

SEMIANNUAL REPORT TO CONGRESS

October 1, 2008 to March 31, 2009



Smithsonian Institution
Office of the Inspector General

Front cover:

“Sacred Rain Arrow”

Allan Houser

1988

Bronze

National Museum of the American Indian, Smithsonian Institution

Image credit: Steven K. Uejo

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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 March 31, 2009. In it, we highlight our efforts to improve the economy, efficiency, and effectiveness of Smithsonian Institution programs and operations, and to prevent and detect waste, fraud and abuse.

During this semiannual period, we issued 4 audit reports, 1 review, and our oversight letter on the Smithsonian's financial statement audit. In our audits, we found over \$7 million of funds be put to better use. We made 41 recommendations to improve information security and to increase the effectiveness of travel oversight and the workers' compensation program. On the investigative side, we received 48 new complaints – a significant increase over previous periods that we believe reflects the success of our expanding outreach efforts – and we opened 3 new cases, and closed 47 complaints and 5 cases. As a result of our investigative work, three employees resigned, over \$1 million of losses were prevented, and one former employee was sentenced to 5 years' probation and ordered to pay over \$85,000 in restitution to the government.

We continue our use of management advisories, a key tool for alerting management to issues we have come across during audits, reviews and investigations. These issues generally do not require in-depth review, but we report them to management so that the weaknesses may be addressed promptly. During the past six months we issued six such advisories. For the most part, management has acted to mitigate the risks that we identified in these advisories and thereby improved the operational and ethical environment of the Institution.

We are pleased to report that the Institution generally accepted our audit findings and recommendations and we commend Smithsonian management for implementing or planning appropriate actions to resolve numerous open recommendations to the extent allowed by current resource levels. However, we note that corrective actions recommended in an audit from a semiannual period that ended over two years ago, and which is critical to

security at the Institution, require significant further investments, investments the Institution cannot make without obtaining additional funding or cutting other priority programs. We also remain concerned about the Institution's insufficient financial and other administrative resources, including resources for training personnel in those areas, which in part account for the weaknesses in management controls that continue to hamper the Smithsonian's efficiency and accountability. We have expressed this concern in various audits over the last 5 years, and the Institution's external auditors have noted these deficiencies for the past 3 years. The Institution must address these issues so that it can attain the management excellence necessary to accomplish its unique mission.

We are proud to be part of an Institution dedicated to the increase and diffusion of knowledge. We are grateful for the work of Smithsonian management, especially the Secretary, Wayne Clough, in improving the Smithsonian. We also appreciate the continuing interest of the congressional oversight committees with whom we work. Finally, we thank the Audit and Review Committee and the entire Board of Regents for their commitment to and support of our mission.



Anne Sprightley Ryan
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. It is the largest museum and research complex in the world.

Federal appropriations provide the core support for the Smithsonian’s science efforts, museum functions and infrastructure; support supplemented by trust resources, including external grants and private donations.

Organizational Goals and Strategic Direction

To support the Smithsonian's mission, the Regents approved the following overall organizational goals for fiscal year 2009 as developed by the Secretary:

Planning for the Future

1. Develop an Institution-wide strategic plan, incorporating input from all Smithsonian units and representatives of stakeholder groups, to chart a future course for the Institution.
2. Initiate a national fundraising campaign.
3. Increase funds raised or earned from existing sources and develop new ideas to generate revenue from our collections, expertise and programs in ways that further the Smithsonian mission and enhance the Smithsonian's reputation.

Advancing Our Mission

4. Encourage and produce outstanding research in the sciences, history, arts and culture that builds upon Smithsonian collections and areas of intellectual expertise.
5. Produce excellent museum exhibits and educational programs and develop innovative ways to diffuse knowledge by enhancing and expanding our national and international outreach efforts and by harnessing technology to reach new and more diverse audiences.

Preserving Our Treasures

6. Improve the condition of the Smithsonian's physical infrastructure by addressing all the existing facilities maintenance and revitalization needs that can be met with the funds currently available and by identifying new sources of revenue to address needs in future years.
7. Strengthen collections care and management and make progress on digitization goals.

Aspiring to Best Work Place Practices

8. Promote diversity in all aspects of the Institution's operations
9. Implement and communicate efficient, rational and creative operational and administrative practices that enable staff to support the advancement of the Smithsonian mission while ensuring resources are wisely managed in a manner that reflects the Smithsonian's status as a public trust.
10. Build upon the existing relationships with our stakeholders (e.g., Congress, donors, peer institutions, public) and develop new relationships that enhance the reputation of the Smithsonian and increase awareness of our programmatic activities.
11. Improve communications to internal stakeholders and acknowledge and recognize staff's outstanding performance and achievements.

The Secretary has initiated a strategic planning process, scheduled to be completed this year, that will likely adjust these strategic goals.

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 reports directly to the Smithsonian Board of Regents and to the Congress. Currently, the OIG has 18 full-time and 2 part-time employees.

Audit Division

The Audit Division independently audits the Smithsonian's programs and operations, including financial systems, guided by an annual Audit Plan that identifies high-risk areas for review to provide assurance that the Institution's programs and operations are working efficiently and effectively. 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 Audits, three project managers, eight auditors, and one analyst.

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 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. It also identifies fraud indicators and recommends measures to management to improve the Institution's ability to protect itself against fraud and other wrongdoing. Two Senior Special Agents, with full law enforcement authority, 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.

Audits and Reviews

Our audits and reviews address two of the Institution's four current overall organizational goals: ***Preserving Our Treasures*** and ***Aspiring to Best Work Place Practices***. Specifically, we are focusing on the following high-risk areas:

- Modernization of financial management and accounting operations
- Management of capital assets
- Security of the IT infrastructure
- Contract administration
- Security and care of the national collections
- Safety and environmental management

To this end, during the past semiannual period we completed four audits and one review; worked with management to close 44 recommendations; and completed substantial work on ongoing audits.

