

SEMIANNUAL REPORT TO THE CONGRESS

October 1, 2003 to March 31, 2004



Smithsonian Institution
Office of the Inspector General

The cover photograph features an image made by Hugh Talman called Crossroads at the Folklife Festival. A team of Malian participants at the 2003 Folklife Festival construct an adobe structure similar to those used in city gates, homes, and mosques in Mali on the National Mall prior to the opening of the festival.

Preface

The Inspector General Act of 1978, Title 5, United States Code, Appendix 3, requires that I report semiannually through the Secretary to the Congress regarding the activities of this office. This report includes information reportable for the period October 1, 2003, to March 31, 2004.

We have received, and sincerely appreciate, the complete cooperation of the Smithsonian Institution's management and employees. Without it, and, of course, the full support of the Board of Regents and the Congress, the work of this office as an agent dedicated to strengthening the management and integrity of Smithsonian programs and operations would be impossible.

Thomas D. Blair
Inspector General

April 30, 2004

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Inspector General's Message to the Congress

The Smithsonian Institution is a trust instrumentality of the United States. It was created to carry out the provisions of the will of James Smithson, an English scientist. Mr. Smithson's will stated that the proceeds from his estate be used to establish an Institution for "...the increase and diffusion of knowledge among men." The law, which implemented the provisions of the will, established a trust to be administered by the Board of Regents and the Secretary. The Secretary serves as the chief executive officer of the Institution.

The top five management challenges and opportunities facing the Smithsonian follow:

1. Improved physical infrastructure
2. Improved financial performance
3. Physical and information security
4. Budget and performance integration
5. Strategic management and human capital

The Smithsonian is a national leader in some areas of the arts, sciences, and history. In order to maintain this leadership role, the strategic planning framework that has been initiated will have to be integrated into fund-raising, budgetary, planning, and other processes. Success in meeting these challenges is dependent, to a significant extent, on the successful implementation of an enterprise resource planning system.

The Congress created Offices of Inspector General to improve management and to prevent fraud, waste, and abuse in federal departments and agencies. We therefore conduct audits and other reviews, and make recommendations to improve operations and assist management in achieving its goals and objectives.

Improved Physical Infrastructure

The Smithsonian operates 16 museums and galleries and the National Zoological Park. Facilities include more than 400 buildings, which house 143.7 million artifacts and scientific specimens, as well as exhibit, research, and outreach operations.

During the last three decades of the 20th Century, the Smithsonian expanded its facilities and operations. During that same period, congressional appropriators and others called upon the Smithsonian to place more emphasis on maintaining its collections and physical facilities. The Secretary has taken on the infrastructure challenge and has set a long-term plan to repair, restore, and maintain the Smithsonian's physical facilities and update its exhibits. The Secretary estimates that this effort will cost \$2.5 billion.

The Smithsonian currently has three major construction or repair and renovation projects ongoing:

- Construction of the National Museum of the American Indian on the National Mall
- Renovation of the Patent Office Building which houses the National Portrait Gallery and the Smithsonian American Art Museum
- Renovation of the National Museum of American History

Improved Financial Performance

In order to improve its physical infrastructure, the Smithsonian has determined that it needs not only additional support from the U.S. Congress but also additional funding from donations and revenue producing units.

The Smithsonian has a long history of audited financial statements with unqualified opinions. Trust statements have been audited for 50 years and federal financial

statements have been audited for about 23 years. An independent certified public accounting firm conducts the financial statement audits of the Smithsonian.

The Institution is implementing an enterprise resource planning system that is expected to provide timely and accurate financial, human capital, and other information. The achievement of strategic goals and objectives depend on the availability of accurate and timely financial and performance information. The new system, if implemented correctly, will help achieve several goals: The Institution will have a single integrated system, it will reduce resources expended in reconciling central and unit records, and it will automate routine and repetitive tasks.

