAL REPORT TO CONGRESS

April 1, 2006 to September 30, 2006



Smithsonian Institution
Office of the Inspector General

The cover depicts ***Vaquero*** by Luis Jimenez. Constructed of acrylic urethane and fiberglass on a steel armature, the sculpture stands 16 ½ feet high in front of the Donald W. Reynolds Center for American Art and Portraiture, which reopened in July 2006 after six years of renovation.

Photograph by Stuart A. Metzger.

Contents

Message to Congress	i
Smithsonian Institution Profile	1
Strategic Direction	2
Office of the Inspector General Profile	3
Audits and Reviews	5
Summary of Audit Accomplishments	5
Table 1 – List of Issued Audit Reports and Management Advisories.....	10
Status of Open Recommendations	11
Table 2 – Audit Recommendation Activity	11
Table 3 – Audit Reports with Recommendations that Funds Be Put to Better Use	12
Table 4 – Corrective Actions Not Yet Complete	13
Oversight of Financial Statement Auditors	15
Work in Progress	15
FY 2007 Audit Plan.....	17
Investigations	18
Summary of Investigative Activity.....	18
Table 5 – Summary of Investigative Activity	20
Table 6 – Summary of Investigative Caseload, Referrals, and Results.....	21
Other OIG Activities.....	22



This image depicts the west wing of the Patent Office Building in the early 1900s. The Patent Office Building is the home of the National Museum of American Art and the National Portrait Gallery, which reopened on July 1, 2006 after 6 years of renovation.

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 September 30, 2006. In it, we highlight our efforts to advance our mission under the Inspector General Act: to improve the economy, efficiency, and effectiveness of Smithsonian programs and operations, and to prevent and detect waste, fraud and abuse.

These six months have been a time of transition for the Smithsonian OIG. We have assumed a substantial new responsibility, overseeing the Institution's annual financial statement audit, to assure review by an organizationally independent entity. Our Inspector General resigned in June, effectively decreasing our already minimal staffing levels and, because of the resulting reshuffling of duties, leaving us without counsel. And most significantly, our office now reports to the Smithsonian Board of Regents through its Audit and Review Committee.

During this semiannual period, we issued three audit reports that assess security measures the Institution employs to protect its assets. We examined how the Institution screens employees and contractors to assure their suitability for employment; how the Institution ensures that those who leave the Institution's employ no longer have access to non-public areas of Smithsonian buildings and collections; and how the Institution secures its collections at its largest museum – the National Museum of Natural History – through physical measures as well as inventory procedures. We found lax controls, especially in recordkeeping, and poor communication among the various units and functions within the Institution, which created significant vulnerabilities.

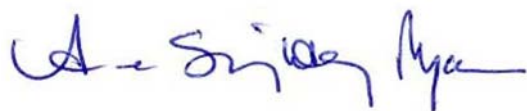
We are pleased to report that the Institution responded to our findings swiftly and comprehensively, instituting or planning appropriate corrective actions to the extent allowed by

current resource levels. However, many actions critical to security at the Institution require significant further investments, investments the Institution cannot make without obtaining additional funding or cutting other priority programs.

During this period, we also received 30 new complaints, closed 32 investigative matters, and maintained a steady schedule of fraud prevention briefings throughout the Institution. Our work also led to the de-obligation of over \$117,000 in funds that could be put to better use.

We continue to be concerned that our office's resources are below levels needed to fulfill our congressional mandate and address the needs of the Smithsonian. We recognize that the entire Institution suffers from resource limitations, but note that given the size of the Institution's appropriations, the complexity of its operations, and the ambitious facilities capital plans underway, we can only begin to provide adequate oversight.

We are proud to be part of an Institution dedicated to the increase and diffusion of knowledge. As always, we are grateful to Smithsonian management, especially Secretary Small and Deputy Secretary and Chief Operating Officer Burke, whose efforts have contributed greatly to the results we are reporting. We also appreciate the continuing interest of the congressional oversight committees with whom we work. Finally, we thank the Audit and Review Committee of the Board of Regents for their commitment and support.



Anne Sprightley Ryan
Acting 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.