Summary of Audit Accomplishments

Federal Information Security Management Act Audits

The Federal Information Security Management Act of 2002 (FISMA) directs the Office of the Inspector General to conduct annual evaluations of the information security program of the Institution, which is critical to protecting the Institution's mission. FISMA sets forth federal information security compliance criteria, including annual assessments, certification and accreditation of systems, and system security plans. The Institution voluntarily complies with FISMA requirements because it is consistent with its strategic goals.

During this semiannual period we oversaw audits of a subset of systems as required by FISMA.

National Museum of Natural History Electronic Museum Application

Overall, we determined operational, management, and technical controls for the National Museum of Natural History (NMNH) Electronic Museum (EMu) application were in place and operating effectively. While management has complied with the majority of Smithsonian, Office of Management and Budget, and National Institute of Standards and Technology requirements, we did identify several areas where they need to make improvements.

We made recommendations to strengthen controls over the EMu application by enforcing Institution policies, procedures, and practices for strengthening software development life-cycle procedures; moving certain servers to a secured location; ensuring that third-party contractors complete security awareness training and sign rules of behavior agreements; and documenting and implementing required security controls including strengthening passwords, user account management, and logging and monitoring system activities.

The Smithsonian Institution's Information Security Practices

We completed our annual evaluation of the Institution's overall information security program and practices to determine their effectiveness, as required by FISMA. While the Institution has made progress in complying with information security requirements, additional work remains to ensure adequate controls are in place and operating effectively.

We made recommendations to ensure that management adopts policies addressing general security awareness training for all personnel; fully implements Federal Desktop Core Configuration requirements; includes OIG findings on system POA&Ms; re-assesses the risk of consolidating major systems within a single accreditation boundary; develops E-authentication risk assessments for non-major systems; and requires signatures on all certification and accreditation documents.

Workers' Compensation Program

In the second of two audits covering the Institution's workers' compensation program,¹ we found that the Smithsonian generally failed to verify the accuracy of chargeback reports, conduct periodic reviews of workers' compensation cases, or develop and implement a return to work program. There was no coordinated oversight by Smithsonian organizations involved in the process. Other weaknesses in the program included inadequate policies and procedures.

We identified 327 cases for which the Institution paid \$3,833,955 in compensation and medical payments during chargeback year (CBY) 2007 (July 1, 2006 to June 30, 2007). Of those, we reviewed 92 cases of claimants receiving Office of Workers' Compensation Programs (OWCP) payments totaling about \$2,961,263. We found problems with 46 of the 92 cases in our sample.

Prior to CBY 2007, the Office of Human Resources had not received quarterly chargeback reports and therefore had never verified the accuracy of these reports, nor had it distributed chargeback information to unit supervisors for review and confirmation. Without this verification, the Smithsonian increased the risk that discrepancies would go undetected and result in erroneous payments. These discrepancies could linger for many years, adding significant costs to the Smithsonian's workers' compensation program.

¹ In the first audit, issued July 18, 2007 (see our October 2008 Semiannual Report, page 5), we examined the Institution's implementation of the continuation of pay phase of the workers' compensation program.

The Smithsonian did not aggressively manage its periodic roll (PR) cases. Based on available OWCP documentation, we determined that there were potential problems with 29 (or 48%) of the PR cases we reviewed. These potential problems included outdated or incomplete medical reports; possible overpayments; lack of cooperation with vocational rehabilitation specialists or refusal of job offers; and possible fraud.

Based on available OWCP documentation, we also identified 17 cases where claimants did not return to work, although medical evidence at the time no longer supported their claim of a work-related disability. We noted that the magnitude and escalation of the Institution's workers' compensation costs, management needs to invest in a comprehensive return-to-work program.

Finally, from these problem cases we identified eight examples where, if the claimants were removed from the workers' compensation rolls, the Institution could avoid up to \$7.3 million in costs over the projected lifetimes of these claimants.

We made six recommendations to strengthen management of the workers' compensation program and reduce the Institution's workers' compensation costs. We recommended that the Institution revise policies and procedures pertaining to the workers' compensation program, seek corrective action from OWCP, conduct periodic reviews of case files, and develop and implement a pan-Institutional approach to return employees to work.

Audit of Travel Oversight

We conducted this audit at the request of Congress and the Board of Regents to follow up on prior reviews and investigations where we had found travel abuses by senior Smithsonian management.

We found that management could have more effectively overseen travel at the Smithsonian and reduced the Institution's risks and costs. Nonetheless, despite weaknesses in oversight, for a significant majority of the trips we reviewed, Smithsonian executives traveled within the rules.

Although the Smithsonian has been strengthening controls as part of its overall governance reform efforts, its policies and procedures governing travel were not always adequate to ensure Smithsonian travelers complied with applicable laws and regulations. Key controls for managing travel were not always operating properly in the units. We found that:

- Smithsonian officials often approved the use of actual expenses that exceeded lodging per diem limits. Although allowed by the Federal Travel Regulation, this practice may have increased travel costs unnecessarily.
- Prior to mid-2007, under the old Travel Manager System, Smithsonian officials routinely approved, without adequate justification, the use of actual expenses that exceeded lodging per diem. The number of such approvals declined under the new GovTrip travel system.

- Travelers did not always adequately document or obtain required approvals for sponsored travel.
- Subordinates approved authorizations and vouchers. The number of such improper approvals declined after the Smithsonian strengthened written travel procedures in May 2007.

Smithsonian executives generally traveled for authorized purposes and for reasonable amounts. The Regents traveled for authorized purposes and generally submitted travel expenses that were reasonable.

Senior-level travelers generally paid their travel card obligations timely.