During this period, we issued audit reports on the implementation of the financial modules in the enterprise resource planning system, restricted gifts, and purchase card program. The financial modules implementation is over budget and behind schedule.

Physical and Information Security

The physical security of visitors and protection of art objects, artifacts, and scientific specimens is crucial to the mission of the Smithsonian. During fiscal year 2003, the Smithsonian museums and the National Zoological Park had more than 25 million visitors, down about 25 percent from fiscal year 2001.

Budget and Performance Integration

The Smithsonian is both publicly endowed and privately supported. For fiscal year 2004, the Smithsonian budget is estimated at \$844 million, consisting of an estimated \$596 million in federal appropriations and an estimated \$248 million in trust funds. Initiatives are underway to improve planning and systems integration.

About two years ago, we issued an audit report on the trust fund budget process. We recommended measures that the Smithsonian could take to ensure that the trust fund budget is comprehensive and is implemented as approved. One of the recommendations has not yet been fully implemented.

Strategic Management and Human Capital

The Institution has developed and issued a strategic plan entitled *Building a Smithsonian for the Future* covering fiscal years 2004 through 2008. The strategic plan includes goals in four areas:

- Public impact
- Scientific research
- Management excellence
- Financial strength

Clearly, management excellence is crucial to achieving the other three goals. The Smithsonian is strengthening its management and modernizing its systems and processes to bring them to a level of quality and sophistication appropriate to its size and complexity. Significant efforts are underway to integrate strategic planning into operations.

Implications for the Future

The mission statement of the Smithsonian ends with the following sentence: “The Smithsonian offers the world a picture of America, and America a picture of the world.” This is a dynamic picture that constantly changes over time and has a span that extends into the lifetimes of unborn generations. Because of its mission, the Smithsonian must consider not only service to the current public but also to future generations.

Audits

Section 4 of the Inspector General Act charges this office with a statutory duty to audit, and otherwise review, Institution programs and operations to ensure that they are economical, efficient, effective, and free of fraud, waste, and abuse. Pursuant to our strategic and annual plans, we therefore conduct audits of Institution organizations, functions, and activities to assess, among other things, their performance, financial operations, and compliance with applicable laws, regulations, and Institution policies. We also conduct audits to determine the reasonableness of expenditures made under contracts, grants, or other agreements. As required by section 4(b) of the Act, we conduct all of our audits in accordance with the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Pursuant to section 5(a)(7) of the Act, summaries of three significant audits follow.

Implementation of the Enterprise Resource Planning Financial System

The Smithsonian Institution's strategic plan for 2004-2008, *Building a Smithsonian for the Future*, has four goals. The third goal is to "[m]odernize Smithsonian management systems by bringing each of them to a level of quality and sophistication appropriate to an organization of the size and complexity of the Institution." The financial management system is one of those systems. We audited project management controls over the implementation of the enterprise resource planning financial system. The financial system project has experienced significant schedule and cost overruns. The Institution planned to implement nine financial modules in two phases: The first phase included three modules and was scheduled to be implemented by October 1, 2002, at a cost of \$6.2 million. The second phase included six modules and was scheduled to be implemented by October 1, 2003, at a cost of \$10 million. Instead of accomplishing these goals on schedule and within budget, the Institution implemented the first three modules at a cost of \$18.6 million. This occurred because of a lack of staff, inadequate budgetary control,

inexperience with the software, and weak project management controls. We, therefore, made eleven recommendations to improve the controls over the project. Although management agreed with our recommendations and provided acceptable implementation plans, in some instances, they disagreed with the facts supporting our conclusions.

Restricted Gifts

Donors contribute two basic types of gifts to the Institution: those with donor-imposed restrictions and those without restrictions. We audited the controls over contributions with donor-imposed restrictions to determine if controls were adequate to ensure that gifts were properly recorded and used in accordance with donors' wishes. Overall, controls over restricted gifts were adequate to ensure that gifts were used in accordance with donors' wishes. However, improvements were needed in five areas: (1) recording wire transfers, (2) recording expenses in financial systems, (3) recording pledges, (4) reconciling the database to financial systems, and (5) classifying gifts properly. Therefore, we made recommendations to improve the controls over the receipt, recording, and expenditure of restricted gifts. Management officials agreed with our recommendations and provided acceptable implementation plans.

