



Smithsonian Institution

OFFICE OF
THE
INSPECTOR
GENERAL

AUDIT PLAN
FISCAL YEAR 2013

Introduction

This Fiscal Year 2013 Audit Plan communicates the Office of the Inspector General's priorities to the Smithsonian Institution management, the Board of Regents, the Congress, and the public.

Our office promotes effective governance and enhances accountability by providing independent and objective evaluations of the Smithsonian Institution. In developing this plan, we sought the input of senior management around the Smithsonian. For the first time, we utilized a risk assessment survey to solicit the input and viewpoints of Smithsonian management. Our audits will seek to improve efficiency and effectiveness in programmatic activities. We will also seek to identify quantifiable cost savings for the Smithsonian, a key performance measure identified in our Strategic Plan.

The audits for fiscal year 2013 fall into two categories:

- I. Mandatory Audits: (1) the annual audits of the Smithsonian's financial statements, which we oversee; (2) the annual review under the Federal Information Security Management Act, which we also oversee; (3) an audit of the travel expenses of members of the Board of Regents, conducted at their request to fulfill a statutory requirement; and (4) an external peer review.
- II. Discretionary Audits: audits we selected after considering the key ongoing and emerging risks facing the Smithsonian and after evaluating the suggested topics from senior management, our congressional oversight committees, and the Board of Regents.

The list of audits on the following pages reflect what we can reasonably accomplish with our current resources. This plan is flexible, and we recognize that issues of more immediate concern may arise to which we will adjust our priorities accordingly. We also include a list of potential future audits; however, we do not anticipate being able to devote coverage of these programs this fiscal year due to resource constraints. We have developed our own performance measure to complete the majority of our audits within one year.

On a separate track, we plan to issue our first Top Management and Performance Challenges Report in November 2012. This Report will identify, supported by our body of audit work over the last several years, the major program issues facing the Smithsonian.

Michael Sinko
Assistant Inspector General for Audits
October 5, 2012

Planned Audit Work for FY 2013

I. Mandatory Audits

- 1) Oversight of the Financial Statement Audits
- 2) Oversight of the FY 13 Federal Information Security Management Act Program
- 3) Travel Expenses of the Members of the Board of Regents
- 4) External Peer Review of Another Office of Inspector General's Audit Organization

II. Discretionary Audits

- 5) National Museum of African American History & Culture – Funding, Budget & Construction Issues
- 6) Selected Operations of the Smithsonian Tropical Research Institute (STRI)
- 7) Friends of the National Zoo (FONZ) Financial Operations
- 8) Pan-Institutional Approach to Collections Care Initiatives
- 9) Management of the Government Purchase Card Program
- 10) Management of Leased Office Space
- 11) Accountability & Maintenance of the Smithsonian's Fleet
- 12) Collections Stewardship – Security of Transporting High Value Objects
- 13) Financial Reporting & Risk Management Internal Controls – Annual Assurance Letter Process

Mandatory Fiscal Year 2013 Audits in Detail

Oversight of the Financial Statement Audits

Objectives

As the Contracting Officer's Technical Representative (COTR), 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

As COTR with oversight responsibilities for the FY 2012 audit, 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 the IPA's work. At the completion of our work we will report the results of our oversight in an assurance letter to the Audit and Review Committee.

The Smithsonian's FY 2013 financial statements will be audited by an Independent Public Accountant (IPA) selected through a contract solicitation process that will culminate in a selection of an IPA by the Board of Regent's Audit and Review Committee in the early part of Calendar Year 2013.

Potential Impact

Our oversight will provide reasonable assurance that the IPA complied with professional standards in conducting the audits and that the Institution's financial statements are free from material misstatement.

Oversight of the FY 13 Federal Information Security Management Act Program

Objectives

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

Significance

The Smithsonian depends on computerized information systems and electronic data to carry out its programs. 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 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 FISMA evaluation. As the Contracting Officer's Technical Representative with oversight responsibilities, we will review the IPA's documentation, evaluate key judgments, and monitor progress in order to 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 the Smithsonian's information security program.