We also observed other shortcomings with travel oversight which, while not critical, deserve management attention. We found travelers did not always provide, and approvers did not always require, proper supporting documentation; did not always take advantage of the Smithsonian's tax exempt status; and did not always use the government travel card while on travel.

We also found that some Smithsonian executives were frugal. Moreover, we found almost no instances of misuse by travelers other than those this office has already reported on separately.

We made five recommendations to strengthen procedures and oversight: that management encourage use of per diem rather than actual expenses; expand post-travel compliance reviews; revise procedures to define more precisely what circumstances constitute adequate justification for actual expenses; ensure compliance with sponsored travel procedures; and verify that employees with approval authority are not subordinates of the travelers.

Oversight of Financial Statement Auditors

Because of our limited resources, we contract with external auditors to conduct the Institution's annual financial statement audits. We provide oversight of the audits and in so doing review planning documents, internal control documentation, workpapers, and reports. We also evaluate key judgments, provide guidance where necessary, analyze findings, and evaluate corrective actions from previous audits.

Quality Assurance Letter on the External Audit of the Smithsonian Institution's FY 2008 Financial Statements

As part of our oversight of the Institution's FY 2008 annual financial statement audits, we issued a quality assurance letter to the Regents' Audit and Review Committee summarizing our observations on the audits and suggesting improvements for the future.

The Smithsonian undergoes three separate financial statement audits each year. As described below, these audits include the federal special purpose audit, the Smithsonian-wide audit (both federal and trust funds), and the OMB A-133 audit of the Smithsonian's federal grants and contracts.

FY 2008 Federal Special-Purpose Financial Statements. On November 17, 2008, KPMG, the Institution's independent public accountant, issued an unqualified opinion on the FY 2008 federal special-purpose financial statements. KPMG reported no matters involving internal control that it considered to be material weaknesses. KPMG did report a significant deficiency² in internal control over financial reporting regarding the Office of the Comptroller's (OC) accounting resources and staff capacity, a condition KPMG also reported in its 2007 audit.

FY 2009 Smithsonian-wide Financial Statements. On January 30, 2009, KPMG also issued an unqualified opinion on the FY 2008 Smithsonian-wide financial statements, finding no matters involving internal control that it considered to be material weaknesses. KPMG did identify three significant deficiencies related to: (1) a lack of a formal evaluation process for certain contribution transactions; (2) dependence on manual processes in accounting for construction activities; and (3) incomplete accounting for restricted net assets.

KPMG's FY 2008 Management Letter, which accompanied its unqualified opinion, contained eight recommendations to correct the significant deficiencies. Smithsonian management agreed to take corrective actions on all recommendations. We noted that in KPMG's previous two Management Letters (FY 2006 and FY 2007) KPMG made a total of 42 recommendations, 33 (or 79%) of which management has fully resolved.

As part of this year's audit services, we requested that KPMG perform a special-purpose audit of Smithsonian Enterprises' (SE) "net gain"³ used in the calculation of annual SE incentive awards and for other Institution uses. Except for the effects of any adjustments that might have been necessary had KPMG been present to observe the opening inventory (which enters into the determination of cost of goods sold and net gain), KPMG concluded that SE presented fairly, in all material respects, its net gain for the period ended September 27, 2008. With regard to KPMG's internal control testing associated with the SE audit, KPMG reported three significant deficiencies related to: (1) systems access and segregation of duties; (2) inventory and sales return

² Significant deficiencies have the potential to adversely affect the Institution's ability to initiate, authorize, record, process, or report reliable financial data.

³ SE's "net gain" is roughly equivalent to what a business entity would call net income.

reserves; and (3) deferred promotion costs. SE management has implemented or plans to implement corrective actions that will resolve these deficiencies.

OMB Circular A-133 Audit. The Smithsonian's OMB Circular A-133 audit process is a coordinated effort between KPMG and the Defense Contract Audit Agency (DCAA). Generally, KPMG audits the direct costs of the Smithsonian's Washington, D.C.-based activities, while DCAA audits the direct costs of the Smithsonian Astrophysical Observatory in Cambridge, MA, as well as the indirect costs of the Smithsonian as a whole.

OMB Circular A-133 audit reports are not published until approximately 9 months after the Smithsonian's fiscal year end. As a result, FY 2008 results are unavailable. However, for FY 2007, KPMG gave the Smithsonian an unqualified opinion on its Supplementary Schedules of Expenditures of Federal Awards. In addition, KPMG gave the Smithsonian an unqualified opinion on its compliance with the requirements of OMB Circular A-133. KPMG reported one finding (with questioned costs for \$31,000) related to the Institution's Research and Development program, which the Smithsonian has since resolved.

DCAA also gave the Smithsonian an unqualified opinion on its Compliance with the Requirements Applicable to Major Programs and on Internal Control Over Compliance in accordance with OMB Circular A-133. DCAA identified three findings related to the Smithsonian's federal awards, two of which have been resolved.

Current Year OIG Comments and Observations

We observed in the FY 2008 financial statement audits that OC made significant improvements in the Institution's financial reporting and audit processes. Most notably, KPMG was able to issue the audit report on the Smithsonian-wide financial statements two weeks earlier than the FY 2007 report. Other improvements included: (1) Smithsonian operating units demonstrated greater understanding of and cooperation with the audit process; (2) operating units and OC improved the timeliness and reliability of the data they provided to KPMG; (3) OC provided KPMG with a draft set of financial statements with fewer errors in presentation and disclosure; (4) OC resolved a significant number of outstanding recommendations related to prior-year deficiencies; and (5) OC added six new staff members to support the audit.

The effect of these improvements showed in three performance indicators: (1) the number of significant deficiencies; (2) the number of resolved recommendations; and (3) the number of audit adjustments.

