

**SMITHSONIAN INSTITUTION**

**Office of the Inspector General**

**Audit Plan  
Fiscal Year 2012**

*September 2011*



## **Introduction**

This Fiscal Year 2012 Audit Plan communicates the Smithsonian Office of the Inspector General's audit priorities to the Smithsonian Institution, the Congress, and the public.

Our office promotes effective governance and enhances accountability by providing independent and objective evaluations of the Institution. We strive to conduct audits of those programs and operations that pose significant risks, focusing on areas where we may effect meaningful results. In developing this plan, we sought the input of management and staff throughout the Institution. All our proposed audits advance the Institution's strategic priority of enabling the mission through organizational excellence and, we hope, can inform the "Smithsonian Redesign" efforts now underway. Our audits will seek to improve efficiency and reduce costs in Smithsonian operations, an especially important goal in this difficult economic climate; improve accountability for funding decisions; support the search for external financial resources; examine controls over operations outside the Washington area; and serve programmatic priorities, including strengthening collections. Ultimately, the results of our audits should increase all stakeholders' confidence in the Institution's stewardship of its resources, from its collections and research to its systems and staff.

The audits for fiscal year 2012 fall into three categories: first are audits carried over from FY 2011, most of which we described in detail in our FY 2011 Audit Plan. Second are three mandatory sets of audits: (1) the annual audits of the Smithsonian's financial statements, which we oversee; (2) the annual reviews under the Federal Information Security Management Act, which we also oversee; and (3) an audit of the travel expenses of members of the Board of Regents, conducted at their request to fulfill a statutory requirement.

The third category comprises audits we selected after considering the key ongoing and emerging risks facing the Smithsonian and after asking for input from unit directors and other management throughout the Institution. We will conduct audit work in ongoing risk areas such as internal controls over financial management. In emerging risk areas, we will examine the management of the largest building project the Smithsonian is currently undertaking (National Museum of African-American History and Culture), and the operations of the Office of Sponsored Projects, whose workload is increasing as the Institution seeks more grants and contracts. We will also continue our multi-year commitment to examine collections stewardship at the museums. And we will be returning to the Smithsonian Tropical Research Institute to conduct a comprehensive review of its financial and other support operations.

The list of audits on the following page reflects our current workload and estimated resources for FY 2012. (The appendix shows how we calculated total staff time available to conduct our work.) We also include a list of potential future audits. We believe every audit in this plan would yield significant benefits to the Institution. Yet we recognize that issues of more immediate concern may arise and we want to be able to address them as well. Thus, rather than a firm schedule, this plan outlines the larger projects we believe to be critical, with the understanding that if new matters merit review by OIG audit staff, we will adjust our priorities accordingly.

# **Planned Audit Work for FY 2012**

## **FY 2011 Audits Carried Over**

- Employee Travel Expenses
- Center for Folklife and Cultural Heritage Financial Operations
- Oversight of the FY 2011 Federal Information Security Management Act Evaluation
- Oversight of the FY 2011 Financial Statement Audits
- Office of Advancement Donor Management System Internal Controls

## **Mandatory Audits**

- Oversight of the FY 2012 Financial Statement Audits
- Oversight of the FY 2012 Federal Information Security Management Act Program Evaluation
- Travel Expenses of the Members of the Board of Regents

## **Other Audits**

- Management of the National Museum of African-American History and Culture Building Project
- Office of Sponsored Projects Redesign
- Use of Consulting Services
- Smithsonian Tropical Research Institute
- Collections Objects Security Escorts
- Management of Leased Office Space
- Financial Reporting and Risk Management Internal Controls

## **Mandatory Fiscal Year 2012 Audits in Detail**

# Oversight of the FY 2012 Financial Statement Audits

## Objectives

We will oversee the Smithsonian's annual financial statement audits, which include the Smithsonian-wide financial statements, the federal special-purpose financial statements, and the OMB Circular A-133 Audit.

## Significance

The Institution's financial statements are audited by KPMG. As the Contracting Officer's Technical Representative with oversight responsibilities for the annual audits, we will review audit documentation, evaluate key judgments, and monitor progress in order to express concurrence with the external auditors' reports and determine whether their work conforms to relevant auditing and accounting standards. We will use the Government Accountability Office *Financial Audit Manual* and the oversight programs developed by the Council of the Inspectors General on Integrity and Efficiency as guides for monitoring KPMG's work.