Travel Expenses of the Members of the Board of Regents

Objective

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 that the Office of the Inspector General conduct this annual audit to fulfill the statutory requirement under 20 U.S.C. § 44. The audit will ensure that expenditures are authorized, supported, and reasonable.

Potential Impact

The audit results will provide greater confidence to Congress and the public that Smithsonian funds are being used responsibly.

External Peer Review of Another Office of Inspector General's Audit Organization

Objective

The objective of this external peer review is to determine whether a selected Office of Inspector General's (OIG) quality control system is suitably designed and operating effectively to provide reasonable assurance that its audits are performed in accordance with the Government Accountability Office's Government Auditing Standards and with its own policies and procedures.

Significance

Government Auditing Standards require audit organizations to have an appropriate system of quality control and to undergo external peer reviews at least once every three years. The Council of Inspectors General for Integrity and Efficiency administers the federal peer review program whose overall goal is to ensure that all federal audit organizations conduct high quality audits with competence, integrity, objectivity, and independence.

Impact

The Smithsonian OIG will provide a report and conclusion on the design and effectiveness of the selected OIG's system of quality control. The conclusion will state whether the audit organization has passed, passed with deficiencies, or failed, the peer review. The peer review report will be published as a matter of public record.

Discretionary Fiscal Year 2013 Audits in Detail

National Museum of African American History & Culture – Funding, Budget & Construction Issues

Objectives

This audit will continue our 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 second phase, we will determine whether (1) management's funding plans align with the timing of projected expenses, and (2) management has a contingency plan should the Smithsonian not receive expected federal appropriations or private donations.

Significance

The \$500 million project to build NMAAHC will have multiple funding sources, with a 50/50 split between federal appropriations and trust monies. Rather than waiting until the overall building design is done, the Smithsonian is beginning construction in phases as the design for those portions are completed. By fast-tracking the project in this manner, the Smithsonian is able to accelerate its construction schedule and fund the project incrementally.

Due to the current economic environment, there is a risk that as the construction of the building progresses, the timing of when the Smithsonian receives funds may not align with construction schedule demands. For example, the Smithsonian may not receive the full \$85 million in federal appropriations that it requested for FY 2013. The Smithsonian would need to make up any shortfall in federal appropriations with other funding sources. A delay in the availability of funds—federal or trust—could negatively impact the construction schedule, which may result in increased costs and could postpone the opening of the museum beyond November 2015.

Potential Impact

This audit will make recommendations to strengthen project management to ensure that NMAAHC opens on time and within budget.

Selected Operations of the Smithsonian Tropical Research Institute (STRI)

Objective

The audit will identify and evaluate high risk areas of the Smithsonian Tropical Research Institute's (STRI) financial 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.

Our audit will focus on a broad range of financial management issues at STRI. The Smithsonian relies heavily on the financial management capabilities of its decentralized units. Therefore, the effectiveness of the financial management at the units is critical to the stewardship of assets and accuracy of the financial statements.

Potential Impact

STRI employs approximately 300 full time staff and is visited by more than 900 scientists annually. STRI also received more than \$21 million in federal appropriations, grants, trust funds, and donations in fiscal year 2012. Our audit will identify financial management risks at STRI. For those areas identified, we will recommend improvements to financial management controls to strengthen safeguarding of assets and improve financial reporting.

Friends of the National Zoo (FONZ) Financial Operations

Objective

We will examine financial operations at FONZ to include benchmarking key metrics and successful models pertaining to selected concessions categories.