KPMG reported 11 significant deficiencies in FY 2006, seven in FY 2007, and three in FY 2008, a substantial drop over each of the three years. For the recommendations related to these deficiencies, OC resolved 33 (or 66 percent) of the 50 recommendations. Finally, after two years of nearly double-digit audit adjustments amounting to millions of dollars, KPMG recommended only three audit adjustments that had no impact on the Smithsonian's net assets. The reduction

in significant deficiencies, open recommendations, and audit adjustments all signal a significant improvement in the completeness and accuracy of the Smithsonian’s financial data.

Also, the Office of the Chief Financial Officer has agreed to complete corrective actions in FY 2009 on five open OIG recommendations, which we believe will further improve the effectiveness of the Smithsonian’s accounting and reporting process.

Prior Year OIG Comments and Observations

In our FY 2006 oversight letter, we discussed three areas that needed attention: (1) improving communications between the External Auditor and OC; (2) performing more interim testing; and (3) developing a plan for closing accounts and producing quarterly financial statements. The OC continues to make notable improvements in communications, but as yet has not made significant progress in the other areas.

In our FY 2007 oversight letter, we had recommended that Smithsonian management develop a comprehensive written plan that (i) collects the various recommendations and initiatives relating to financial controls into one strategic document; (ii) prioritizes the various tasks; (iii) maps out required resources to complete each task; (iv) assigns responsibility for accomplishing each task; and (v) stipulates interim and final delivery dates. We had also recommended that senior-level officials should closely monitor the Institution’s progress in accomplishing the plan’s objectives and provide regular progress reports to the Board of Regents.

In January 2009, in response to recommendation 23 of the June 2007 Report of the Regents’ Governance Committee, the OCFO presented to the Audit and Review Committee of the Board of Regents its draft ***A Plan for the Strengthening of Internal Controls*** (the Plan) which addresses many of the elements noted in the paragraph above. As the Plan states, “For the first time, the Institution has a comprehensive view of its internal control deficiencies, the actions required to address the problem areas, and a preliminary estimate of the remediation cost.”

* * * * *

Table 1 lists the audit reports and reviews we issued during this semiannual period.

Table 1: List of Issued Audit Reports and Reviews

Report Number	Title	Date Issued
A-08-04	National Museum of Natural History Electronic Museum Application	10/7/2008
A-08-02	Travel Oversight	1/23/2009
A-08-05	Fiscal Year 2008 Financial Statement Audit Oversight	3/5/2009
A-08-09	The Smithsonian Institution’s Information Security Practices	3/17/2009
A-07-09	Administration of the Workers’ Compensation Program	3/24/2009

Other Audit Activity

Status of Open Recommendations

Smithsonian managers made significant efforts during the last six months to implement many of the recommendations from audit reports we issued during the current and prior semiannual reporting periods. As a result, we closed 44 recommendations during the past six months, almost double the number we closed in the previous semiannual period.

Table 2 summarizes audit recommendation activity.

Table 2: Audit Recommendation Activity

Status of Recommendations	Numbers
Open at the beginning of the period	58
Issued during the period	<u>41</u>
Subtotal	99
Closed during the period	<u>44</u>
Open at the end of the period	<u>55</u>

Twenty nine of the closed recommendations reflect improvements to the Institution's information security. Six implemented recommendations brought improvements to contract monitoring and more accurate reporting of financial results at Smithsonian Enterprises. Implementation of one of our recommendations has resulted in 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. Three of the recommendations have helped to improve travel oversight. One recommendation has helped ensure that contractors more accurately report cash and credit card receipts, and another has helped establish oversight to ensure that revenues are accurately recorded and reviewed by the Comptroller's office. One recommendation has helped the CFO ensure that charges for banking services are valid and reasonable and in accordance with the Institution's banking agreements. Finally, implementation of two of our recommendations has helped the Friends of the National Zoo enhance revenue operations to better support the Zoo.

Tables 3 and 4 below detail management decisions regarding questioned costs and funds to be put to better use.

Table 3: Reports Issued with Questioned Costs

Reports	Number	Questioned	Unsupported
Reports for which no management decision has been made by the commencement of the reporting period	1	\$189,563	0
Reports issued during the reporting period	0	0	0
Subtotal	1	\$189,563	0
Reports for which a management decision was made during the reporting period			
• Dollar value of disallowed costs	0	0	0
• Dollar value of costs not disallowed	0	0	0
Reports for which no management decision has been made by the end of the reporting period	1	\$189,563	0
Reports for which no management decision was made within 6 months of issuance	1	\$189,563	0

Table 4: Audit Reports Issued 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	0	\$0
Reports issued during the reporting period	1	\$7,333,204
Subtotal	0	\$0
Reports for which a management decision was made during the reporting period	0	\$0
• Dollar value of recommendations that were Agreed to by management	0	\$0
• Dollar value of recommendations that were not agreed to by management	0	\$0
Reports for which no management decision has been made by the end of the reporting period	1	\$7,333,204
Reports for which no management decision was made within 6 months of issuance	0	\$0

While management made considerable progress in closing old recommendations, 31 recommendations we made in prior semiannual periods, primarily related to information security, remained open at the end of this reporting period. Of those recommendations, 2 are over 3 years old, 2 are over 2 years old, 15 are over 1 year old, and the remaining 12 are less than 1 year old. We summarize these open recommendations from prior semiannual periods and their target implementation dates in Table 5, on the next page.