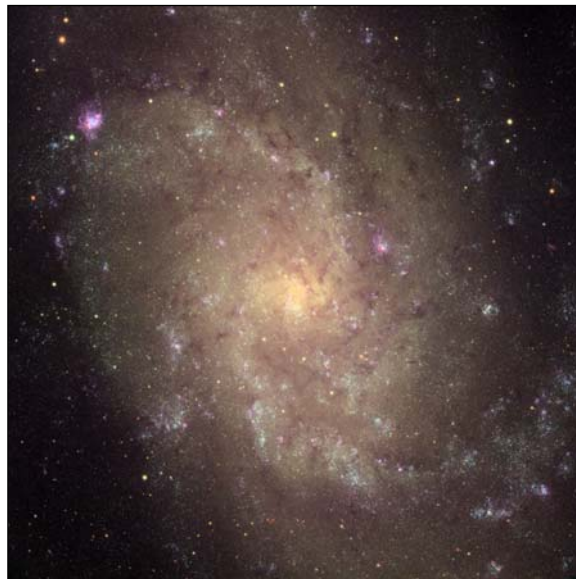
Since its inception in 1846, the Smithsonian has expanded from the lone castle building to an extensive museum and research complex that today includes 19 museums and galleries, the National Zoological Park, and research centers around the nation’s capital, in eight states, and in the Republic of Panama. 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 2004-2008 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*



This June 2006, photograph of the Triangulum galaxy was taken with the Megacam at the Smithsonian Astrophysical Observatory and University of Arizona's Multiple Mirror Telescope. SAO astronomers developed the Megacam.

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 is a unit within the Smithsonian, but it operates independently from all other units and reports directly to the Smithsonian Board of Regents and to Congress.

The OIG currently has 14 employees, including auditors, analysts, criminal investigators, and support staff.

Audit Division

The Audit Division independently audits the Smithsonian's programs and operations, including financial systems, to assist management in promoting economy, efficiency, and effectiveness. The work of this division is guided by an annual Audit Plan which identifies high-risk areas for review to provide assurance that the Institution's programs and operations are working efficiently and effectively. Starting with this fiscal year (FY 2006), 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, two audit managers, four auditors, and two analyst positions (one remains vacant). In addition, we recently filled a third audit manager position to provide quality assurance oversight of the external financial statement auditors. At the direction of the House Appropriations Interior, Environment, and Related Agencies Subcommittee, we will be hiring two auditors to conduct audits of the Kennedy Center's capital projects.

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 maintains liaisons with federal and state prosecutors and 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. The Investigation Division also identifies fraud indicators and recommends measures to management to improve the Institution's ability to protect itself against fraud and other wrongdoing.

The Assistant Inspector General for Investigations (who also serves as also Counsel to the Inspector General) and two Senior Special Agents 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. As Assistant Inspector General for Investigations, the Counsel advises on criminal law and procedure, evidence, and constitutional law as they relate to the OIG's investigative program. The Counsel also reviews and comments on existing and proposed legislation concerning the Smithsonian, as well as Smithsonian policies and directives.

The Counsel to the Inspector General position is temporarily vacant.

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 three significant audits on security issues; worked with management to close 28 recommendations; assumed formal oversight of the Institution's annual financial statement audit; completed substantial work on ongoing audits; and developed and published our audit plan for fiscal year 2007.

Summary of Audit Accomplishments

Reports

We issued three reports that resulted in improved procedures for removing employee and contractor access to non-public areas of Smithsonian facilities when their employment was terminated; strengthened management of background investigations and suitability

determinations for Smithsonian employees and contractors; and enhanced physical security controls over the collections at the National Museum of Natural History as well as assurances of improved inventory controls.

Summaries of these reports follow.

Access Controls (M-05-05)

To protect property and collections and provide a safe, secure environment for its employees and visitors, the Smithsonian relies in part on its electronic access control systems. We initiated this review to assess the effectiveness of these access controls, which are critical to ensure that employees and contractors who have left the Institution no longer have access to non-public areas of Smithsonian facilities.