Significance

While the Zoo relies primarily on the federal government for its funding, it also depends heavily on net proceeds from FONZ-managed revenue operations. FONZ is the private side of the partnership with the Smithsonian Zoo and it contributes over \$4-5 million in support over the last several years. FONZ's primary role is to make friends and raise funds to support the Zoo's and FONZ's joint mission. FONZ obtains its revenue from direct fund-raising efforts, volunteer programs, membership programs, and by operating the merchandise and parking concessions at the Zoo that receives about two million visitors annually. Revenue provided by FONZ supports conservation and biological education programs. FONZ also funds grants to Zoo scientists; assists the Zoo in developing new exhibits; and offers information and other services to Zoo visitors.

FONZ and the Zoo have undergone some recent changes that may increase risks in their operations. First, in Fiscal Year 2013, FONZ and the Smithsonian plan to implement a revised agreement governing their joint operations. Second, based on our earlier discussions with Zoo management, FONZ plans to outsource the Zoo's food services that FONZ had operated for many years.

Potential Impact

Our review will assess the adequacy of internal controls over the FONZ's key financial activities and recommend improvements to ensure operations have controls to deter, detect, and prevent fraud, waste, and abuse.

Pan-Institutional Approach to Collections Care Initiatives

Objective

This review continues our ongoing monitoring and assessment of the Smithsonian's progress towards a Pan-Institutional approach to collections management challenges for inventory control and preservation care.

Significance

Between FY 2005 and FY 2011 we conducted four collections management audits including the three most visible mall museums (National Museum of Natural History, National Air and Space Museum, and National Museum of American History) and the Cooper-Hewitt National Design Museum in New York. Prior to these audits, the OIG conducted several similar audits between 1998 and 2001.

Results of these audits identified a pattern of issues at many of the collecting units audited, such as:

- Inadequate Inventory Controls
- Security of Collections Areas do not Meet Smithsonian Standards
- Lack of Comprehensive Preservation Programs
- Inadequate Storage Conditions

In response to these audits, Smithsonian management began to place greater emphasis on collections care including improved security in collections storage areas. To address pan-institutional collections management issues, management has developed new strategic initiatives in these three areas:

- Space Planning
- Collections Conditions Assessment
- Accountability & Strategically Driven Digitization

In addition to their strategic initiatives, management needs to address ongoing challenges in the areas of collections inventory control and preservation care. For example, management needs to ensure that collecting units conduct and report cyclical inventories and update records. Management also needs to assess Smithsonian-wide collections management staffing needs, as well as better utilize preservation resources.

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

Potential Impact

This review will ensure that the Smithsonian continues to make progress towards developing a pan-institutional plan with long-term solutions which address inventory control and preservation care.

Management of the Government Purchase Card Program

Objective

To determine if the Smithsonian exercises effective management and oversight over the purchase card program.

Significance

The Smithsonian uses purchase cards to reduce the administrative cost of small dollar purchases, incurring \$22.7 million in expenditures for 82,132 transactions during fiscal year 2012. There were 645 open purchase card accounts as of fiscal year end 2012. The Smithsonian also plans an expanded use of the purchase cards for transactions up to \$10,000 to reduce payment processing costs. Also, Smithsonian management has a heightened interest in reducing risk of fraud in such vulnerable areas as cash processing and purchasing.

Because purchase cards allow the same individual to order, pay for, and receive goods and services, purchase cards are a high risk for misuse, fraud, waste, and abuse. If purchase card internal controls are not properly designed, it will be difficult for management to detect and prevent fraudulent purchases or improper uses of the cards.

Potential Impact

Our review will make recommendations to improve internal controls over purchase card use and strengthen management's oversight and monitoring of the program.

Management of Leased Office Space

Objective

The audit will assess how effective the programs are for identifying opportunities to reduce costs relating to leased office space at the Smithsonian.

Significance

Recognizing the need to reduce facilities costs, the Smithsonian's Strategic Plan emphasizes that it 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.

Strategic Planning – We will review the business and programmatic planning for use of future office space. 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 reducing or eliminating office space.

Potential Impact

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

·Accountability & Maintenance of the Smithsonian's Fleet

Objectives

The audit will assess the effectiveness of the Smithsonian's fleet management, including provisions for authorizing, controlling, and monitoring vehicle purchase, use, maintenance and repair services, and disposal.