**Table 5: Prior Recommendations for which Corrective Actions
Are Not Yet Complete**

Audit Title (Date)	Number of Recs	Summary of Recommendations	Target Date
Steven F. Udvar-Hazy Center Business Activities (8/25/04)	1	The Director of the Office of Contracting should ensure that his staff develops written procedures for monitoring contractor performance.	6/30/2009
National Air and Space Museum Mall Simulators (2/25/05)	1	The Director of the Office of Contracting should develop and implement written policies and procedures for contractor selection.	6/30/2009
Employee and Contractor Screening Measures (8/21/06)	1	The Deputy Secretary and COO should replace NACIS with a system that will better meet Institution requirements.	6/30/2009
Physical Security and Inventory Control Measures to Safeguard the National Collections at the National Museum of Natural History (9/29/06)	1	The Director, NMNH should direct the Department of Mineral Sciences to conduct a complete inventory and develop a follow-up plan to locate all missing objects.	4/17/2009
FY 2006 FISMA Review of the Smithsonian Institution's Information Security Program (4/20/2007)	2	The CIO should establish Institution-wide controls to ensure that major applications are not placed into production before formal certification and accreditation and formal authorization to operate; and establish procedures to ensure existing policies requiring the use of standard baselines are implemented and enforced.	6/15/2009 to 7/31/2010
FY 2006 Smithsonian Institution Network (SINet) Audit (8/10/07)	1	The CIO should enforce separation of duty controls noted in the SINet system security plan and specifically segregate system administration roles from security roles.	12/15/2009
Friends of the National Zoo Revenue Operations (8/28/07)	4	The Executive Director of FONZ should reevaluate the policy of allowing free parking for FONZ and Zoo employees and others; reexamine the unlimited free parking benefits enjoyed by FONZ members and consider limiting free member parking during peak months; and establish a more disciplined system for developing, approving, and documenting formal, written operational policies and procedures and ensure that policies and procedures are implemented as designed. The Board of Directors of FONZ should direct the Executive Director to document a thorough risk assessment and report to the Board on FONZ's system of mitigating controls.	12/31/2009 to 12/31/2010
Human Resources Management System (9/19/2007)	3	The CIO should identify, document, and implement segregation of duty controls for sensitive administrative and system support functions; enforce Institution policy and procedures requiring the weekly review of logs and monthly submission of management reports to OCIO; and, document final baselines for the HRMS operating system and database after determining what Institution-wide baselines will be adopted and specifically note where suggested security settings have not been implemented for valid business purposes.	6/15/2009 to 12/15/2009
FY 2007 FISMA Audit of the Smithsonian Institution's Information Security Program (3/31/2008)	4	The CIO should ensure that all major and minor systems are addressed in system security plans in accordance with OMB and NIST guidelines. OCIO should identify, document, and implement controls over major and minor systems based on their impact on the Institution or sensitivity of data they process or store; ensure that system sponsors report their progress on security weakness	3/15/2009 To 7/30/2010

Audit Title (Date)	Number of Recs	Summary of Recommendations	Target Date
		remediation to the OCIO regularly (at least quarterly) in accordance with established Institution policies; develop and document procedures for consolidating system-specific POA&M activities into the Institution-wide POA&M; develop and document clear criteria for determining what types of system-specific weaknesses should or should not be included in the agency-wide POA&M; and, develop, document, and implement policies and procedures for conducting annual security control testing that include minimum requirements for documenting test procedures and results.	
ID and Badging, C-CURE Central, and Central Monitoring Systems (3/31/2008)	1	The System Sponsor should implement baselines for the various components of the system including all databases and operating systems, and, where suggested security settings cannot be implemented for valid business purposes, management should document deviations from the baseline.	6/30/2009
Administration of the Continuation of Pay Program (7/18/2008)	2	The Director of OHR, in coordination with HR Directors at SE, SAO, and STRI, should instruct the units to prepare corrected employee timecards and seek reimbursements for the identified overpayments and improper payments, as appropriate; and, conduct a review of those employees who received COP benefits who were not included in our sample; identify overpayments and improper payments; and take corrective action.	12/31/2009
Smithsonian Astrophysical Observatory Scientific Computing Infrastructure (9/30/2008)	10	<p>The Director of the Smithsonian Astrophysical Observatory should logically segregate public-facing SAO web sites from internal areas by transferring or migrating these sites inside a DMZ; comply with IT-960-TN16 and maintain individual server configuration documents for each server by system owner with all deviations documented; comply with Smithsonian policy and implement lock-out controls on all Solaris and Linux machines; research tools that will enable automatic review of account activity for Solaris NIS or identify compensating controls; provide security awareness training to all staff within 30 days of hire; follow NIST and Smithsonian requirements for maintaining logs in a centrally located area and review logs on a regular basis; and identify an alternate storage facility geographically separated from the primary site.</p> <p>The CIO should develop, document, and implement controls to ensure Smithsonian policy is updated timely to include new IT requirements and disseminated to system sponsors and contractors; and, ensure system sponsors implement NIST, OMB, and Smithsonian requirements within required timeframes.</p>	6/15/2009 to 11/15/2009

Response to Congressional Requests

In response to requests from three members of Congress, we reviewed the travel and other expenditures of the former director of the National Museum of the American Indian (NMAI). Overall, we found that the former director should have exercised better judgment in spending the Institution's limited resources. At the same time, we found that the Institution's policies in these areas were flawed, and, in some instances, management failed to engage in meaningful oversight.

We looked at five issues in this review: the commissioning of a portrait of the former director; farewell parties and a tribute video; travel; non-travel business expenses; and honoraria.

NMAI paid \$48,500 in non-federal money for an oil portrait of the former director; we were unable to determine what portion came from specific donations and what portion came from the museum's unrestricted funds. With the exception of inexpensive photographs of former Zoo Directors, the Smithsonian had never before paid for portraits of museum directors, although in the past it has paid for portraits of Secretaries.