We concluded that employees who left the Institution generally returned their ID badges and proximity cards; however, the Smithsonian's Office of Protection Services (OPS) was not always vigilant in removing programmed access to facilities. Of the 118 terminated employees we sampled, we found that 7 percent did not return their ID badges/proximity cards. All but one retained electronic access to non-public areas in various Smithsonian buildings, including collections storage areas. These employees did not submit properly completed exit clearance forms, and department heads did not ensure that exit clearance procedures were followed. In addition, 15 percent who had promptly returned their ID badge/proximity cards did not have their electronic access completely removed.

We also found that, according to access control records, a significant number of terminated contractors still had access to Smithsonian facilities. Of the 73 contractors reviewed, 29 percent had unexpired badges, of which 11 percent also had active proximity cards providing electronic access to Smithsonian facilities after their departure date. The Institution had no standardized process for returning contractor ID badges and proximity cards and relied on department heads and Contracting Officer's Technical Representatives to terminate contractors' access.

In addition to the weaknesses in the exit clearance process, OPS generally did not review system records periodically to ensure access was removed when individuals left the Institution. Moreover, OPS did not maintain historical information on badges and building access issued to separated individuals, information that would be needed should law enforcement action be necessary.

We recommended that OPS revise written policies and procedures to clarify where to surrender employee and contractor badges and proximity cards, and specify responsibility for returning contractor badges and proximity cards. We also recommended that OPS provide department heads with access system reports to identify separated employees and contractors and ensure that records for separated employees and contractors are disabled instead of deleted from access control systems. Management agreed with our analyses and recommendations and proposed an implementation plan that responds to our recommendations.

Employee and Contractor Screening Measures (A-05-07)

We initiated this audit because recent OIG criminal investigations identified employees with backgrounds unsuitable for their positions, raising concerns about the effectiveness of the Institution's screening of potential employees and contractors.

According to OPS records, only 51 percent of the 1,903 employees who were hired between October 1, 2003 and April 30, 2005 and required background investigations received one. Almost half of the Smithsonian's senior-level employees did not have background investigations. In addition, 81 percent of the 535 contractors hired between June and December 2005 had no record of a background investigation, even though OPS began screening contract employees in June 2005.

In addition, the Smithsonian had not identified which employee or contractor positions should have pre-appointment background investigations, although Smithsonian policy recommends that pre-appointment background investigations be considered for individuals in sensitive curatorial, information technology and financial positions. Further, volunteers, researchers, and interns who often have the same access to collections items as the Institution's employees and contractors were not required to be screened.

When background investigations raised significant suitability issues, such issues generally were not properly adjudicated. Of the employees we sampled whose Office of Personnel Management background investigations disclosed questionable backgrounds, 20 percent had significant suitability issues such as convictions or arrests for theft, drug use and distribution, or assault and battery. OPS did not maintain any records to indicate that the suitability issues for these individuals were properly adjudicated.

To implement Homeland Security Presidential Directive 12, which imposes new identity-proofing standards government-wide, the Smithsonian will have to significantly improve its identification of high-risk positions, processing and tracking of investigations, adjudication of suitability issues, and record-keeping practices.

We made 18 recommendations to strengthen management of the background screening program, including pre-screening prospective employees for all designated positions; improving documentation procedures; performing background investigations for certain volunteers and visiting researchers; and establishing closer supervision over the adjudication of suitability determinations. Management generally concurred with our findings and recommendations and proposed a detailed implementation plan that responds to our recommendations.

Audit of Physical Security and Inventory Control Measures to Safeguard the National Collections at the National Museum of Natural History (A-05-06)

We initiated this audit because prior OIG and Office of Policy and Analysis studies have shown that the Smithsonian's collections are increasingly at risk of theft or loss. Our objectives were to determine whether physical security was adequate to safeguard the collections, and inventory controls were in place and working adequately.

We concluded that physical security, access, and inventory controls should be strengthened to reduce the risk of theft, loss, or damage to NMNH's collections. Although security was adequate in some departments, several areas needed improvement. Missing or inoperative security devices could allow non-staff access to the collections. We also noted improperly secured doors; missing and inoperable card access readers; areas without alarms or with non-functioning alarms; unlocked cabinets; and an insufficient number of cameras or other devices to monitor individuals working in high-value collections areas.