At the completion of our work we will report the results of our oversight in a letter to the Audit and Review Committee. The letter will include our observations on and suggestions for improving the financial reporting and audit process, including following up on our prior year observations and evaluating and providing suggestions for the Smithsonian Finance Redesign efforts.

## Potential Impact

Our oversight will provide reasonable assurance that KPMG complied with professional standards in conducting the audits and that the Institution's financial statements are accurate and complete. In our quality assurance letter, we will report on our observations on the Institution's financial accounting and reporting process and make recommendations for improvement.

## Staffing Requirement

60 staff days

# **Oversight of the FY 2012 Federal Information Security Management Act Program Evaluation**

## **Objectives**

We will evaluate the effectiveness of the Institution's information security policies, procedures, and practices under the Federal Information Security Management Act (FISMA), including the effectiveness of the implementation of our recommendations in prior FISMA reviews.

## **Significance**

The Smithsonian depends on computerized information systems and electronic data to carry out its programs and activities. Security measures are essential to prevent data tampering and destruction, service disruptions in critical operations, unauthorized disclosure of sensitive information, as well as fraud.

Although the Smithsonian is not subject to FISMA, it has elected to implement FISMA's requirements to ensure that it has an effective information security program. FISMA requires that the OIG perform an independent annual evaluation of the Institution's information security program and practices, including the testing and evaluation of controls to safeguard information and systems. Previous OIG information security audits have identified significant weaknesses in information systems and highlighted the need for improvements in network access controls, security awareness and training, disaster recovery, system documentation, flaw remediation, and configuration management.

An Independent Public Accountant (IPA) will conduct the evaluation. As the Contracting Officer's Technical Representative, we will review the IPA's documentation, evaluate key judgments, and monitor progress so we may express concurrence with the IPA's reports and to determine whether their work conforms to relevant auditing and information technology standards and practices.

## **Potential Impact**

The audit will make recommendations to improve the efficiency and effectiveness of information security program activities.

## **Staffing Requirement**

60 staff days

# **Travel Expenses of the Members of the Board of Regents**

## **Objectives**

We will audit the travel expenses for those members of the Board of Regents who seek reimbursement for expenses associated with attending Board meetings.

## **Significance**

The Executive Committee of the Board of Regents requested this audit to fulfill the statutory requirement under 20 U.S.C. § 44.

This is an annual audit by the Office of the Inspector General on behalf of the Audit and Review Committee of the Board of Regents. The audit will ensure that expenditures are authorized, supported, and reasonable.

## **Potential Impact**

For those expenditures that are not authorized or not supported with sufficient documentation, or that may appear excessive, we will recommend that the Executive Committee recover the funds.

## **Staffing Requirement**

25 staff days

## **Other Fiscal Year 2012 Audits in Detail**

# Management of the National Museum of African-American History and Culture Building Project

## Objectives

This audit will establish an ongoing audit presence to ensure that the Smithsonian has sufficient controls in place to keep the National Museum of African-American History and Culture (NMAAHC) building project on time and within budget. In this first phase we will (1) evaluate team members' (including Office of Facilities Engineering and Operations (OFEO), the Office of Contracting and Personal Property Management, NMAAHC, as well as contractors' staff) understanding of their roles and responsibilities and assess the cohesiveness of the team; (2) assess the bidding process; and (3) review change management procedures.

## Significance

The \$500 million project to build NMAAHC will have multiple funding sources, with a 50/50 split between federal appropriations and trust monies. OFEO estimated the distribution of funds to major project categories as follows:

	Working Estimate (\$ in millions)
Planning & Programming	\$ 6
Pre-Design/Design	\$ 42
Construction	\$336
Construction Management	\$ 29
Exhibits	\$ 89
Total Project Cost Estimate	<u>\$502</u>

For this project, OFEO selected the Construction Management at Risk (CM@R) contract delivery method, the first project of its size at the Smithsonian to use a CM@R contract. The CM@R contract method mitigates cost and manages risks associated with schedule and budget issues by providing professional management assistance, such as schedule, budget, and constructability advice, prior to construction, which should result in fewer change orders in the construction phase and thereby help control costs. In addition, CM@R allows construction to begin prior to the completion of the all portions of the design. However, there are risks in the CM@R method once construction begins, when the CM@R converts from a professional advisory role of construction manager to role of the general contractor, which can lead to tensions over construction quality and the completeness of the design, and may affect schedule and budget.