The museum held three farewell events in honor of the director's retirement, which were also donor appreciation and fundraising events. These events raised over \$96,000: over \$45,000 for a traveling exhibits endowment; over \$25,000 for unrestricted trust funds, and almost \$25,000 to underwrite the events themselves. In total, these events cost about \$76,000, of which tickets covered approximately \$25,000, and unrestricted trust funds (including the unrestricted funds raised by the events) covered approximately \$51,000. The museum also paid over \$30,000 for an eight-minute video extolling the director's leadership. Almost \$25,000 of the total went to pay for the final 60 seconds of the video. More than half the money for the video came from appropriated funds, an allocation management approved on the grounds that the video could be used for training purposes. Although producing the video violated no rules, and did yield archival footage and possibly some material useful for employee training, we did not believe it was a prudent use of funds, given its cost.

The travel of the former director generally conformed to the rules. However, we did find instances of (1) improper reimbursements; (2) inadequate documentation; (3) an appearance of lavish entertainment expenses and premium travel; and (4) reimbursement for mixed business and personal international travel that needed to be treated as income to the traveler. The Institution was largely to blame, as minimal oversight would likely have caught these problems.

In his last five years at the Institution, the former director retained at least \$68,500 in honoraria for presenting 24 speeches to outside organizations, as well as \$27,766 for serving as a guest professor at the University of Oregon Law School. Retaining honoraria for speeches did not violate Smithsonian policy, and the executive obtained the required approvals for almost all of these activities. But we questioned Smithsonian officials' decisions to allow him to keep honoraria, especially for speeches that had significant content related to his responsibilities at the Institution.

With regard to non-travel business expenses, we found inadequate contemporaneous documentation and lack of detail on certain meal receipts. While the former director appropriately cultivated donors and potential donors at meals, he also received reimbursements for meals with advisors and others that could be considered extravagant for a nonprofit institution.

As a result of the review, the former director reimbursed the Institution almost \$10,000 for improper or unauthorized expenditures.

Work in Progress

We have begun or are near completing a number of audits and reviews, including those we describe below.

Audit of Non-Travel Business Expenses of Senior Executives and Regents

The OIG undertook this audit at the request of the Smithsonian Board of Regents to determine the reasonableness of expenses incurred by high-level Smithsonian officials, Regents, and Advisory Board members. The audit focuses on non-travel expenses, which include expenses for items such as local entertainment, local car service, gifts, catering, meals, and representational expenses (i.e., expenses incurred by officials when they are representing the Institution at outside events). This audit is part of a larger effort, including our audit of travel oversight (described above), to audit the range of expenses incurred by high-level Smithsonian officials. As of the end of this semiannual period, the audit was complete but not yet issued.

Federal Information Security Management Act Audits

FY 2009 Audit of Smithsonian Institution Network (SInet)

The Smithsonian's general information technology support system, known as SInet, comprises numerous servers, firewalls, monitoring systems, and other components located throughout the entire Smithsonian, including almost all of its properties in the United States and Panama.

This audit, which follows up on our 2006 audit of SInet,⁴ will evaluate management, operational, and technical security controls over SInet in accordance with Office of Management and Budget and National Institute of Standards and Technology guidance for minimum security controls. We expect to issue this report before the end of the next semiannual period.

⁴ October 2007 Semiannual Report, page 19.

Smithsonian Institution Research Information System (SIRIS)

SIRIS is an institution-wide system for both public and scholarly research applying established national standards to manage, describe, and provide access to information resources held primarily by the Institution's libraries, archives, and research units in support of the Institution's mission. The system provides an online database housing over 1,700,000 records of the Smithsonian's archival, library and specialized research collections, covering a wide variety of topical subjects from art and design, to history and culture, to science and technology.

The objectives of this audit are to evaluate and report on management's identification, documentation, and implementation of management, operational, and technical security controls required by NIST SP 800-53 Revision 2. We expect to issue this report before the end of the next semiannual period.

Smithsonian Institution Privacy Program

We audited the Smithsonian's privacy-related policies, procedures, and practices. We focused our testing on requirements from federal laws and regulations, internal Smithsonian policy and procedures, and best practices in the field of privacy. We expect to issue this report shortly after the end of this reporting period.

Audit of Facilities Maintenance and Safety

We are conducting a performance audit of facilities maintenance and safety. The purpose of this audit is to determine whether the Smithsonian can reduce overall facilities costs by maximizing the useful life of major equipment while minimizing the risk of injury from equipment deterioration. The objectives of the audit are to assess whether (1) the Smithsonian manages risk with existing maintenance funding, and (2) the Institution is correcting safety issues caused by disrepair. We began this audit in November 2008 and expect to complete it by June 30, 2009.

Oversight of Recovery Act Funds

The Smithsonian Institution received \$25 million in stimulus funding under the American Recovery and Reinvestment Act. The Institution will use this money to finance high-priority maintenance and revitalization projects that were not funded in the 2009 appropriation, including repairs to the Arts and Industry Building, improvements in fire protection and replacement of animal holding facilities at the National Zoo, and electrical safety improvements at various locations. The Smithsonian intends to have all these projects funded and underway by June 2009.

The OIG is working with both the Recovery Accountability and Transparency Board and the Council of Inspectors General for Integrity and Efficiency to provide oversight of the use of stimulus funding. We are currently auditing the solicitation and award of the contracts financed with stimulus funding to assure that the expectations set forth by the Office of Management and Budget regarding transparency, open competition, and economic and programmatic benefits will be met. We are working closely with contract and facilities officials to provide advice in enough time to avoid improper solicitations and contract awards. Once the funded projects are underway, we will continue to examine them to ensure that project officials are managing the cost and performance of contractors to minimize the risk for fraud, waste, and abuse and to complete the projects within established costs and time frames.