Further, a significant portion of NMNH's collections were stored in unlocked cabinets or in locked cabinets in storage areas where the keys were poorly controlled. NMNH lacked a policy governing the use of keys. Also, security officer coverage of the collections areas has been significantly reduced and in-person response to alarms has been inadequate. OIG staff successfully entered collections storage areas, accessed collections, and exited through perimeter doors undetected.

Contractors, researchers, volunteers, maintenance staff and visitors were often left alone in collections areas without supervision. Unlike in some private museums' collection areas, visitors' and employees' bags were not screened. Compounding these problems, inventory



Butterfly collections at the National Museum of Natural History.

policies, plans, controls, and records were inadequate or nonexistent. These weaknesses make it difficult to account for items and their location, thereby increasing the risk of loss or theft. They also mean that collections may not be readily accessible to researchers, educators, and other users. Management cited staff shortages and budget constraints as the primary reasons for the problems we identified.

We made 11 recommendations to strengthen physical security and inventory controls at NMNH. We recommended that OPS prioritize and schedule the repair and replacement of security devices in NMNH collections storage areas; conduct a security assessment at MSC; and stress requirements for in-person security officer response to alarms. We also recommended that the Director of NMNH implement controls over keys and non-staff access to collections areas; finalize the museum’s Collections Management and Inventory Policies; conduct a complete inventory of all gems and minerals; require specific inventory goals in management performance plans; and develop a plan to convert all inventory records to electronic records. Management concurred with our findings and will implement responsive actions.

Table 1 lists the audit reports and management advisory reports issued during the period.

Table 1: List of Issued Audit Reports and Management Advisories

Report Number	Title	Date Issued
A-05-06	Physical Security and Inventory Control Measures to Safeguard the National Collections at the National Museum of Natural History	9/29/2006
A-05-07	Employee and Contractor Screening Measures	8/21/2006
M-05-05	Management Advisory on Access Controls	7/25/2006

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 28 of the 47 recommendations that were open at the beginning of the reporting period. These recommendations included strengthening IT security practices, improving separation of duties of employees in offices of the Chief Financial Officer, and performing timelier contract close-out procedures.

Table 2 summarizes audit recommendation activity.

Table 2: Audit Recommendation Activity

Status of Recommendations	Numbers
Open at the beginning of the period	47
Issued during the period	32
Subtotal	79
Closed during the period	28
Open at the end of the period	51

Management actions to close out old contracts resulted in the de-obligation of over \$117,000 in funds that could be put to better use, as detailed in Table 3, below.

Table 3: Audit Reports 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	1	\$519,823*
Reports issued during the reporting period	0	\$0
<i>Subtotal</i>	1	\$519,823*
Reports for which a management decision was made during the reporting period		
• Dollar value of recommendations that were agreed to by management	1	\$117,117*
• Dollar value of recommendations that were not agreed to by management	1	\$402,706*
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

* We identified 66 contracts that had no voucher activity for 18 months in our September 15, 2005 report, *Unliquidated Obligations Associated with Federal Capital Funds* Number M-05-02. Twenty-seven contracts had been closed prior to this semiannual period, which began April 1, 2006. \$519,823 represents the funds associated with the remaining 39 contracts. During this semiannual period, management continued its examination of these contract files and closed 17 additional contracts totaling \$117,117. Management determined that the remaining 22 contracts, totaling \$402,706, should be properly classified as active.

While management made considerable progress in closing old recommendations, 19 recommendations made in prior semiannual periods remained open at the end of this reporting period. Of those recommendations, five are over 2 years old, three of which are over 3 years old. We summarize these open recommendations from prior semiannual periods and their target implementation dates in Table 4.