## Potential Impact

The audit will make recommendations to strengthen project management to ensure that NMAAHC opens on time and within budget, and assess the CM@R delivery method for use in future projects.

## Staffing Requirement

325 staff days

# Office of Sponsored Projects Redesign

## Objective

The audit will assess the effectiveness of the changes in the operations of the Office of Sponsored Projects (OSP) resulting from the recommendations of the Sponsored Projects Redesign Team.

## Significance

OSP helps Smithsonian units obtain external funding (grants and contracts) from both government and private sources to support research, exhibitions, and other mission-related projects. OSP assists units in all phases of the process, including application, budgeting, and compliance with grant and contract terms. Smithsonian leadership has identified sponsored projects as a key source of increased revenue for the Institution and expects rapid and continued growth in external funding.

In fiscal year 2010, the Institution (excluding the Smithsonian Astrophysical Observatory, which manages its grants and contract separately) submitted a combined total of 433 grants and contracts proposals seeking \$148 million in funding, and received 339 awards totaling approximately \$65 million. Both the number of awards and the amounts were about the same as the prior year. However, OSP had projected a 58% increase in funding in 2010 of \$100 million.

Smithsonian officials recognize that to support the growth of external funding through OSP will require changes to its organization and operation. Through the work of the Sponsored Projects Redesign team, officials from within OSP and from the units are working to devise reforms to advance OSP. One of the longstanding challenges affecting OSP, as reported again by KPMG, the Institution's external auditor, this year, is the need to improve its accounting operations. Manually intensive accounting functions and inconsistent application of accounting principles produced errors in its financial reports causing extensive corrections and year-end reconciliations. Other challenges under review by the redesign team involve cultivating financing opportunities from within the units and seeking new sources of external funding, a shift from relying on known grant and contract availabilities.

The redesign team will end its work by the close of FY 2011 and set forth its recommendations during fiscal year 2012 and beyond.

## Potential Impact

We will assess the effectiveness of the recommendations to strengthen OSP service to the units and ultimately to increase the number, amount, and source of external funding to the Smithsonian.

## Staffing Requirement

325 days

# Use of Consulting Services

## Objectives

This audit will assess the Smithsonian's use of consulting services to improve its operations, including how the Institution determines whether to hire external consultants and how the Institution follows through with the results of the consultants' work.

## Significance

In March 2009, President Obama issued a memorandum stating that excessive reliance by government agencies on contracts creates a risk that taxpayer funds will be spent on contracts that are wasteful, inefficient, subject to misuse, or otherwise not well designed. Furthermore, in June 2011, the President encouraged Chief Financial Officers to realize cost savings by targeting wasteful practices and by reducing, and identifying alternatives to, the use of consultants, among other things.

The Smithsonian does not keep complete records of the money spent on consulting contracts. Because Smithsonian employees do not consistently classify consulting expenses in the accounting system, we cannot determine exactly how much the Institution spent on consultants in previous years. The scope and cost of consulting studies vary across the Smithsonian. Some consulting studies, such as those dealing with reforming internal controls, applied to business operations across the Smithsonian and were costly and multi-year. Others are small enough to be classified as simplified acquisitions and handled directly by the units. In fiscal year 2010, the Smithsonian spent approximately \$13.5 million in simplified acquisitions alone for consulting, more than \$9 million of which was federal. We will concentrate on consulting and advisory engagements that deal with the general operations of the Smithsonian.

## Potential Impact

Our audit will determine whether the Smithsonian used consultants in a productive manner. If we find that the Institution is awarding consulting contracts, but not implementing consultants' recommendations, we will follow through to understand whether those decisions were deliberate decisions to decline to act on consultants' work, or resulted from a lack of resources, poor contract management, questionable bases for the initial need for external expertise, disregard for available expertise in-house, or management inattention to project follow-through. By being more systematic and deliberate about consulting contracts, the Institution may be able to enhance the benefit of contracted services.

## Staffing Requirement

325 staff days

# Smithsonian Tropical Research Institute

## Objective

The objective of the audit will be to conduct an overall assessment of the adequacy of the main operational functions at the Smithsonian Tropical Research Institute (STRI). We will conduct a risk analysis of the human resources, information technology, accounting, procurement, and contract management operations.