Collections Management at the National Air and Space Museum

We are conducting a performance audit of collections management at the National Air and Space Museum (NASM). The objectives of this audit are to assess whether (1) physical security is adequate to safeguard the collections and (2) collections inventory controls are in place and adequately working to ensure the collections are properly accounted for and in compliance with Smithsonian and Museum collections management policies and procedures. The NASM collection includes approximately 55,000 aircraft and space objects. NASM displays and stores objects at the National Mall Building, Steven F. Udvar-Hazy Center, and at the Paul E. Garber Facility in Suitland, Maryland. As part of this audit, we will assess the adequacy of controls, such as card-controlled doors and keys for collection storage areas. We will also assess the accuracy of collections records by testing a sample of the inventory of collection items.



Charles Lindbergh's Spirit of St. Louis, left, SpaceShipOne (the first privately built and piloted vehicle to reach space), and Chuck Yeager's Bell X-1, above right, are on display in the National Air and Space Museum's building on the National Mall in Washington.

Management Advisories

During the course of investigations, and occasionally audits, the OIG learns of issues or problems that are not within the immediate scope of the investigation or audit and may not merit the resources of a full-blown review, or issues that require immediate management attention. To alert management to these issues so that they may be addressed promptly, we send Management Advisories or Investigative Memorandums on Management Issues and ask for a response.

We are pleased to report that our advisories are effective. For example, one we issued in the previous period noting that the Institution lacked guidance on the use of actual expenses during travel instead of per diem helped result in clearer travel policies.

During this reporting period, we issued two advisories on controls over personally identifiable information, two advisories on loans to Smithsonian advisory board members, and two advisories relating to evaluation panels for large projects.

Controls Over Personally Identifiable Information

As part of an audit of the adequacy of the Smithsonian's privacy and data protection policies, procedures, and practices, we conducted after-hours inspections of various Smithsonian offices. On September 17, 2008, as we reported in our last semiannual report,⁵ we issued a management advisory on several conditions we discovered during these inspections that required immediate management attention. On October 24, 2008 and March 12, 2009, we conducted follow-up inspections to determine if the conditions we discovered had been corrected.

During our initial inspections, we had found open and unlocked offices, file rooms, and cabinets containing personnel files, court orders, and other documents containing sensitive personally identifiable information of employees and members of the public. In addition, we found financial system and network account credentials in plain sight or concealed under keyboards. Federal regulations and Smithsonian and unit policies require that PII and network credentials be safeguarded against accidental disclosure. We asked unit directors to take immediate action to ensure that appropriate safeguards are in place and employees understand their responsibility to protect sensitive information.

Generally, we were pleased by management's responses to our advisories. Managers and unit directors reported that they have corrected the conditions we identified, and we verified this with our follow-up inspections. Some managers have provided guidance and additional training to ensure that employees are aware of their responsibility for safeguarding sensitive personally

⁵ October 2008 Semiannual Report, page 21.

identifiable information (PII) and network credentials. In addition, the Office of the General Counsel issued guidance that, if followed, will help staff identify and correct these conditions. We will have additional findings and recommendations regarding controls over PII when we issue the report on our Audit of the Smithsonian's Privacy Program in April, 2009.

Loans to Museums from Advisory Board Members and Donors

We learned that the bylaws of Smithsonian Advisory Boards do not address loans of objects from Advisory Board members or donors to the museums. We also learned that collections management policies may not cover such loans. The Board of Regents' bylaws do contain such a provision.

The American Association of Museums' *Guidelines on Exhibiting Borrowed Objects* states that museums should have policies that contain provisions "[r]equiring the museum to determine if there are potential conflicts of interest or an appearance of a conflict" where a lender of an object has a formal or informal connection to museum decision-making, such as a board or staff member or donor. Further, museums should have policies that include "guidelines and procedures to address such conflicts or the appearance of conflicts or influence." Accordingly, we asked that the various Smithsonian museums and other collecting units consider adopting such policies.

Accepting Loans before Written Loans Agreements Are Final

We learned that that it was not unusual for one museum to accept objects without a signed loan agreement in place, in violation of the museum's collections management policy. Although the paperwork is ultimately finalized within weeks after acceptance of the loan, we asked that the museum either follow or revise its existing collections management policy.

Written Instructions for Pre-Selection Evaluation Panels

We learned that members of a pre-selection evaluation panel for a large project were not necessarily aware of how to apply certain evaluation criteria. Accordingly, we asked that the Office of Contracting and Personal Property Management develop written instructions for evaluation panel members clarifying their responsibilities and what factors they are to consider and not consider during their deliberations, including how to consider past performance, and have panel members sign these instructions. We also asked that there be written instructions for the Chair of each evaluation panel clarifying the particular responsibility to ensure that each panel member consider only what is appropriate according to the Federal Acquisition Regulation and Smithsonian policy.

Documentation of Past Performance

We noted a lack of documentation on the past performance of certain firms that were being considered for future contracts with the Institution. Accordingly, we asked that the Institution's Office of Facilities Engineering and Operations establish a consistent manner of documenting past performance for these types of contracts, either using standards forms from the General Services Administration or some other appropriate form.



On January 10, 2009, a female western lowland gorilla was born at the National Zoological Park's Great Ape House to 26-year-old Mandara and 16-year-old Baraka. The newborn, named Kibibi, represents the seventh successful gorilla birth for the Zoo since 1991.

Investigations

During the reporting period, we received 48 complaints, a significant increase over previous periods – we had received 34 during the last reporting period – that we believe stems from our increased outreach to the Smithsonian community (see below). From those complaints, we opened three cases. We also closed 47 complaints and five cases, resulting in three resignations, over \$87,000 in monetary recoveries and restitution, and over \$1 million of losses prevented.

Following are summaries of the more significant matters that we were able to close in the last six months.