**Table 4: Prior Recommendations for which Corrective Actions
Are Not Yet Complete**

Audit Title and Date	Number of Recs	Summary of Recommendations	Target Date
American Indian Museum Move Project (October 2, 2001)	1	The Director should strengthen physical security.	10/31/2006
National Museum of the American Indian Information Systems (January 17, 2003)	1	The Director should replace the Registrar's Office Windows NT network.	9/30/2006
Project Management of the Steven F. Udvar-Hazy Center (July 31, 2003)	1	The Chief Financial Officer (CFO) should complete the process of developing and implementing user requirements to monitor large projects using the enterprise resource planning (ERP) system.	4/28/2006
Steven F. Udvar-Hazy Center Business Activities (August 25, 2004)	1	The CFO for Smithsonian Business Ventures (SBV) should ensure that his staff develops written procedures for monitoring contractor performance.	3/1/2006
Information Systems Controls at the National Museum of Natural History (September 9, 2004)	1	The Director of the National Museum of Natural History should relocate web servers to a secure network location.	12/31/2007
National Air and Space Museum Mall Simulators (February 25, 2005)	4	The CFO of SBV should develop and implement policies and procedures for contractor selection, and follow up on intra-institutional receivables and the recording and reviewing of accounting entries; and, in coordination with the Director of the Office of Facilities Engineering and Operations (OFEO), refine responsibilities for payment of utilities expenses.	5/1/2005 through 3/1/2006
National Zoological Park Information System Controls (July 27, 2005)	2	The NZP Chief of Information Technology should, with the Office of the Chief Information Officer (OCIO), develop a disaster recovery plan; develop a project plan and schedule for the completion of the migration of the Zoo servers to Active Directory; and perform a post-implementation vulnerability assessment on the new operating system to determine whether any security weaknesses exist.	10/30/2006

Management Advisory Review of Unliquidated Obligations (September 15, 2005)	2	The Director of the Office of Contracting should work with OFEO to remove contracts with zero balances from the financial system and contact units when contractual performance periods are completed to determine whether unliquidated obligations are needed. Based on unit responses, the CFO should certify in annual appropriations requests that obligated amounts are accurate and represent valid liabilities.	12/31/2006 and 3/31/2007
Bank Reconciliations (September 28, 2005)	1	The Comptroller, in collaboration with the units, should establish an oversight process for ensuring that revenues are accurately recorded and reviewed.	2/28/2007
Administration of Changes to Major Facilities Design and Construction Contracts (September 29, 2005)	1	The Director of OFEO should work with OCon to have a contracting officer detailed to work on-site with COTRs from OFEO for large-scale projects.	2/1/2006
Internal Control Weaknesses in Cash Management and Banking Activities (February 14, 2006)	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.	3/31/2007
Review of Smithsonian Institution Information Security Practices (February 16, 2006)	2	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. The CIO should also ensure that in FY 2006 individuals identify course titles, hours, and completion dates of specialized IT training to provide assurances that NIST training requirements are satisfied.	7/30/2006 and 12/31/2006

Oversight of Financial Statement Auditors

Beginning with the FY 2006 audit, the OIG has 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 will strengthen assurances that the external auditor's report and conclusions are reasonable. We will continue to rely on external auditors for the audited financial statements, but will review the audit documentation, evaluate key judgments, and perform supplemental tests, as needed, to express concurrence with the external audit opinion.

Work In Progress

Friends of the National Zoo Revenue Operations

At the request of the National Zoo's Deputy Director, we are conducting an audit to assess whether Friends of the National Zoo (FONZ) is managing the National Zoo's revenue operations in the most efficient and profitable manner. FONZ, a nonprofit organization, provides the food concessions, runs the retail gift shops, manages the parking facilities, runs membership and volunteer programs, and performs



Asian small-clawed otters can be seen on the new Asia Trail at the National Zoological Park.

fundraising for the zoo. We met with FONZ's external auditors to discuss the organization's most recent financial statement audit and related internal control issues as well as to review their workpapers. We visited seven other zoos to obtain insights on what the industry has done to maximize revenues and distributed a survey to other zoos to obtain pertinent financial and visitor data for benchmarking the financial performance of FONZ.

Executive Compensation

As a result of heightened congressional and public interest, we initiated an audit of executive compensation at the Smithsonian and in particular at its revenue-generating unit, Smithsonian Business Ventures (SBV). The objectives of the audit are to assess (1) how the Institution and SBV establish and document executive compensation levels and bonuses, (2) whether actual payments are in compliance with compensation procedures and agreements, and (3) the sources and reliability of the revenues and other performance data used to calculate salary increases and bonus payments at SBV. In addition, we are examining SBV's accounting and oversight of its contractors to determine whether SBV has accurate records supporting contractor-related revenues and expenses and whether SBV is promptly collecting net proceeds owed the Institution.