## Significance

STRI, located in Panama, is devoted to understanding biodiversity through tropical research. In operation since 1923, it is the only unit of the Smithsonian based outside of the United States. Its distance from much of the Smithsonian and the unique demands of operating in another country create management and oversight challenges unlike those of the other units within the Institution. Such challenges have limited the OIG audit presence in recent years. The STRI Director has asked that the OIG review STRI operations.

We will seek to assess the effectiveness of operations to ensure program efficiency and effectiveness and of internal controls to safeguard against improper and illegal conduct, provide support from central Smithsonian units, and staff STRI with sufficient human resources. At the conclusion of the survey phase of our work, the OIG will issue a report on its analysis to the STRI Director. The report will communicate areas of immediate concerns along with recommendations for improvement. The OIG will rely on its survey results to conduct further audit work.

## Potential Impact

Our audit will identify areas of immediate concern along with recommendations for improvement in the short term. Longer term, we will highlight potential areas for detailed audit work that will result in recommendations for operational improvements.

## Staffing Requirements

400 staff days

# **Collections Objects Security Escorts**

## **Objectives**

This audit will determine whether museum staff are transporting high-value collections objects with appropriate security and in the most cost-efficient manner.

## **Significance**

The Smithsonian frequently transports high-value and high-risk collections objects, such as Stradivarius string instruments, numismatic objects, historical documents, and gems to and from Smithsonian facilities and other locations for loans, exhibits, performances, research, and educational purposes. Prior to 2010, the Office of Protection Services' (OPS) Security Services Division (SSD) provided security escort services for the safe transport of these objects. The Smithsonian's Collections Management Implementation Manual directs collecting units to contact the Division of Risk Management and SSD to coordinate security planning, risk assessment issues, and collection transits. Object transport logs for fiscal years 2008 and 2009 showed that SSD staff regularly transported objects for the National Museum of American History, the Renwick Gallery, and the National Postal Museum. In 2010, OPS disbanded the SSD unit partly because of a lack of requests for the unit's security escort and other services.

Since SSD has been disbanded, the Smithsonian has not reassigned responsibility or developed a clear policy to regulate the secure transportation of valuable collections objects. Although former SSD staff continue to provide object escort services for a few museums, there are no data on how often they do so or the costs of doing so. Both OPS management and the Office of Risk Management have expressed concern that, in an effort to minimize costs, museums may be transporting objects without appropriate guidance or the support of OPS, increasing the risk of damage, theft or loss.

This audit will be part of the ongoing series of OIG audits of collections stewardship at the Smithsonian.

## **Potential Impact**

This audit will make recommendations to ensure that the Institution is taking the necessary precautions to protect collections objects while in transit. This audit will also determine whether Smithsonian units are contracting with outside parties for services, and if so, whether such services could be more efficiently provided by the OPS.

## **Staffing Requirement**

300 staff days

# Management of Leased Office Space

## Objectives

The audit will assess policies regarding the use of leased office space at the Smithsonian and seek to identify best practices to reduce leased office space costs.

## Background and Significance

Recognizing the need to reduce facilities costs, the Institution's Strategic Plan emphasizes that the Smithsonian will "optimize the use of resources to gain efficiency. . . . and develop procedures to enable sharing of equipment and facilities." Regarding the efficient use of office space, this audit will examine the following areas:

***Policy***– We will examine the policy for such matters as authorization of existing office space, and use of alternative office solutions such as teleworking and telecommuting to reduce costs while increasing employee performance and productivity.

***Strategic Planning***– We will review the business and programmatic planning for use of future office space. Recognizing that when units seek to reduce office space, it does not disappear overnight and organizations downsize in pockets of space around the organization. We will determine whether plans for alternative office solutions are part of the strategic planning process to reduce office space costs.

***Management and Oversight***– We will examine how the units are controlling the costs of leased office space and determine whether cost savings could be realized from excess leased office space. This includes using alternative work strategies to improve productivity and space efficiency. For example, the Smithsonian could realize cost savings through teleworking and telecommuting using home accommodations or remote telecenters.

***Business Agreements***– We will assess whether the Smithsonian has standard lease agreements to minimize leased office space costs.