Significance

In 2007, the Smithsonian purchased a fleet management system, designed to reduce fleet costs, lower the fleet's environmental impact, increase utilization, and automate data. In 2008, the Smithsonian implemented the maintenance, fuel, and asset modules of the system. The Smithsonian has since been able to reduce its petroleum consumption and the number of light-duty vehicles from 600 to 490 vehicles.

In 2009, President Obama issued *Executive Order 13514 – Federal Leadership in Environmental, Energy, and Economic Performance*, which established goals and priorities towards sustainability in the Federal government. The Office of Management and Budget began reviewing agency scorecards on sustainability and energy efficiency. One sustainability area is fleet petroleum use.

Potential Impact

The audit will make recommendations to help ensure that the Smithsonian achieves the President's sustainability goals, and minimizes costs associated with motor vehicles, including maintenance, petroleum, purchase, and disposal costs.

Collections Stewardship – Security of Transporting High Value Objects

Objective

This audit will determine whether museum staff are transporting collection objects with the appropriate level of security.

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. As a result, there is very little data available related to activity after 2009.

Since SSD has been disbanded, OPS reassigned responsibility for transporting high value objects to the individual security managers at each museum. OPS management, the National Collections Program, and the Office of Risk Management have expressed concern that museum staffs are transporting objects without OPS guidance or support, 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 Smithsonian is taking the necessary precautions to protect collections objects while in transit.

Financial Reporting & Risk Management Internal Controls – Annual Assurance Letter Process

Objectives

We will evaluate the effectiveness of the attestation process outlined in Smithsonian Directive (SD) 310, *Financial Reporting and Risk Management Internal Controls*, which the Smithsonian issued in June 2011. Specifically, we will determine if all unit directors that have been assigned to attest to their units' internal controls operating effectiveness and financial information accuracy have an effective process to support their attestation. In addition, we will determine if the signatories have the prerequisite knowledge or have been properly trained to understand the attestation process. Lastly, we will determine that any concerns or deficiencies identified by the units during the attestation process are followed up on and satisfactorily resolved by Smithsonian management.

Significance

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

Also, SD310 states that the goal of internal controls is to manage risk and to institute safeguards to minimize fraud, waste, and abuse. The attestation provided by unit directors is necessary to assure Smithsonian management that internal controls are operating effectively, and that there are appropriate safeguards to limit fraud, waste, and abuse.

Potential Impact

Our review will identify strengths and weaknesses in the attestation process and we will recommend improvements to the process that will strengthen the Smithsonian’s safeguards against fraud, waste, abuse, and mismanagement.

Potential Future Audits Beyond FY 2013

Title	Objectives
Succession Planning	Determine whether the Smithsonian has an adequate succession plan to meet the needs for leadership, management, and workforce throughout the Smithsonian.
Disaster Recovery	Identify and evaluate current disaster plans to determine whether the Smithsonian's staff are prepared and collections are secure in case of a disaster.
Implementation of Office of Advancement's PANDA system	Evaluate the implementation of the information system and business processes put in place by the Office of Advancement to support the Smithsonian's capital campaign.
Privacy Program	Assess the effectiveness of the policies and procedures under development to safeguard personally identifiable information across the Smithsonian.
Wireless Network Management	Evaluate the use, management, and security of the Smithsonian Institution's internal and public access wireless networks.
Controls over Federal/Trust Fund Transaction Adjustments	Determine if funding corrections are appropriate and whether controls in place are adequate to ensure the proper use and segregation of funds.
Digitization Strategic Plan	Evaluate management's progress in pursuing the digitization of selected collection objects.
Physical Security	Determine if management has an adequate plan to address the museums' high risk protection areas and the safety of the visiting public.
Improper Payments	To determine whether there are sufficient financial controls to identify and prevent improper payments in the Smithsonian's high risk programs.