We are doing this audit in two phases. The initial phase focuses on the first two objectives and also includes a survey of compensation-related accounting practices. By the end of this semiannual period, we had substantially completed the field work on this first phase.

The second phase will include a more detailed review of SBV's compensation-related accounting practices, as well as of SBV oversight of revenues and expenses reported by its contractors.

In addition, the OIG is overseeing a review by outside auditors of the compensation and expenses of the Secretary of the Smithsonian and the Chief Executive Officer of SBV, a review requested by the Secretary and by the Audit and Review Committee of the Board of Regents.

Oversight of Information Security Program

We have engaged an outside consultant to perform an evaluation of the Institution's information security program and compliance with the Federal Information Security Management Act (FISMA) as well as focused assessments of two of the Institution's major IT systems. 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. In accordance with Office of Management and Budget reporting guidelines for FY 2006, we forwarded our completed Inspector General FISMA template to the Secretary for inclusion in the Institution's reporting package due in early October.

The two major information systems we selected for review are the Institution's IT infrastructure, commonly referred to as the general support system, and the Development and Membership Information System (DMIS). DMIS is a pan-Institution service that supports constituency research, prospect management, gift recording, membership, and other related development services. We plan to issue three separate reports detailing the findings and associated recommendations for the FISMA evaluation and the assessments of two major IT systems.

FY 2007 Audit Plan

In September 2006, we published our FY 2007 Annual Audit Plan, which is available on our website, <http://www.si.edu/oig>. We have considerable carryover audit activity from the current year, resulting from heightened congressional interest in the area of executive compensation as well as our recently acquired role of providing oversight to the Institution's external financial statement auditors. We also note that several of the audits planned for FY 2007 were originally in last year's audit plan; we were unable to begin them because of resource constraints as well as the shift in priorities. Nonetheless, we plan to initiate audits in FY 2007 that will examine:

- Oversight of capital projects
- Management of the workers' compensation program
- Progress in addressing facility safety issues
- Management of National Collections storage needs
- Recordkeeping and preventative care practices at the National Zoo
- Information technology security

Investigations

During the reporting period, we received 30 complaints and closed 32 complaints and cases, resulting in \$2,105 recovered, 2 terminations, 3 resignations, and 2 admonishments. We also delivered five fraud presentations to various audiences throughout the Institution. Our special agents received full law enforcement powers from the Department of Justice and were sworn in as Special Deputy U.S. Marshals.

Of concern, the Institution suffered a spate of travel card and purchase card fraud incidents, both domestically and overseas. Potential losses of over \$72,000 were mitigated through a vigilant oversight system instituted by the Office of Contracting. The OIG is working with law enforcement organizations and bank fraud investigators to pursue these crimes.

Summary of Investigative Activity

Computer Intrusion at the Institution

The OIG, working jointly with the Federal Bureau of Investigation, conducted an investigation of a major computer intrusion into the Institution. Hackers from an overseas location identified an Institution computer server that had a large amount of unused data space and began to exploit that space by providing downloaded movies and music to other users. The target of the investigation moved to another overseas location, precluding prosecution by U.S. authorities. The security weakness was identified and corrected.

SI Employee Guilty of Theft of Federal Funds

OIG agents worked with the Social Security Administration (SSA) OIG in an investigation into theft of SSA checks. The investigation determined that an SI employee, working with her sister, unlawfully obtained SSA checks that had been sent through the mail and deposited them into

their own personal bank accounts. The SI employee resigned after being arrested by OIG agents and subsequently pled guilty.

Movement of Valuable National Collection Items

The OIG received information that SI employees were moving valuable items from the National Collection for official purposes without following established procedures and thereby substantially increased the risk of theft or loss of the items. The employees admitted violating the rules, but claimed that the procedures were too cumbersome and that resources did not always allow for the procedures to be followed. As a result of our inquiry, organizational elements came together to draft new procedures to ensure that the national collection items could be moved for official purposes more efficiently and securely.

