



Smithsonian Institution

Office of the Inspector General

March 30, 2012

Audit and Review Committee
Board of Regents
Smithsonian Institution
Washington, D.C. 20560

Dear Members of the Audit and Review Committee:

The Office of the Inspector General (OIG) serves as the Smithsonian's Contracting Officer's Technical Representative for the oversight of the Smithsonian's annual financial statement audits conducted by the independent certified public accounting firm KPMG LLP (KPMG). KPMG conducted audits of the Smithsonian's fiscal year (FY) 2011 Federal Closing Package (federal appropriations reporting), the Smithsonian's FY 2011 entity-wide Financial Statements (combined federal and trust reporting), and the FY 2010 audit of the Smithsonian's federal awards, performed in accordance with U.S. Office of Management and Budget Circular A-133.¹

This letter provides a summary of the KPMG audit reports, KPMG's comments, and our selected comments. We also provide the OIG statement of KPMG's adherence to auditing standards.

KPMG'S FINANCIAL AUDIT REPORTS OF THE SMITHSONIAN

In accordance with contract requirements, KPMG issued the following reports:

Federal Closing Package - On November 15, 2011, KPMG issued an unqualified opinion (the highest level of audit assurance) on the FY 2011 Federal special-purpose financial statements. In addition, KPMG reported no deficiencies in internal control.

Entity-wide Financial Statements - On February 24, 2012, KPMG issued an unqualified opinion on the Smithsonian's FY 2011 entity-wide financial statements and found no material weaknesses. However, KPMG identified two matters involving internal control.

Federal Awards - On June 30, 2011, KPMG gave the Smithsonian an unqualified opinion on its FY 2010 Supplementary Schedules of Expenditures of Federal Awards.

OIG'S STATEMENT ON KPMG'S ADHERENCE TO AUDIT STANDARDS

In connection with our oversight, we reviewed KPMG's reports and audit documentation and interviewed its representatives.

¹ OMB Circular A-133 audit reports shall be completed and submitted within the earlier of 30 days after receipt of the auditor's reports, or 9 months after the Smithsonian's fiscal year end. As a result, current year (FY 2011) results are unavailable.

We found no instances where KPMG did not comply, in all material respects, with the American Institute of Certified Public Accountants' (AICPA) generally accepted auditing standards (GAAS) and the U.S. Government Accountability Office's (GAO) ***Government Auditing Standards***. Our oversight of KPMG's audit was not intended to enable us to express, and we do not express, an opinion on the Smithsonian's financial statements, internal control, or compliance with laws and regulations. KPMG is responsible for their audit reports and the conclusions therein.

OIG'S CONCERN ABOUT THE UNTIMELY ISSUANCE OF THE SMITHSONIAN'S AUDITED FINANCIAL STATEMENTS

We remain concerned about the timeliness of the Smithsonian's reporting of its entity-wide financial results. The Smithsonian's 2010 audit of its entity-wide financial statements was approximately 40 days later than in 2009. The Office of the Treasurer (OT) had difficulties in meeting KPMG's requests for financial reports and other documentation in a timely manner.

While improvements were made, management delayed the start of the final audit fieldwork by one month to provide additional time to close the 2011 year-end. As a result, the 2011 entity-wide audit report was issued approximately one month later than in 2009. We encourage Smithsonian management to continue the progress made to improve OT's reporting capability for timely submission of requested reports and supporting documentation. We will monitor those efforts during next year's audit.

SUMMARY OF COMMENTS REPORTED BY KPMG IN FY 2011

KPMG reported the following two comments in its FY 2011 Management Letter, but KPMG noted no significant deficiencies or material misstatements:

Discrepancies in Contributions Accounting Policies and Procedures

KPMG found discrepancies in the accounting and record keeping for contribution receivables from donors. The discrepancies were caused by manual processing or the inconsistent application of accounting policies and procedures across departments. KPMG encouraged management to strengthen procedures over the application of cash receipts payments to ensure pledge receipts are appropriately applied against existing pledge balances. KPMG also encouraged management to enhance discounting procedures over contributions receivable to ensure organization wide consistency in policies.

Improper Recording of Operating Expenses

KPMG noted in its audit of both the federal and trust operating expenses instances where transactions were not recorded in the appropriate fiscal year. KPMG recommended that management strengthen the training and procedures surrounding year-end expense cutoff to ensure that transactions are recorded in the appropriate period.

SMITHSONIAN MANAGEMENT'S RESPONSE

Management concurred with KPMG findings and recommendations and has proposed corrective actions that will resolve the recommendations.

FY 2011 UPDATE OF FINDINGS REPORTED BY KPMG IN FY 2010

KPMG divided its FY 2010 findings into the following four categories; resolved, substantially addressed, partially addressed, and in process.

1. Resolved

Financial Reporting

The Office of the Comptroller improved adherence to the existing policy on the accumulation of relevant supporting documentation used in the preparation of SI's financial statements and disclosures.

2. Substantially Addressed

Sponsored Projects Accounting

The Office of Sponsored Projects (OSP) has continued to enhance the processes surrounding schedules prepared in support of the general ledger and financial statements. However, it appears that OSP is not using the automated reports available through the ERP billing and receivables module to support the general ledger and financial statements.

Office of the Treasurer

During 2011, the Office of the Treasurer hired an additional accountant to supplement the previous staff and successfully reduced the accounting backlog. In addition, OT is actively monitoring un-invested cash for the endowment.

3. Partially Addressed

Information Technology Controls

The Office of the Chief Information Officer enhanced existing policies to require the submission of a new account request form for every system user, including those that change status to an emeritus or volunteer.

4. In Process

Contribution Accounting

Improvements were noted in this process during the past year. Management established enhanced processes over the collection and documentation of communications with significant donors. Improvements were also noted in the

process for evaluating pledges for collectability and recording related reserves. However, due to the manual nature of contribution processing, deficiencies continued to exist in fiscal year 2011.

STEPS TAKEN BY SMITHSONIAN MANAGEMENT IN FY 2011

In our FY 2010 oversight letter we stated that hiring a Chief Financial Officer and issuing Smithsonian Directive 310 were key steps to improving financial management at the Smithsonian. In FY 2011, Smithsonian took the following actions:

Hiring of a Smithsonian CFO

On September 26, 2011, the Secretary named Mr. Albert Horvath, Under Secretary for Finance and Administration and Chief Financial Officer of the Smithsonian (USF&A/CFO). The USF&A/CFO is a new position that combines the position of CFO with the USF&A. Now the Smithsonian's CFO reports directly to the Secretary and participates in and supports senior-level decision-making.

Issuing Smithsonian Directive (SD) 310 – *Financial Reporting and Risk Management Internal Controls*

On June 23, 2011, the Smithsonian issued SD 310. SD 310 requires Smithsonian's unit directors to provide an Assurance Statement in support of the Smithsonian's annual financial statement audit. The Assurance Statement requires that unit directors provide assurances on their respective unit's financial controls and on their compliance with Smithsonian policies and procedures. Unit directors are also required to state whether they have knowledge of fraud, suspected fraud, conflicts of interest, or any material misstatements or omissions in the unit's financial information.

If you have any questions, please do not hesitate to contact me or Bruce Gallus, Financial Audit and Quality Control Manager, on 202.633.7050.

Respectfully,



Scott S. Dahl
Inspector General