Purchase Card Program

We audited controls over the Purchase Card Program to determine if internal controls were adequate to ensure that purchase cards were being used only for authorized purposes. Generally, controls were adequate to ensure that cardholders were using purchase cards for authorized purposes. However, improvements were needed in three areas: accuracy of data, independent receiving, and on-line approval of purchases. We made four recommendations to improve controls. Management agreed with our recommendations concerning independent receiving and on-line approvals but partially agreed with our recommendations regarding the accuracy of data.

List of Audit Reports

Section 5(a)(6) of the Act requires a list of all audit reports issued during the reporting period, including subject matter, and dollar amounts of questioned costs, unsupported costs, and funds to be put to better use. Between October 1, 2003, and March 31, 2004, this office issued three internal audit reports and one contract audit report. We had no questioned or unsupported costs. As to each of the audit reports, the information required by Section 5(a)(6) is listed in Table 1, below.

Table 1: List of Audit Reports Issued

Report Number	Audit Title	Issue Date
A-03-07	Implementation of the Enterprise Resource Planning Financial System	03/31/04
A-03-05	Restricted Gifts	12/18/03
A-03-06	Purchase Card Program	12/03/03

Questioned Costs and Funds to be Put to Better Use

Sections 5(a)(8) and 5(a)(9) of the Act require separate statistical tables for recommendations including dollar values of questioned costs, unsupported costs, or funds to be put to better use. Those sections also require a statement of management's response to such recommendations at the end of the reporting period. During this reporting period, we identified no funds to be put to better use, questioned costs, or unsupported costs. Table 2, page 10, presents the status of funds to be put to better use.

Table 2: Funds to Be Put To Better Use

Reports	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period	2	\$124,182
B. Which were issued during the reporting period	0	\$ 0
Subtotal (A + B)	2	\$124,182
C. For which a management decision was made during the reporting period		
(i) dollar value of recommendations that were agreed to by management	2	\$ 70,226
(ii) dollar value of recommendations that were not agreed to by management	2	\$ 53,956
Subtotal (i + ii)*	2	\$124,182
D. For which no management decision has been made by the end of the reporting period	0	\$ 0
For which no management decision was made within six months of issuance	0	\$ 0

*Number of reports does not add because management both allowed and disallowed costs for two reports.

Corrective Actions Not Yet Complete

Section 5(a)(3) of the Act requires an identification of each significant recommendation for corrective action, described in a previous semiannual report, which had not been implemented by the end of the reporting period. Table 3, on page 11, sets forth that information.

Table 3: Corrective Actions Not Yet Complete

Audit Title and Date	Summary of Recommendations	Savings Estimate
Center for Folklife and Cultural Heritage, June 13, 1997	The Director should develop and use financial management reports that are adequate to manage Folkways and Smithsonian Folkways operations.	None
Financial Management of Traveling Exhibits, September 26, 2001	The Chief Financial Officer should develop policies and procedures necessary for organizations to accumulate and report costs regularly, consistently, and reliably.	None
Trust Fund Budget, September 28, 2001	The Chief Financial Officer should develop policies and procedures to ensure that a comprehensive budget is submitted for review and approval by the Board of Regents.	None
American Indian Museum Move Project, October 2, 2001	The Director should strengthen physical security.	None
Independent Evaluation of the Smithsonian Institution's Information Security Program, July 31, 2002	The Chief Information Officer should increase security funding, develop a training program, comply with standards, measure program effectiveness, and report the results quarterly. [Four recommendations]	None
National Museum of the American Indian, January 17, 2003	The Director should develop and implement information technology protocols to strengthen physical security, training, configuration settings, assessments, disaster recovery and continuity of operations plans, and other aspects of security. [Five recommendations]	None
Smithsonian Tropical Research Institute, March 27, 2003	The Director should develop and implement security assessments for network assets and use technical guidance for client configuration settings. [Two recommendations]	None
Smithsonian Institution Organizational Checking Accounts, April 16, 2003	The Comptroller should follow regulatory guidance for salary withholdings at the Smithsonian Tropical Research Institute.	None
Project Management of the Steven F. Udvar-Hazy Center, July 31, 2003	The Chief Financial Officer should provide guidance on monitoring project costs and complete user requirements for the enterprise resource planning system. [Two recommendations]	None
Information System Controls at the National Air and Space Museum, September 3, 2003	The Director should relocate its Internet website and delineate responsibilities. [Two recommendations]	None