Theft of Smithsonian Funds

OIG agents investigated an administrative employee who had collected \$822 cash on behalf of the Institution to deposit in a Smithsonian account. The employee failed to do so and, when confronted, returned the money. Prosecution was declined. The employee resigned in lieu of termination.

OIG agents investigated an employee of a Smithsonian vendor who had access to a Smithsonian Purchase Card number and used that card number to pay a personal bill. The vendor terminated the employee, all monies were returned through the bank and prosecution was declined.

The following table summarizes complaint activity for this reporting period:

Table 5: Summary of Complaint Activity

Status	Numbers
Open at the start of the reporting period	33
Received during the reporting period	30
Subtotal	63
Closed during the reporting period	32
Total complaints pending	31

Data Mining

OIG agents continue to refine our data mining tools and techniques and recently expanded our search capabilities in both internal Institution databases and external databases, such as those of Smithsonian banking and credit card partners. On several occasions, our agents have used their data mining tools to assist auditors in analyzing and combining databases for their audit research.

The following table summarizes investigative activity for this reporting period:

Table 6: Summary of Investigative Caseload, Referrals, and Results

Investigations	Amount or Number
Caseload	
Cases pending at beginning of reporting period	2
Cases opened during the reporting period	1
Subtotal	3
Cases closed during the reporting period	3
Cases carried forward	0
<hr/>	
Referrals for Prosecution	
Pending at the beginning of the period	0
Referred for prosecution	4
Pending at the end of the period	0
<hr/>	
Successful Prosecutions	
Convictions	0
Fines	0
Probation	0
Confinement	0
Monetary Recoveries and Restitutions	0
<hr/>	
Administrative Remedies	
Terminations	2
Resignations	3
Reprimands or admonishments	2
Reassignments	0
Demotions	0
Revocation of privileges	0
Suspensions	0
Monetary loss prevented	\$72,128
Funds Recovered	\$2,105
<hr/>	

Other OIG Activities

We continue to pursue several initiatives that will enhance the OIG's contribution to the Smithsonian Institution. These efforts will improve communication and cooperation between Institution components and the OIG, increase the OIG's efficiency, and expand our reach and impact in combating fraud, waste, and abuse.

Fraud Awareness Program

We continue our effort to reach out to Institution staff to acquaint them with our fraud awareness program—a cornerstone in our efforts to prevent and detect waste, fraud and abuse and promote economy, efficiency and effectiveness at the Smithsonian. During this semi-annual period, we made five fraud awareness presentations throughout the Institution, including the Smithsonian Astrophysical Observatory in Cambridge, Massachusetts, reaching about 200 employees and officials.

We explained our office's mandate and role as it relates to the programs and operations of the Smithsonian; defined fraud and its costs; illustrated how fraud can be perpetrated and what can be done to prevent it; and how to report it to our office. Each presentation also contained tips and other information tailored to the particular audience.

By raising awareness of fraud indicators and potentially fraudulent activity, our fraud awareness program has increased our office's visibility and profile within the Institution and engaged Smithsonian staff in the OIG mission. These efforts have contributed to the substantial increase in the number of individuals who have brought issues to our attention through the hotline and other means. We will continue making these presentations, expanding our efforts to include museum, research, curatorial, non-financial departments and other areas of the Institution.

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.

During this period, we reviewed and commented on draft revisions to a number of major Smithsonian Directives. Most significantly, we provided comments on revisions to the new Vehicle Management Directive, clarifying the role of the OIG when abuses in vehicle use are found, and on new Technical Notes issued by the Office of the Chief Information Officer.



Morse/Vail telegraph key, 1844. The telegraph key Samuel Morse used on his first line in 1844 was very simple--a strip of spring steel that could be pressed against a metal contact. This telegraph key is part of the collection of the National Museum of American History, which is closed for renovations until the summer of 2008. Smithsonian Photo by Alfred Harrell.

Office of the Inspector General
HOTLINE
202-275-1671

or

<http://www.si.edu/oig/form.htm>

or write to

Smithsonian Institution OFFICE OF THE INSPECTOR GENERAL
MRC 905, WASHINGTON, DC 20560-0905

IF REQUESTED, ANONYMITY IS ASSURED TO THE EXTENT PERMITTED BY LAW. INFORMATION IS CONFIDENTIAL