Nepotism and Conflict of Interest

OIG investigated allegations of nepotism against a senior manager who had been with the Institution for over twenty years. The OIG substantiated that the manager had hired and was supervising a relative and that the manager had been instrumental in the employee's initial appointment, had assumed direct supervision of the employee, and had later reassigned the employee into a career-ladder position. Further, the manager had certified a false claim for lost wages related to a vehicle accident the employee was involved in. Both the senior manager and employee resigned their positions.

Fraud and False Statements

OIG investigated allegations that a supervisory employee had forged signatures on personnel documents and had allowed the misuse of overtime and sick leave. A subsequent complaint alleged the same employee had retired with a medical disability from another agency and should not have been employed by the Institution. The OIG substantiated that the employee had been medically retired and had failed to divulge relevant information to the Institution during the application process. Further, the employee had provided deceptive information to his previous employer regarding his employment with the Institution. The employee resigned in lieu of being terminated.

Fraud and Abuse of Authority

In an investigation of alleged abuse of authority and time and attendance fraud, a senior manager retired in lieu of being demoted.

Worker's Compensation Fraud

We previously reported on a joint investigation with the Department of Labor's OIG that resulted in a former Smithsonian museum security guard pleading guilty to one count of false statements to obtain federal workers' compensation.⁶ That defendant has now been sentenced. A U.S. District Judge sentenced him to five years' probation and ordered him to make restitution to the U.S. government of \$87,151.22. Because this individual is no longer claiming workers' compensation, we calculate that the Institution will avoid workers' compensation costs over his lifetime of up to \$1 million.

* * * * *

The following table summarizes complaint activity for this reporting period.

Table 6: Summary of Complaint Activity

Status	Number
Open at the start of the reporting period	45
Received during the reporting period	48
Subtotal	93
Closed during the reporting period	47
Total complaints pending	46

⁶ October 2008 Semiannual Report, page 23.

The following table summarizes investigative activity for this reporting period.

Table 7: Summary of Investigative Caseload, Referrals, and Results

Investigations	Amount or Number
Caseload	
Cases pending at beginning of reporting period	6
Cases opened during the reporting period	3
Subtotal	9
Cases closed during the reporting period	5
Cases carried forward	4
Referrals for Prosecution	
Pending at the beginning of the period	3
Referred for prosecution	1
Pending at the end of the period	3
Successful Prosecutions	
Convictions	
Fines	\$100
Probation	5 years
Confinement	
Monetary Recoveries and Restitutions	\$87,151.22
Administrative Remedies	
Terminations	
Resignations	3
Reprimands or admonishments	
Reassignments	
Demotions	
Suspensions	
Monetary loss prevented	\$1,006,029
Funds Recovered	
Management Advisories	

Other Investigative Activity

Fraud Awareness Program

OIG Special Agents continue their proactive measures to increase awareness by participating in every new employee orientation, held bi-weekly by the Institution. As a result, during this period OIG Agents presented an “Introduction to the OIG and Fraud Awareness” session to 201 new Smithsonian employees. They continue to find that a vast majority of new employees were unaware of the functions and responsibilities of the Office of the Inspector General, and their participation in these training sessions has increased our office’s visibility and profile within the Institution. In addition, we expanded our efforts to include presentations to museum, research, and curatorial staff of the Institution. During this period, OIG Agents presented three of these sessions to an additional 108 employees at the National Museum of Natural History and the Smithsonian Astrophysical Observatory.

Security Investigations

During the course of an investigation, OIG Special Agents identified vulnerabilities within the Institution’s procedures for screening personnel. While OIG auditors had addressed this issue in a 2006 audit of employee and contractor screening measures,⁷ we found that 20 percent of the individuals in one unit lacked background investigations. This unit also did not have on file certifications required for the employees’ positions. Following the OIG’s inquiry, the unit immediately rectified these deficiencies.

Involvement with Other Organizations

OIG Agents remain actively involved with the Washington Area Fraud Task Force. OIG Agents also participated in the Interagency Investigative Data Mining Working Group, the Procurement Fraud Working Group, the Misconduct in Research Working Group, the Metro Area Fraud Task Force, and the Security Association of Financial Institutions workgroup.

⁷ *Employee and Contractor Screening Measures* (Aug. 21, 2006), October 2006 Semiannual Report, page 7.

Other OIG Activities

Congressional Liaison

We continue to meet regularly with staff from the various House and Senate committees that have jurisdiction over the Smithsonian to brief them on our work and on upcoming issues.

During this period, at the request of the House of Representatives Committee on House Administration, we began a review of the Smithsonian Institution's Implementation of the Showtime Contract. Our objectives are to assess: (1) how the Smithsonian processed film requests under the contract (and in particular, how the Smithsonian documented its decisions on proposals that were denied); (2) total costs of administering the contract to date and whether policies and procedures established for tracking those costs are adequate; (3) total contract-related revenues received to date and how the proceeds have been spent; and (4) whether revenues received are consistent with earlier projections. The review will cover revenues and expenses for the period January 1, 2006 (effective date of contract) through December 31, 2008.



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.

Comments on Draft Smithsonian Policies and Directives

During this period, we reviewed and commented on draft revisions to a number of Smithsonian Directives, including the recently issued one on Use of Computers and Networks (SD 931), and on the Smithsonian's policy addressing Freedom of Information Act issues (SD 807), entitled Requests for Smithsonian Institution Information.

Back cover:

The Smithsonian Horticulture Services Division strives to cultivate an extremely diverse array of orchids from all over the world, with close to 10,000 plants in their collection.

Orchids Through Darwin's Eyes, the 15th Annual Orchid Exhibit, was held at the National Museum of Natural History from January 24 to April 26, 2009. This exhibit was developed by the Smithsonian's Horticulture Services Division in collaboration with the United States Botanic Garden.

The image on the back cover depicts ***Lycaste cruenta***.

Image credit: James Osen, Smithsonian Institution



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