## Potential Impact

The audit will make recommendations to help ensure that the Institution minimizes costs associated with leased office space through appropriate controls over its authorization, review, and use.

## Staffing Requirement

325 staff days

# **Financial Reporting and Risk Management Internal Controls**

## **Objectives**

We will evaluate the adequacy of the recent reforms of internal controls over the Institution's financial reporting and risk management, focusing on Smithsonian Directive (SD) 310, which it issued in June 2011.

## **Significance**

SD310 provides the "policies and procedures for establishing, documenting, assessing, and reporting on financial management internal controls that are critical for safeguarding SI assets and resources." Most importantly, SD 310 requires directors to provide assurance that their internal controls are efficient and effective. SD 310 should affect all of the Institution's financial personnel, key SI systems and sub-systems; various manual and automated processes; and, most importantly, management's attitude towards financial accountability and transparency.

The Institution has been working on reforming and strengthening its internal controls over financial management for 5 years, since the Regents issued their Governance Recommendations in June 2007. Over the past several years, we have reported in our annual financial oversight letters that Smithsonian leaders have not yet sufficiently committed themselves to sustained improvement in areas such as:

- Identifying and resolving internal control deficiencies;
- Managing and organizing decentralized accounting and reporting operations;
- Complying with Smithsonian Directives and policies;
- Training and supervising employees adequately;
- Communicating effectively with central offices and the units; and
- Preparing timely financial statements.

Further, ongoing cuts and restrictions in the Institution's budget, which are expected to continue, often result in eliminating or reorganizing positions, functions, control activities, and programs, increasing financial and operational risks that leave the Institution more vulnerable to fraud, abuse, and mismanagement.

## **Potential Impact**

Our review will identify internal control weaknesses and make recommendations to improve financial management and accountability at the Institution.

## **Staffing Requirement**

300 staff days

## Potential Future Audits

Title	Objectives	Estimated OIG Staff Days
<b>Privacy Program</b>	Assess the effectiveness of the policies and procedures under development to safeguard personally identifiable information across the Smithsonian.	350
<b>Office of Protection Services Staffing</b>	Determine if the Office of Protection Services staffing plan achieved its goal to augment security and retain valued members of its security force, including whether the new plan improved attendance and reduced the need for overtime pay.	250
<b>Facilities Requirements Planning Process</b>	Assess the progress of the Office of Facilities Engineering and Operations' development of a new approach to facilities requirements planning and programming through a clearinghouse for requirements management, intranet tracking of capital and maintenance projects, and expanded use of performance metrics.	300
<b>Safety Management</b>	Assess the Office of Facilities Engineering and Operations' initiatives to improve its Management Evaluation and Technical Reviews of safety, fire protection, and environmental programs across the Smithsonian and their effectiveness in providing more timely abatement of hazards, corrective action plans, and self-inspection procedures.	300
<b>National Zoological Park and Friends of the National Zoo</b>	Examine financial operations at FONZ and the Zoo in support of the renewal of the fiscal year 2013 renewal of the agreement between the Smithsonian and FONZ, including benchmarking key metrics such as gift shop profitability, operating overhead calculations, parking, and capital planning.	300
<b>External Quality Control Review of the Federal Trade Commission's Office of Inspector General</b>	Determine if the Office of Audit at the Office of Inspector General of the Federal Trade Commission conducts its audits in compliance with Government Auditing Standards.	100
<b>Wireless Network Management</b>	Evaluate the use, management, and security of the Smithsonian Institution's internal and public access wireless networks.	150
<b>Accountability and Maintenance of the Institution's Fleet</b>	Assess the effectiveness of SI fleet management, including (1) provisions for authorizing and controlling all vehicle maintenance and repair services; (2) provisions for authorizing and monitoring all vehicle use and activity; and (3) vehicle purchase and disposal.	250

## APPENDIX

### Estimated Staff Days Available For New Audits in FY 2012

Description	Estimated Staff Days
Total FY 2012 staff days*	3075
Staff days required to complete FY 2011 carry-over audits	<u>630</u>
Available staff days for new audit starts in FY 2012*	<u>2445</u>

\*We calculated available staff days for FY 2012 based on 16 full-time auditors and a standard work year of 205 days per auditor. We based the estimates on 100 percent staffing, but because of recent and expected vacancies, these estimates may vary; completing the FY 2012 Audit Plan will depend on filling open positions.