Investigations

Pursuant to sections 4 and 6 of the Act, this office investigates possible violations of criminal or civil laws, administrative regulations, and policies that relate to the programs and operations of the Institution. When warranted, we refer the results of such investigations to entities with appropriate enforcement jurisdiction. Two of the investigative reports are summarized below.

Fraudulent Use of a Government Charge Card

A materials handler for the Smithsonian used a U.S. General Services Administration fleet charge card to purchase gasoline for personal vehicles. The fleet charge card was assigned to a diesel-powered truck; however, only about 6 percent of the purchases were for diesel fuel. The materials handler admitted to taking the fleet charge card home and, over a period of about 8 months, filling his personal vehicles with gasoline and selling gasoline to others at about one-half of the purchase price. This activity was first identified by special agents within the U.S. General Services Administration. As a result of a joint investigation, the materials handler was arrested and charged with the theft of U.S. Government property (18 U.S.C. §641).

Matters Referred for Prosecution and Results

Section 5(a)(4) of the Act requires a statistical summary of investigative matters referred for criminal prosecution and the results of such referrals. Table 4, on page 14, sets forth that information.

Table 4: Summary of Investigations

Investigations	Amount or Number
Caseload	
Cases pending at beginning of reporting period	23
Cases opened during the reporting period	3
Subtotal	26
Cases closed during the reporting period	6
Cases carried forward	20
Referrals for Prosecution	
Pending at the beginning of the period	1
Referred for prosecution	2
Pending at end of period	2
Successful Prosecutions	
Convictions	1
Fines	\$275
Ordered restitution	\$4,407
Probation	3 years
Confinement	0
Civil Recoveries	\$0
Administrative Remedies	
Terminations	0
Resignations	1
Reprimands or admonishments	0
Reassignments	0
Demotions	0
Suspensions	0
Recovery of funds through investigative action	\$0
Collections property recovered:	
Number of items	0
Value of items	\$0
Monetary loss prevented	\$0

Legislative Review

Section 4(a)(2) of the Act requires this office to review existing and proposed legislation and regulations and to make recommendations in our semiannual reports regarding their impact on the economy and efficiency of, and the detection and prevention of fraud, waste, and abuse in, Institution programs and operations. During this reporting period, we conducted several such reviews. None of the reviews has yielded a recommendation that is sufficiently important to warrant reporting here.

Glossary

Disallowed cost - A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Institution.

Enterprise resource planning – Computer software used to integrate all departments and functions across a company onto a single system that can serve all those departments' particular needs.

Final action – This is the completion of all management actions, which are described in a management decision, with respect to audit findings and recommendations.

Funds to be put to better use - A recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation.

Questioned costs - A cost which was questioned because of an alleged violation of a provision of a law, regulation, contract, or other agreement or document governing the expenditure of funds; a cost which was not supported by adequate documentation; or an unnecessary or unreasonable expenditure of funds.

Unsupported cost - A cost questioned because the cost was not supported by adequate documentation at the time of the audit.

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